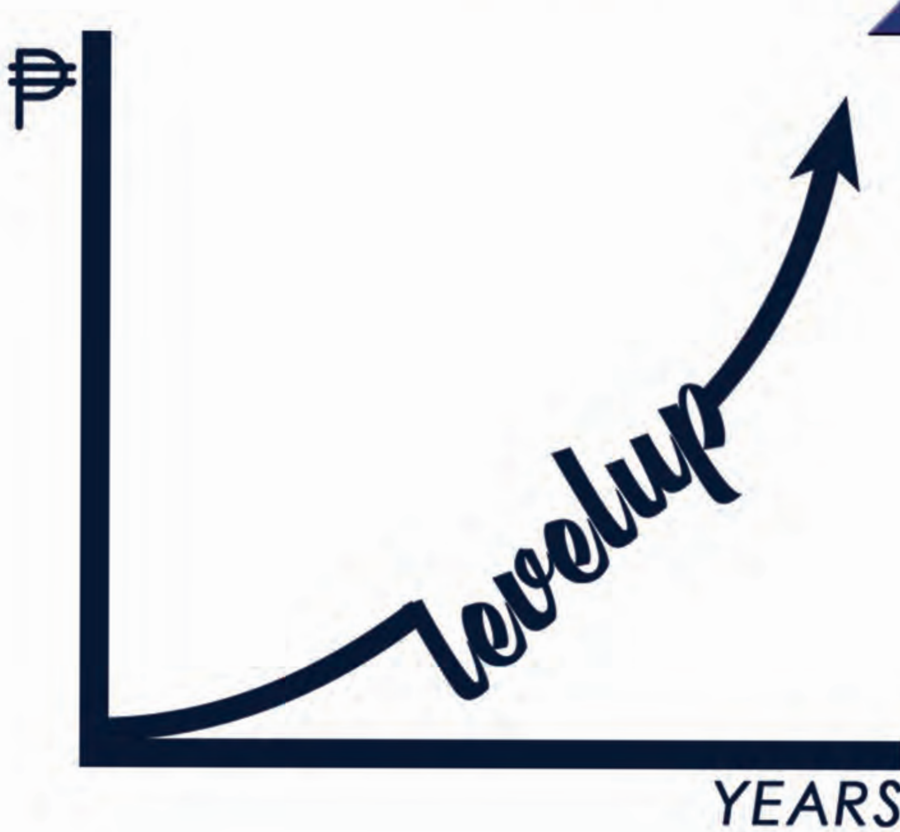
RB SOLANO

ANNUAL REPORT 2018



50th anniversary

BUSINESS & GENERAL INFORMATION

Corporate Information

RURAL BANK OF SOLANO (NUEVA VIZCAYA), INC was incorporated and registered with the Philippine and Securities and Exchange Commission (SEC) on December 22, 1969 with Registration No. 39997. On February 27, 1970, the Bangko Sentral ng Pilipinas (BSP) granted the Bank its Certificate of Authority to operate as a financial institution. Thereafter, RBS started operations on March 7, 1970.

The Bank was formed to carry and engage in the business of extending rural credits to small farmers and tenants and to deserving rural industries or enterprises, to have and exercise all authorities and powers, to do and perform all acts, to transact all business which may legally be had or done by rural banks organized under and in accordance with the Rural Banks' Act as it exists or may be amended; and to do all other things incident thereto and necessary and proper in connection with said purposes within such territory, as may be determined by the Monetary Board of the Bangko Sentral ng Pilipinas.

The Bank's product and services are traditional deposits such as regular savings deposits and certificate of time deposits. The Bank also offers various types of loans such as commercial, agricultural, and various consumer loans and microfinance loans.
The Bank's registered office address is located at Maharlika Highway, Poblacion South, Solano, Nueva Vizcaya. The Bank is domiciled in the Philippines.
The Bank currently has three (3) branches, one (1) Branch-Lite Unit located as follows:

Branches	Address	Commencement Date
Bagabag Branch	San Pedro Bagabag., NV	August 25, 1995
Bambang Branch	Bernabe Valley Homes Subd., Bambang,NV	March 20, 2017
Bayombong Branch	Don Tomas Maddela, Bayombong, NV	June 1, 201 8
Branch-Lite Office	Poblacion South, NV	July 23, 2018

Mission

P - Promote Countryside Development by:
R - Responding to Client Needs;
O - Offering QUALITY Service grounded on Trust and Integrity
G - Going for Growth of Individuals, Groups and Communities
R - Respecting every individual;
E - Enhancing Economic Activity
S - Serving Sincerely; and
S - Staying Dependible

Vision

"We provide excellent and efficient banking and value added services, nurture relationships, to foster beginnings, build lives and promote countryside development".

Values

Trust, Integrity, 100% Commitment, Unconditional Love

Products & Services

Deposit Accounts

Regular Savings
Kiddie Savings
Time Deposit/Ruby Term Investment
Regular Cheking Account
Combo Cheking Account
Micro & Kiddie Time Deposit
Gift of Time Certificate

Other Services

Sales of Assets Acquired
Remittance
POS Banking

Loan Products

Agricultural Loans
Back to Back Support Loan
Credit Line
Salary Loan and Other Loan
Pangkabuhayan Loan
TODA Loan
ISALABAY Microfinance Loan
Asenso Loan
Jewelry Loan
YSK Loan
Micro Insurance Loan

REVIEW OF OPERATIONS
& FINANCIAL SECTION

COMPARATIVE STATEMENT OF CONDITION

	12/31/18	12/31/17	Increase(Decrease) Amount	Percentage
ASSETS				
Cash on Hand	2,550,042	933,028	1,617,014	173.31%
Checks and Other Cash Items	188,809	429,978	(241,169)	-56.09%
Due from BSP	10,847,364	8,942,510	1,904,854	21.30%
Due from Other Banks	74,217,388	71,452,240	2,765,148	3.87%
Total Cash and Due from Banks	87,803,604	81,757,756	6,045,847	7.39%
Held-to-Maturity Financial Assets	25,476,320	25,456,165	20,155	0.08%
Loans and Receivables-Current	354,641,499	304,463,708	50,177,791	16.48%
Loans and Receivables-Past Due/Items in Litigations	33,903,901	19,178,056	14,725,845	76.78%
Unamortized Discounts	(50,727)	(79,354)	28,627	-36.08%
Loans and Receivables, gross	388,494,673	323,562,410	64,932,263	20.07%
Less:Allowance for Credit Losses	17,938,819	13,915,929	4,022,890	28.91%
Net Loan Portfolio	370,555,853	309,646,481	60,909,372	19.67%
Sales Contract Receivable, net	11,250,898	12,412,348	(1,161,449)	-9.36%
Accrued Interest Receivables	13,108,246	10,486,957	2,621,289	25.00%
Bank Premises, Furniture, Fixtures & Equipment, net	36,856,922	34,301,539	2,555,383	7.45%
Real and Other Properties Acquired, net	19,662,235	15,658,779	4,003,456	25.57%
Deferred Tax Assets	6,342,342	4,765,659	1,576,683	33.08%
Other Assets	687,393	802,605	(115,212)	-14.35%
TOTAL ASSETS	571,743,814	495,288,290	76,455,524	15.44%
LIABILITES AND EQUITY				
LIABILITY ACCOUNTS				
Demand Deposit	22,198,807	19,377,411	2,821,396	14.56%
Savings Deposit	233,744,073	193,031,439	40,712,634	21.09%
Time Deposit	75,139,075	61,624,594	13,514,481	21.93%
Total Deposit Liabilites	331,081,955	274,033,444	57,048,511	20.82%
Bills Payable	12,811,000	15,000,000	(2,189,000)	-14.59%
Deposit for stock subscription	25,000,600	25,000,600	-	0.00%
Accrued Interest Expense	861,859	793,007	68,852	8.68%
Income Tax Payable	5,136,523	2,893,479	(2,893,479)	-100.00%
Other Liabilities	6,917,386	5,271,441	1,645,945	31.22%
TOTAL LIABILITIES	381,809,323	322,991,971	58,817,352	18.21%
EQUITY ACCOUNTS				
Common Stock	99,698,200	99,698,200	-	0.00%
Retained Earnings Free	62,470,431	49,316,412	13,154,019	26.67%
Retained Earnings-Reserves	157,867	157,867	(0)	0.00%
Undivided Profit	27,607,994	23,123,840	4,484,154	19.39%
TOTAL EQUITY	189,934,492	172,296,319	17,638,173	10.24%
TOTAL LIABILITIES AND EQUITY	571,743,814	495,288,290	76,455,524	15.44%

COMPARATIVE STATEMENT OF INCOME AND EXPENSES

	31-Dec-18	31-Dec-17	Increase(Decrease) Amount	Percentage
INCOME				
Interest Income				
Loans and Receivables	62,578,705	49,575,541	13,003,164	26.23%
Held to Maturity Financial Assets	869,595	369,088	500,507	135.61%
Due from Other Banks	916,991	1,050,238	(133,247)	-12.69%
Total Interest Income	64,365,291	50,994,867	13,370,424	26.22%
Interest Expense				
Deposit Liabilities	3,566,739	3,291,663	275,077	8.36%
Borrowed Funds	427,226	97,940	329,286	336.21%
Total Interest Expense	3,993,965	3,389,603	604,363	17.83%
NET INTEREST INCOME	60,371,325	47,605,264	12,766,061	26.82%
PROVISION FOR CREDIT LOSSES	8,511,414	1,691,692	6,819,722	403.13%
NET INTEREST INCOME AFTER PROVISIONS	51,859,911	45,913,572	5,946,339	12.95%
Other Operating Income				
Gain on disposal of real & other properties acquired	4,894,892	4,590,479	304,413	6.63%
Gain on disposal of bank premises,FFE	-	150,150	(150,150)	-100.00%
Fees & Commissions Income	1,842,602	2,003,848	(161,246)	-8.05%
Rental Income	797,342	698,791	98,551	14.10%
Reversal of previous provision for credit losses	-	-	-	
Recovery on Charged-Off Assets	901,315	534,315	367,000	68.69%
Miscellaneous Income	17,586,831	9,632,613	7,954,218	82.58%
NET INCOME BEFOREOPERATING EXPENSES	26,022,983	17,610,196	8,412,787	47.77%
Other Operating Expenses				
Compensation and Fringe Benefits	19,718,902	13,168,135	6,550,767	49.75%
Taxes and licenses	5,151,257	4,038,278	1,112,979	27.56%
Depreciation	4,060,551	3,494,518	566,032	16.20%
Janitorial and Other Services	1,315,561	3,063,950	(1,748,389)	-57.06%
Communication, light and water	1,143,652	915,156	228,496	24.97%
Insurance	1,004,272	922,656	81,616	8.85%
Fuel and Lubricants	1,230,710	753,493	477,217	63.33%
Repairs and maintenance	487,068	254,038	233,030	91.73%
Representation and Entertainment	174,030	171,196	2,834	1.66%
Rental	160,000	140,263	19,737	14.07%
Advertising and Publicity	300,540	341,070	(40,530)	-11.88%
Supervision and examination fees	93,946	80,722	13,224	16.38%
Litigation	328,373	499,208	(170,835)	-34.22%
Donation and charitable contributions	129,283	47,175	82,108	174.05%
Others	3,594,596	2,957,219	637,377	21.55%
Total Other Operating Expenses	38,892,741	30,847,077	8,045,663	26.08%
Net Income Before Tax	38,990,154	32,676,691	6,313,463	19.32%
INCOME TAX EXPENSE	11,382,160	9,552,851	1,829,309	19.15%
PROFIT	27,607,994	23,123,840	4,484,154	19.39%

FINANCIAL HIGHLIGHTS

I. BALANCE SHEET STRUCTURE [1/]	31-Dec-18	31-Dec-17	Increase (Decrease)	Industry Ratio
A. ASSETS				
Cash & Due from Banks	15.36%	16.51%	-1.15%	**22.03%**
Loans & Receivables (Net)	64.81%	62.52%	2.29%	**52.24%**
Accrued Interest Receivable	2.29%	2.12%	0.18%	
Investments	4.46%	5.14%	-0.68%	**15.42%**
Bank Premises, FFE, Transp. Equipment	6.45%	6.93%	-0.48%	
ROPA	5.41%	5.67%	-0.26%	**3.83%**
Deferred Tax Assets	1.11%	0.96%	0.15%	
Others	0.12%	0.16%	-0.04%	**6.48%**
TOTAL ASSETS	100.00%	100.00%	0.00%	**100.00%**
B. LIABILITIES				
Deposits	57.91%	55.33%	2.58%	**70.59%**
Bills Payable	2.24%	3.03%	-0.79%	**5.42%**
Other Liabilities	6.63%	6.86%	-0.23%	**4.16%**
TOTAL LIABILITIES	66.78%	65.21%	1.57%	**80.17%**
C. CAPITAL ACCOUNTS				
Capital Stock	17.44%	20.13%	-2.69%	**13.01%**
Retained Earnings-Free/Reserves	15.78%	14.66%	1.12%	**6.82%**
TOTAL CAPITAL ACCOUNTS	33.22%	34.79%	-1.57%	**19.83%**
TOTAL LIABILITIES & CAPITAL ACCOUNT	100.00%	100.00%	0.00%	**100.00%**

II. ACCOUNT LEVELS & KEY RATIOS [2/]

NET INTEREST INCOME	60,371,326	47,605,264	12,766,062	
OTHER INCOME	26,022,983	17,610,196	8,412,787	
OPERATIING EXPENSES	38,892,741	30,847,077	8,045,664	
PROVISION FOR CREDIT LOSSES	8,511,414	1,691,692	6,819,722	
TOTAL INCOME	90,388,275	68,605,063	21,783,212	
TOTAL EXPENSES	62,780,282	45,481,223	17,299,059	
NET INCOME	27,607,994	23,123,840	4,484,154	
TOTAL EXPENSES TO TOTAL INCOME	69.46%	66.29%	3.16%	
NET INCOME TO TOTAL INCOME (NITI)	30.54%	33.71%	-3.16%	
RETURN ON AVERAGE EQUITY	14.80%	13.79%	1.01%	**8.36%**
RETURN ON AVERAGE ASSETS	5.20%	5.12%	0.08%	**1.63%**
NET INTEREST MARGIN	13.34	9.51	3.83	**9.69%**
Liquid Assets	87,803,602	81,757,756	6,045,846	
Total Assets/Resources	571,743,814	495,288,290	76,455,524	
Capital Accounts	**189,934,492**	**172,296,319**	**17,638,173**	
Capital Stock	99,698,200	99,698,200	-	
Retained Earnings	90,236,292	72,598,119	17,638,173	
Capital Accounts to Total Assets	33.22%	34.79%	-1.57%	**19.87%**
Risk Based Capital Adequacy Ratio	42.04	40.01	2.03	**19.63%**
Net Earnings per share of stock-common	27.69	23.19	4.50	
Book Value per share of stock-common	190.50	172.82	17.68	
Liquidity Ratio	**26.52%**	**29.83%**	**-3.31%**	**31.20%**
Total Loans	388,494,673	323,562,410	64,932,263	
Past Due Loans	33,903,901	19,178,056	14,725,845	
Past Due Ratio	**8.73%**	**5.93%**	**2.80%**	**14.70%**
Non-performing loans to Total Loans	**5.93%**	**5.28%**	**0.65%**	**11.21%**
Total Deposits	331,081,955	274,033,444	57,048,511	
Total Loans/Total Deposits	**117.34%**	**118.07%**	**-0.73%**	

CAPITAL ADEQUACY RATIO

The capital adequacy ratio (CAR) is an international standard that measures a bank's risk of insolvency from excessive losses. Under Section 127 of the MORB, the capital adequacy ratio for banks shall not be less than ten percent (10%). Expressed as a formula, the Capital Adequacy Ratio is equal to the sum of bank's tier one (1) capital plus tier two(2) capital, divide by the bank's risk-weighted assets. As per BSP's analysis of financial factors and assessment of risk management system as reported in the latest Report of Examination (ROE), CAR of 39.8% is sufficient to support risk exposures and expansion plans.

A. QUALIFYING CAPITAL

Net Tier 1 Capital includes the following:

Paid Up Common Stock	99,698,200.00	
Deposit for Stock Subscription	25,000,600.00	
Retained Earnings- Free	90,078,426.00	
Retained Earnings-Reserve	157,867.00	
Sub-total	214,935,093.00	
Less: Deferred Tax Asset	6,342,342.00	208,592,751.00
Net Tier 2 Capital		
General Loan Loss Provisions		3,518,228.00
Total Qualifying Capital		P 212,110,979.00

B. RISK WEIGHTED ASSET

Credit Risk Weighted Asset	447,862,006.00
Market Risk Weighted Asset	
Operational Risk Weighted Asset	88,252,212.00

C. RISK BASED CAPITAL ADEQUACY RATIO

Total Qualifying Capital	212,110,979.00
Divide by Risk-Weighted Assets	536,114,218.00
Risk-Based Capital Adequacy Ratio	39.56%
Tier 1 Capital Ratio	38.91%

THE PRESIDENT’S REPORT

To fully achieve the 2017 theme "leave a mark....tatak RBS. tatak PROGRESS" required
repetition and consistency. Thus, the theme "#Nurture2018" which basically means the process of caring for and encouraging growth or development.

The most significant steps we took last year is embodied and illustrated in what we now call "Vision 20 in 2022". 1This served as a roadmap in hitting our goals for the year as we also build up for the next 4 more years to come.

After opening our Bayombong branch in June, however, we experienced some bumps that led us to reassess the plan and eventually resulted to a recalibration of strategies for the same vision of "20 in 2022". As a result, while we set our sight on opening of Maddela branch and the adoption of a cloud-based MIS technology within the year, these major plans were put on hold for good reason.

To summarize, we came to realize that expansion is not just about having enough resources or having a good CAMELS rating of 4. Much as we would want to coincide with the national government's build, build, build program, same does not wisely apply to us. Because far greater than infrastructure, massive hiring and mass lending, there are primordial things that need to be built or done if we are to do it right.

Missing Key: RBS Culture

Our actions and behavior since the early part of the millennium has been towards realization of a Vision to which we are strongly grounded upon. Often times we defied standards and set benchmarks at par even with peers in the rural banking industry far bigger than us. BSP examiners sometimes find our plans and targets unreasonable or too ambitious. When asked how we planned, we simply say, some banks concentrate on figures, numbers, statistics where mathematical goals arise. In addition to that, we at RBS look at 'values. By that, we mean the important and lasting beliefs or ideals shared by the members of a culture about what is good or bad and desirable or undesirable (Business Dictionary). Simply put, we identified the action plans most aligned to the core values we espouse as an institution and strategize accordingly. These values taken all together is what we also refer to as RBS culture--our core values or that which we identify as motivators and drivers in hitting targets year-in and year-out. RBS culture, however, is intangible. It does not automatically go where we build our buildings or where we install our systems and processes.It is the social behavior and norms found in human societies, the RBS family or team, in our case.

1Vision 20 in 2022 is an illustration of RBS as it expands its footprint.
Carrying out its vision of fostering beginnings, the bank in tandem with the Flourish and Foster Beginnings Foundation Inc. (FFBFI) sets the motion for everyone to level up.
As intermediary for financial and other opportunities, RBS is a channel for true financial inclusion.
One person at a time, RBS provides a road map towards developing the countryside and nation building; transforming unbanked to banked, underserved to served, from indigent to self-sufficient, micro to small and medium enterprises.
In its many years of existence, RBS abides by laws and regulations that ensures soundness of operation and sustainability. Thus, noble as it would want to be, RBS seek to help only those who help themselves.
As a matter of policy, readiness in branching is determined not only by the availability of resources but by manpower readiness well-grounded in the RBS culture.

The culture, over time, ultimately influences structures and processes. Even so, it can be initiated and effectively run only by people who personally hold the culture true. If we are to expand therefore, the right way is to ensure this RBS culture is carried over by hiring the right people, and training or enculturating them to align with the RBS Core Values.

Despite some delays and adjustments of plans, 2018 still proved to be a good year to accomplish the following:

1. Strategic planning and launching of Vision 20 in 2022
2. Farmer's Day attended by more than 300 farmers and partners
3. Partnership with Philippine Steelframing Corp. to support our Bahay Loan
4. Opening of Bayombong branch
5. Recalibration of Vision 20 in 2022: revalidating the RBS Culture and limiting our reach to people who help themselves" as guide to shortlisting the unbanked and underserved.
6. Awardee for Gawad Pitak of Land Bank
7. Training with SB Corp
8. Reorganization and strengthening of Audit and Human Resources Department
9. IT system evaluation and testing: Next Bank vs. Byte per Byte vs. RB Soft
10. Development of necessary trainings programs like the Management Trainee Program (MTP) to ensure readiness of branch opening

STRATEGIC PLANNING AND LAUNCH-ING OF VISION 20 in 2022

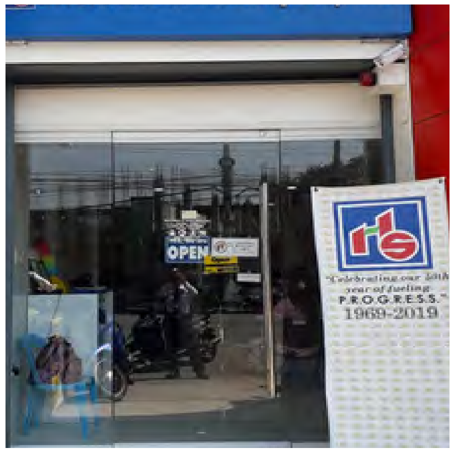
FARMER'S DAY ATTENDED BY MORE THAN 300 FARMERS AND PARTNERS

PARTNERSHIP WITH PHILLIPINE STEELFRAMING CORP. TO SUPPORT OUR BAHAY LOAN

TRAINING WITH SB CORP.

AWARDEE FOR GAWAD PITAK OF LAND BANK

OPENING OF BAYOMBONG BRANCH



After BSP examination that covered a cut off period from last examination to the first 3 quarters of 2018, our examiners gave our bank a repeat CAMELS composite rating of "4" (Capital, Asset Quality, Management, Earnings, Liquidity, Sensitivity to market Risks). Most notably in 2018, is the portfolio distribution that validates our commitment to the RBS Vision and Mission and our mandate as a rural bank.2 By year end, client count has increased with Agriculture loans gaining the highest growth.

	2016	2017	2018
TOTAL LOAN PORTFOLIO	264,602,166.48	323,562,409.84	388,494,672.90
NO. OF ACCOUNTS(Loans)	5,677	7,906	8,972

Type	2016	2017	2018
Agriculture	38,271,551	87,477,002	137,117,456
Commercial	75,334,794	84,316,052	87,033,631
Real Estate	99,635,550	102,120,169	112,005,458
Consumption	51,360,271	49,649,187	52,338,128

Clearly, we have finally crossed beyond our comfort zones and can now claim to be performing our mandate as a rural bank in the service of small farmers and merchants in the countryside.

By year end, relevant financial ratios and figures are herein presented alongside previous (2) years' figure, industry ratio and a short statement for the movements.

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[2] R.A. NO. 7353 AN ACT PROVIDING FOR THE CREATION, ORGANIZATION AND OPERATION OF RURAL BANKS, AND FOR OTHER PURPOSES

Sec. 2. The State hereby recognizes the need to promote comprehensive rural development with the end in view of attaining acquitable distribution of opportunities, income and wealth; a sustained increase in the amount of goods and services produced by the nation of the benefit of the people; and in expanding productivity as a key raising the quality of life for all, especially the underprivileged. Towards these ends, the State hereby encourages and assists in the establishment of rural banking system designed to make needed credit available and readily accessible in the rural areas on reasonable terms. Sec. 3. In furtherance of this policy, the Monetary Board of the Central Bank of the Philippines shall formulate the necessary rules and regulations governing the establishment and operation of rural banks for the purpose of providing adequate credit facilities to farmers and merchants, or to cooperatives of such farmers and merchants and in general, the people of the rural communities, and to supervise the operation of such banks.

	2016	2017	2018	RBS Growth Ratio	Industry Ratio	REASON FOR CHANGE
Loan Portfolio	264,602,166	323,562,410	388,494,673	20.07%	3.66%	full blast lending to micro agri
Deposit Liabilities	241,747,584	274,033,444	331,081,954	20.82%	5.69%	our physical presence in 2 other towns
Resources	438,339,734	495,288,290	571,743,814	15.44%	6.65%	result of operations
Liquidity Ratio	43.30%	29.83%	26.52%	-3.31%	31.20%	maximizing use of funds
Expense to Income	59.26%	66.30%	69.57%	3.27%	______	expansion plans require advance expenditures on training and FFE
Past Due Ratio	5.53%	5.92%	8.73%	2.81%	14.70%	Calamity and circular 941
Gross Income	61,997,268	68,605,063	90,388,275	31.55%	______	18% nominal rate
CAR	34.59%	40.01%	42.04%	2.03%	19.63%	strong capitalization
ROE	15.97%	13.79%	14.80%	1.01%	8.36%	
ROA	5.77%	5.12%	5.20%	0.08%	1.63%	

To ensure sustainability and soundness of operation, compliance to rules remains to be of utmost importance and it is never ending for as long as regulations continuously evolve. 11 rural banks and 1 thrift bank were ordered closed in 2018 alone. As to "why?", all we gather are hearsay or press statements such as "to protect the public" and "weed the banking industry of weak players" [3]It is puzzling, however, when banks being closed now are multi-branched, technologically advanced and with resources close to a billion.
At RBS, we continue to see the value of good corporate governance in maintaining integrity and efficiency in our operations. We show our commitment to the business by strengthening our Capital.[4] We utilize our resources, including our earnings, with prudence, and equitably reward stakeholders at the same time retaining a portion as leverage for the risks we take and risks that regulations may yet to define or redefine. We manage risks by recognizing, monitoring and controlling them and providing for measures to abate or control and manage them including setting up of thresholds and buffers in case of eventualities. We continue to commit to serve (the inherently risky) farmers, fisher folks, micro enterprises and

[3] https://www.philstar.com/business/2018/08/20/1844033/more-banks-ordered-closed-year-bsp
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[4] SEVENTH. THAT THE CAPITAL STOCK OF THE CORPORATION IS FIVE HUNDRED MILLION PESOS (P 500,000,000.00), PHILIPPINE CURRENCY, DIVIDED INTO FOUR MILLION NINE HUNDRED NINETY SIX THOUSAND NINE HUNDRED EIGHTY TWO (4,996,982) SHARES OF COMMON STOCK WITH VOTING RIGHTS AND THREE THOUSAND EIGHTEEN (3,018) SHARES OF PREFERRED STOCKS, BOTH AT PAR VALUE OF ONE HUNDRED PESOS (P 100.00) EACH. (AS AMENDED ON JANUARY 15, 1977, AND FURTHER AMENDED ON JUNE 25, 1983, APRIL 25, 1993, MAY 31, 1998, DECEMBER 23, 2005)."

the underserved, but we enter into partnerships for guarantee and insurances as a means to share or pass on the risks. Furthermore, we roll out capacity building programs to ensure financial literacy, efficiency and sustainability for our clients and our employees who are called to mentor & assist the farmers.

All these things we do have made us relevant, competitive, and profitable. Furthermore, we find our job most fulfilling knowing that we foster beginnings, build lives and nurture relationships among others. For all these opportunities and blessing, we thank the following:

The Stockholders who share their resources for the vision and the cause,

The Board of Directors and Management Committee who help steer the wheels of our bus,

The hardworking Team who give out the best of themselves, to stay aligned to the Core Values and breathe life to the Vision,

To all our Partners, who in one way or another are part of the cycle of PROGRESS, for himself and for others, and

To God Almighty, who made it all possible....and to whom we give back all the Glory!

On this occasion of our 50th Anniversary, we say let's Level Up to the next 50! Once again, join us-- come PROGRESS with RBS. Cheers to the golden years!

Very truly yours,

Atty. Mary Ann [illegible] M. Tupasi

RISK MANAGEMENT SYSTEMS
& POLICIES

RISK GOVERNANCE

Rural Bank of Solano (N.V.), Inc. is a five-unit rural bank with a simple business model as operations are limited to traditional lending, investing, deposit-taking, remittance services, and selling of micro-insurance products. With the dynamic economic environment and evolving regulatory requirements, the bank continues to adapt thru its active Board and Management oversight. Risk management across the organization is supported by sufficient policies, procedures and MIS, effective controls and self-assessment functions.

The objectives and policies on risk management is being formulated by the Risk Management Committee (RiskCom), subcommittee of the Board of Directors of the bank. The main function of the committee is to identify and assess the bank's exposure to diverse risks inherent to the business, develop risk management polices to address and mitigate identified threats, monitor the implementation of risk management plans, and periodic review and enhancement of plans.

The nature of the bank's business activities exposes it to various financial risks such as credit risk, liquidity risk, market risk and operational risk. The bank's risk management program aims to reduce the magnitude and likelihood of impending adverse effects on the overall financial performance and achievement of objectives of the bank.

RISK MANAGEMENT GOVERNANCE STRUCTURE

The Board of the bank is responsible for the oversight of the entire process of risk management. The Board Risk Management Committee, which is a subcommittee of the Board, assists the Board to ensure a dedicated focus on risk management in the bank.

The Risk Management Committee oversees the overall spectrum of risk management in the bank. They develop and approve risk management strategies, policies, structures and processes, and reviews and evaluates reports and enhance the program when needed.

The policies define the bank's identified risks and its implications and sets limit and control structures to mitigate such risks. The bank has developed stress and scenario tests to identify the risks to which the bank is exposed, quantifying their impact on the financial statements. The results of these tests are reported to the RiskCom and analyzed to be able to formulate plans and strategies to mitigate such risks.
The Management Committee (MANCOM) is also part of the bank's strategic risk management and planning process. They serve as advisory to the Risk Management Committee and Credit Committee, having a first-hand exposure to the implementation of the risk management program of the bank. Strategic risks are also managed by the heads of the different departments and branches as part of their operational responsibilities.

The focus of Audit and Compliance Committee is to provide assurance on the effectiveness of internal control and overall risk management by assisting senior management in establishing and maintaining an adequate internal control framework. They shall ensure that the systems and processes are designed to provide assurance in areas which includes reporting, monitoring, compliance with laws, regulations and internal policies, efficiency and effectiveness of operations and safeguarding of assets.

CONSUMER PROTECTION

The Rural Bank of Solano (N.V.) adhere to the BSP policy to provide for an enabling environment that protects the interest of financial consumers and be responsive to their needs. Consumer protection policies are implemented to abide with the bank's commitment to serve with excellence.

Role and Responsibility of the Board and Senior Management

The Board and Senior Management are respondsible for the development of consumer protecttion strategy and establishment of an effective oversight over the bank's consumer protection programs. The Board is primarily responsible for approving and overseeing the implementation of the bank's consumer protection policies as well as the mechanism to ensure compliance with policies while senior management is responsible for the implementation of the consumer protection policies approved by the Board.

Consumer Protection Risk Management System

The CPRM of the bank comprise of identifying, assessing, measuring, monitoring and controlling risk.

Managing risk effectively is critical to ensure compliance witWh consumer protection laws and regulations and has become even more important as new technologies, product innovation, and the size

1. *Board and Senior Management Oversight*

The Board and Senior Management shall periodically review the effectiveness of the bank's consumer protection risk management system and ensures that weaknesses are addressed and corrective actions are taken in a timely manner.

2. *Compliance Program*

The purpose of the bank's Consumer Protection Compliance Program is to prevent breaches of the bank's legal obligation from occurring. Compliance must be delicately and diligently managed to ensure the bank is achieving efficient, reasonable policies and superior customer service. The Compliance Officer shall be responsible for the periodic and continuous monitoring and testing of consumer protection laws, rules and regulations including the need to appropriately assess risk management.

3. *Policies and Procedures*

The bank's policies and procedures on consumer protection were prepared to promote and protect the rights and interest of consumers and to address conflicts that are inimical to the interest of the financial consumer.

4. *Internal Audit Function*

Internal audit on consumer protection practices is an independent, objective assurance and consulting function established to examine, evaluate and improve the effectiveness of consumer protection practices, adherence to internal policies and procedures, and compliance with existing laws, rule and regulations.

5. *Training*

The Bank's Consumer Protection Training Program aims to provide continuing education to all relevant personnel on an annual basis specially those whose roles and responsibilities have customer interface, to acquaint them with the provisions of the law, how to market bank's product and services, know the rights that customers have and to ensure compliance.

CONSUMER ASSISTANCE MANAGEMENT SYS-TEM (CAMS)

The Bank's Consumer Protection Assistance System aims to handle consumer complaints, inquiries and request for the financial consumers. The Head Consumer Assistance Officer of the bank is the Bank Cashier who shall keep track, identify, and analyze the nature of complaints, report to senior management the complaints received on a monthly basis including reasons for such complaints and ensure immediate escalation of any significant complaint to concerned unit of the bank.

ANTI-MONEY LAUNDERING

To promote high ethical and professional standards and to prevent the bank from being used, intentionally or unintentionally, for money laundering and terrorism financing, Rural Bank of Solano (NV), Inc. has adopted the Money Laundering and Terrorist Financing Prevention Program (MLPP).

The program was adopted to support the government, law enforcement agencies and international bodies such as the Financial Action Task Force in their efforts to combat money laundering. It serves as a comprehensive operating guideline for the bank officers and employees in implementing the Anti-Money Laundering Law, as amended and other rules and regulations issued by the Bangko Sentral ng Pilipinas and the Securities & Exchange Commission to combat money laundering. It is, therefore, be the responsibility of all, whether officers, supervisors, or rank and file, to uphold the implementation of the approved Program. Any potential or actual violations, whether intentional or unintentional, should be brought to the attention of the Board of Directors for resolution or appropriate action.

The following basic principles and policies in the bank's wide drive to combat money laundering include the following:

1. Know your customer at all times

In all financial transactions, the Bank obtains competent evidence of the customer's identity, including their beneficial owners, if applicable. The with the responsibility to know and understand the customer's business.

2. Know Your Customer Business

Legal existence of customers that are corporations or other business entities must be properly established. Before establishing business relationships, the bank shall endeavor to ensure that the customer that is a corporate or juridical entity has not been or is not in the process of being dissolved, wound up or voided, or that its business or operations has not been or is not in the process of being closed, shut down, phased out, or terminated. In case of doubt as to the veracity of the corporation or identity of the directors and or officers or of the business of the partners, a search or inquiry with SEC or other relevant regulatory agency shall be made.

3. Compliance with laws

The Bank ensures that business is conducted in conformity with high ethical standards in order to protect its safety and soundness as well as the integrity of the national banking and financial system, that rules and existing laws aimed at combating money laundering and terrorist financing are fully complied with by making sure that officers and employees are aware of their responsibilities, carrying them out in accordance with superior and principled culture of compliance, and that service is not provided where there is good reason to believe that transactions are associated with money laundering activities.

4. Cooperation with the Anti-Money Laundering Council (AMLC)

Within the legal constraints relating to customer confidentiality, the Bank cooperate fully with the Anti-Money Laundering Council (AMLC) for the effective implementation and enforcement of the AMLA, as amended, and its RIRR. This includes taking appropriate measures allowed by law if there are reasonable grounds for suspecting money laundering. Disclosure of information for the purposes of the Act regarding covered transactions and suspicious transactions shall be made to the Anti-Money Laundering Council.

INTERNAL AUDIT

The Internal Audit function associated with money laundering and terrorist financing is being undertaken by the Internal Auditor who is independent of the office being audited
and has a direct reporting line to the Board through the Audit and Compliance Committee.

COMPLIANCE

Management of the implementation of the bank's Money Laundering and Terrorist Financing prevention Program (MLPP) shall be a primary task of the compliance office.
The Compliance Officer shall have a direct reporting line to the board of directors or board-level committee on all matters related to AML and TF compliance and their risk management.

TRAINING

The Bank conducts an annual AML training to provide officers and personnel with efficient, adequate and continuous education program to enable them to fully and consistently comply with all their obligations under the AMLA, as amended, and its R1RR. Such trainings shall include awareness of their respective duties and responsibilities under the MLPP particularly in relation to the customer identification process, record keeping requirements and CT and ST reporting and ample understanding of the internal processes including the chain of command for the reporting and investigation of suspicious and money laundering activities.

The bank's MLPP shall be updated once every two (2) years to incorporate changes in AML policies and procedures, latest trends in money laundering and terrorist financing typologies and latest pertinent Bangko Sentral issuances. Any revision or update in the MLPP shall likewise be approved by the Board of Directors of the Bank.

RELATED PARTY TRANSACTION

The bank has adopted Related Party Transactions Policies to avoid conflicts of interest and to ensure all transactions are within arm's length and are transparent.

The Board make certain that the approved policy is compliant with existing laws, rules and regulations at all times while the Senior Management ensures implementation of controls to effectively manage and monitor RPTs on a per transaction and aggregate basis.

Exposure to related parties shall also be monitored on an ongoing basis to ensure compliance with policy and BSP regulation.

The bank's related parties covers the bank directors, officers, stockholders and related interest (DOSRI), and their close family members within the second degree of consanguinity or affinity, legitimate or common law , as well as corresponding persons in affiliated companies.

Related party transaction of the banks includes on-and-off balance sheet credit exposures and claims and write-offs; investments and/or subscription for debt/equity issuances, consulting, professional, agency and other service arrangements/contracts, purchases and sales of assets, including transfer of technology and intangible items(e.g. research and development, trademarks and license agreements), construction arrangement/contracts, lease arrangements/ contracts, borrowings, commitments, fund transfers and guarantees, sale, purchase or supply of any goods or materials; and establishment of joint venture.

The Internal Audit conducts periodic formal review of the effectiveness of the bank's system and internal control governing the RPTs to assess consistency with the board approved policy while the Compliance Office ensures compliance with relevant rules and regulations and is informed of regulatory developments in area affecting related parties.

The Audit and Compliance Committee shall, in respect to related party transactions shall judge if the transaction is the ordinary course of business or at arm's length basis. In case the committee is not able to arrive at such decision, the same shall be referred to the board, which shall decide if the transaction is the ordinary course of business or arm/s length basis.

The members of the board, stockholders and management shall disclose to the board whether they directly, indirectly or on behalf of third parties, have a financial interest in any transaction or matter affecting the bank.

Directors and officers with personal interest in the transactions shall abstain from the discussion, approval and management of such transactions or matter affecting the bank.

A whistle blowing policy was approved which intends to encourage and empower directors, officers, employees and other stakeholders to raise concerns on matters pertaining to potential violations of laws, policies and procedures, or any unlawful act that may affect the integrity of the bank.

Generally, no director, officer, employee or other stakeholders of the bank, who in good faith, duly reports a matter shall suffer harassment, retaliation or any adverse consequence in his employment or practice of profession. A director, officer or employee who retaliates against someone who has reported a violation in good faith is subject to disciplinary action up to and including termination of employment.

All reported concerns will be forwarded to the Audit and Compliance Committee in accordance with the procedures set forth in the bank's policy. The Audit Committee shall be responsible for investigating, and making appropriate recommendations to the board as regards to all reported concerns.

CORPORATE GOVERNANCE

The Bank acknowledges that corporate governance is a dynamic concept. It is the system of stewardship and control to guide organizations in fulfilling their long-term economic, moral, legal and social obligations towards their stakeholders. It provides direction for the promotion of a strong corporate governance culture and recognizes current best practices. The Board of Directors, Management and Staff of the Rural Bank of Solano (RBS) commit themselves to adhere to the highest principles of good corporate governance as embodied in the Bank's Articles of Incorporation, By-Laws, Code of Conduct and the Corporate Governance Manual.

The Bank subscribes to the philosophy of integrity, accountability and transparency in its manner of doing business; dealing fairly with its clients, investors, stockholders, the communities affected by its environmental/social activities and various public; professionalism among its Board of Directors, executives and employees in managing the bank and respect for the laws and regulations of the country affecting its business. Internally, it follows a philosophy of rational check and balances as well as a structured approach to its business operations.

The Board and Management believe that corporate governance is a critical component of sound strategic business management. Furthermore, the Board and the committee continue to review and strengthen the corporate governance policies to adopt consistency in the corporate governance framework of the Bank. This Manual describes the role and responsibilities as well as the scope of activities of the principal parties that directly or indirectly influence the corporate governance practices of the Bank, primarily the Members of the Board, the Chief Compliance Officer, the Chief Risk Officer, the Corporate Secretary, the Internal and External Auditors, as well as the Board, Audit and Compliance, Risk Oversight and Corporate Governance that directly engage in monitoring and controlling business risks.

Selection Process for the Board and Senior Management

Nomination Process

- The Nomination Committee shall identify number of the board seats each year and the necessary criteria to fill those seats.
- The committee shall pre-screen and shortlist all candidates nominated to become a member of the board in accordance with the minimum qualification and disqualifications:

Independent Director

An independent director shall refer to a person who:

(1) is not or was not a director, officer or employee of the BSFI, its subsidiaries, affiliates or related interests during the past three (3) years counted from the date of his election/appointment;
(2) is not or was not a director, officer or employee of the BSFI's substantial stockholders and their related companies during the past three (3) years counted from the date of his election/appointment;
(3) is not an owner of more than two percent (2%) of the outstanding shares or a stockholder with shares of stock sufficient to elect one (1) seat in the board of directors of the institution, or in any of its related companies of its majority corporate shareholders;
(4) is not a close family member of any director, officer or stockholder holding shares of stock sufficient to elect one (1) seat in the board of directors of the BSFI or any of its related companies or of any of its substantial stockholders;
(5) is not acting as a nominee or representative of any director or substantial shareholder of the BSFI, any of its related companies or any of its substantial shareholders;
(6) is not or was not retained as professional adviser, consultant, agent or counsel of the BSFI, any

of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm during the past three (3) years counted from the date of his election;

(7) is independent of management and free from any business or other relationship, has not engaged and does not engage in any transaction with the BSFI or with any of its related companies or with any of its partner or a company of which he is director or substantial shareholder, other than transactions which are conducted at arm's length and could not materially interfere with or influence the exercise of his judgement;

(8) was not appointed in the BSFI, its subsidiaries, affiliates or related interests as Chairman "Emeritus", "Ex-Officio", Directors/Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the board of directors in the performance of its duties and responsibilities during the past three (3) years counted from the date of his appointment;

(9) is not affiliated with any non-profit organization that receives significant funding from the BSFI or any of its related companies or substantial shareholders; and

(10) is not employed as an executive officer of another company where any of the BSFI's executive serve as directors.

Regular Director

(1) He must be fit and proper for the position of a director. In determining whether a person is fit and proper for the position of a director, the following matters must be considered: integrity/probity, physical/mental fitness; relevant education/financial literacy/training; possession of competencies relevant to the job, such as knowledge and experience, skills, diligence and independence of mind; and sufficiency of time to fully carry out responsibilities.

(2) He must have attended a seminar on corporate governance for board of directors. A director shall submit to the Bangko Sentral a certification of compliance with the Bangko Sentral –prescribed syllabus on corporate governance for the first-time directors and documentary proof of such compliance.

- A call for nomination will be made and interested parties will be encouraged to submit applications at least thirty (30) days before the annual stockholders meeting. The application should indicate if nominee is vying for independent director or regular director.
- Applications will be submitted to the Chairman of the committee and to be reviewed by the committee at least fifteen (15) days prior to the annual stockholders meeting.

TWO-PART ELECTION PROCESS

Part 1. Election of Independent Directors

- Number of seats for independent directors shall be based on the minimum required under a three (3) board-level committee structure

  Audit & Compliance Committee
  Risk Management Committee
  Corporate Governance Committee

- Only the nominees approved by the committee through the nomination process set out in this charter shall be eligible for election of independent directors.
- The Chairman of the committee shall inform the stockholders of the mandatory requirements of electing independent directors. He shall ensure that independent directors are elected during the Annual Stockholder's Meeting.
- The voting for the election of independent directors shall be by secret ballot. As such, ballots shall be prepared by the committee and shall be pre-signed by the Chairman of the committee.
- The committee shall immediately conduct the counting of the votes after the close of the voting.
- The committee shall declare the elected independent directors after the completion of the counting of votes.

Part 2. Election of Regular Director

- Only the nominees approved by the committee through the nomination process set out in the charter shall be eligible for election of regular directors. A losing candidate for independent director may opt to run for Regular Director.
- The Chairman of the committee shall inform the stockholders of the mandatory requirements of electing regular directors.
- The voting for the election of regular directors shall be by secret ballot. As such, ballots shall be prepared by the committee for the election and shall be pre-signed by the

Chairman of the committee.

- The committee shall immediately conduct the counting of the votes after the close of the voting.
- The committee shall declare the elected regular directors after the completion of the counting of votes.

ROLE AND CONTRIBUTION OF THE CHAIRMAN OF THE BOARD, EXECUTIVE, NON-EXECUTIVE AND INDEPENDENT DIRECTORS

The Chairperson provides leadership in the board of directors and conducts board meetings effectively. She ensures that members of the board of directors receive accurate, timely, and relevant information and ensures that all they get involved in the board's work and pay particular attention on their key tasks. The Chairperson also ensures the conduct of proper orientation for first-time directors and takes the lead in overseeing their development. Finally, at least once a year, the Chairperson ensures the conduct of performance evaluation to evaluate their performance as a board.

EXECUTIVE, NON-EXECUTIVE AND INDEPENDENT DIRECTORS

An executive director is a member of the board who is ultimately responsible for the overall management and all aspects of the bank. The executive director manages the day to day affairs of the bank. Non–executive directors shall refer to those who are not part of the day to day management of operations and shall include the independent directors. However, not all non–executive directors are considered independent directors. Non-executive directors, shall comprise at least majority of the board of directors to promote the independent oversight of management by the board of directors.

A non-executive director may concurrently serve as director in a maximum of five(5) publicly listed companies.

The main role of independent directors is to improve corporate governance standards. They act as a guide to the bank by playing an active role in board committees to ensure good governance. They also play a vital role in the risk management and protect the general interest of the bank.

An independent director of a bank may only serve as such for a maximum cumulative term of nine (9) years. After which, the independent director shall be perpetually barred from serving as independent director in teh same bank, but may continue to serve as regular director. The nine (9) year maximum cumulative term for independent directors shall be reckoned from 2012.

THE BOARD OF DIRECTORS

Mary Ann E.M Tupasi - Saddul

Atty. Mary Ann Elizabeth Mercado Tupasi – Saddul is the Chairman of the Board of Directors and the President and Chief Executive Officer of the bank. She is the Chairman of the Management Committee. She served as Vice President in 1997 until 1999. She is also a Director of Agricultural Guarantee Fund Pool (AGFP) since 2017. She served as a Director of the Rural Bankers Association of the Philippines for several years and as Vice President for Luzon in 2017. For eighteen years, she also served as a Director of Cordillera Savings Bank Incorporated. She is currently a Director of JZJ Food Corporation, owner of several Mang Inasal franchises. She holds a degree in Bachelor of Science in Hotel and Restaurant Management from the University of the Philippines – Diliman and finished her Juris Doctor at the Ateneo de Manila University. By virtue of an exemption granted by the monetary board, Atty. Tupasi may hold concurrent positions of President and Chairman of the Board of Directors.

Edgardo Santos De Guzman

Engr. Edgardo Santos De Guzman is the Lead Independent Director of our Bank. He is the Chairman of the Audit and Compliance Committee. He holds a degree at Bachelor of Science in Civil Engineering from Nueva Ecija University of Science and Technology (formerly Central Luzon Polytechnic College). He is a licensed engineer and the Chairman/CEO of
E.S. De Guzman Construction. He is the Manager of Buildhaus Centre and co-owner of Balai Gloria Hotel & Restaurant. He served the Chief Compliance Officer of the Bank from March 2013 to April 2016. In 1987, he worked as a Resident Engineer at Urban Integrated Consultant up until 1992. During the early 1980's he was associated with Certeza Development Corporation as an Assistant Project Manager and Quality Cost Manager.

Mr. Louie Guillermo Tiongson is the Treasurer of the Board since April 29, 2018. He is a member of the Risk Management and Credit Committee and a member of the Risk Management Committee. He holds a degree at Computer Systems Design and Programming from AMA Computer School at Bayombong, Nueva Vizcaya. He is the Owner of various enterprises such as the LGT Trading, Farmacia Ibung, and Ibung Computer Center. He's been a Director of the Bank since 2014. He is the first graduate of the Director Readiness Program (DRP) in 2013-2014.

Louie Guillermo Tiongson

Patricia Anne Tiongson Sevilla

Ms. Patricia Anne Tiongson Sevilla is an Independent Director of our Bank since April 29, 2018 after completing the Director Readiness Program (DRP) in 2017-2018. She is the Chairman of Risk Management Committee and the Vice Chairman of Audit and Compliance Committee. She has been a Director of the Bank since April 2017 and holds a degree of Bachelor of Science in Nutrition and Dietetics from University of Santo Tomas. She is the Manager and owner of Taycan Marketing and the Operations Manager of Shoppers General Merchandise. At the same time, she supervises the Bascaran Family Resort. In 2013, she served as a Merchandising Supervisor at Supervalue Incorporated up until 2014. Also, she was associated with St. Luke's Medical Center Global City as a Therapeutic Dietitian for more than a year.

Roque Felipe Mercado Granada

Mr. Roque Felipe Mercado Granada is the Vice-Chairman of the Board and at the same time, the Vice President of the bank. He is also the Vice-Chairman of the Risk Management Committee and has been a director of the bank since 2012. He is also the President of Pre-Size Consultancy Incorporated and he previously worked as a Senior Vice President in Sales/Marketing for Automated Technologies Incorporated from 2012-2017, PSI Technologies Inc. from 2008-2012 and Edge Worth Corporation in 2007. He finished his Mini Masters in Business Administration at Digital Marketing Compass in 2014 and his Bachelor of Science in Industrial Engineering at the University of the Philippines back in 1981.

Mr. Lee Andrew Tupasi Tiongson is a Director of the bank since 2010. He is a member of the Risk Management Committee and the Credit Committee. He is also the System Administrator of the Bank. Mr. Tiongson is currently the Corporate Secretary of Cordillera Savings Bank, Inc. He served as President of the Nueva Vizcaya Bankers Association and the Confederation of Cagayan Valley Rural Banks. He holds a degree in Bachelor of Science in Information Technology.

Lee Andrew Tupasi Tiongson

Teresita Garingan Venturina

Ms. Teresita Garingan Venturina is a Director of the Bank since 2012 and a member of the Credit Committee and Audit & Compliance Committee. Back in 1984, she held the position of Loans Clerk at Rural Bank of Solano. She also worked at Cordillera Savings Bank Inc. as a Branch Manager for seven years (1995-2002), a Cashier in 1990 to 1995 and a Teller for eleven years from 1989 to 1978. She holds a degree in Bachelor of Science in Commerce – Major in Banking and Finance from University of Santo Tomas.

BOARD QUALIFICATION

1. He/she shall be college graduate or with at least five (5) years' experience in business.
2. He shall be a shareholder of at least 1 share of stock.
3. He/she filed a nomination form one month prior to the Annual Stockholder's Meeting and shall be duly elected.
4. He/she must have attended the following seminars:

BOARD IN GENERAL

Orientation seminars(budget /operations)	To be done prior to the first BOD meeting facilitated by the MANCOM
Corporate Governance	Within the first three(3) months . A repeat BOD must take refresher course every three (3) years.
Accounting for Non-Accountants	From organizational meeting or at least twelve (12) units of accounting

ADDITIONAL SEMINARS TO BE ATTENDED BY THE FOLLOWING COMMITTEE CHAIRMAN

COMMITTEE	SEMINARS
Committee on Banking Operation	Strategic Planning, MTP and TOL
Risk Management	Risk Management and Internal Audit
Corporate Governance Committee	Risk Management , Internal Audit and TOL
Credit Committee	Cash Flow and Property Appraisal
Audit and Compliance Committee	Risk Management and Internal Audit

1. He must be fit and proper to attend to the rigors of the job of a director An Independent Director (Under Section 132b of MORB) shall mean a person who:

a. Is not or has not been an officer or employee of the bank (Under Article V Sec 1 of the Corporate By-laws, to wit "The Officers of the Corporation shall be a Chairman of the Board of Directors, Vice-Chairman, a President, one or more Vice-Presidents, a Treasurer, a Secretary, and a Comptroller, all of whom shall be elected by the Board of Directors. The Board of Directors may appoint such officers as they shall deem. If necessary, proper or convenient who shall have such authority and perform such duties as from time-to time may be prescribed by the Board One person may hold more than one office, except when the offices are incompatible with each other "), its subsidiaries or affiliates or related interests during the past three (3) years counted from the date of his election;

b. Is not a director or officer of the related companies of the institution's majority stockholder;

c. Is not a majority stockholder of the institution, any of its related companies or of its majority shareholders;

d, Is not a relative within the fourth degree of consanguinity or affinity, legitimate or common-law of any director, officer or majority, shareholder of the bank or any of its related companies;

e. Is not acting as a nominee or representative of any director or substantial shareholder of the bank, any of its related companies or any of its b." substantial shareholders, and;

f. Is not retained as professional adviser, consultant, agent or counsel of the institution, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm, is independent of management and tree from any business or other relation ship, has not engaged and does not engaged in any transaction with the institution or with any of its related companies or with any of its substantial shareholders, whether by himself or with other persons or through a firm of which he is a partner or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arm's length and could not materially interfere with or influence the exercise of his judgment.

BOARD ATTENDANCE APRIL 2018 - APRIL 2019

Board Attendance April 2018 - April 2019

DIRECTORS	2018										2019				
		Org. Meeting	BOD Meeting	BOD Meeting	BOD Meeting	BOD Meeting	BOD Meeting	BOD Meeting	BOD Meeting	BOD Meeting	BOD Meeting	BOD Meeting	BOD Meeting	BOD Meeting	BOD Meeting
	13-Apr	20-Apr	17-May	08-Jun	21-Jul	17-Aug	21-Sep	20-Oct	16-Nov	15-Dec	18-Jan	15-Feb	16-Mar	13-Apr	Total
MARY ANNE E.M TUPASI	✓	✓	✓	✓	✓	✓	✓	x	✓	✓	x	✓	✓	✓	12/14
ROQUE FELIPE M. GRANADA	x	✓	✓	Skype	Skype	✓	Skype	✓	x	✓	Skype	✓	✓	✓	12/14
TERESITA G.VENTURINA	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	14/14
LOUIE G. TIONGSON	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	14/14
LEE ANDREW T. TIONGSON	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Part.	✓	14/14
EDGARDO S. DE GUZMAN	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	14/14
PATRICIA ANNE T. SEVILLA	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	x	✓	✓	✓	13/14

RISK COM MEETING	Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	Total
PATRICIA ANNE T. SEVILLA	✓				✓									
ROQUE FELIPE M. GRANADA	✓				✓									
LEE ANDREW T. TIONGSON	✓				✓									
LOUIE G. TIONGSON	✓				✓									

CRECOM MEETING	11-Apr	10-May	07-Jun	12-Jul	15-Aug	18-Sep	18-Oct	13-Nov	Dec	15-Jan	11-Feb	12-Mar	11-Apr	Total
LOUIE G. TIONGSON	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
LEE ANDREW T. TIONGSON	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
TERESITA G.VENTURINA	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
ROQUE FELIPE M. GRANADA	x	x	Skype	Skype	x	x	x	x	x	x	x	x	Skype	

AUDIT COM	Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	Total
EDGARDO S. DE GUZMAN		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	11/11
PATRICIA ANNE T. SEVILLA		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	11/11
TERESITA G. VENTURINA		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	11/11

BOARD COMMITTEES

The Board has constituted several committees to guide management in implementing sound corporate governance. These committees regularly hold meetings as mandated in their respective charters.

Audit & Compliance Committee (ACC)

The Audit & Compliance Committee (ACC) is composed of three (3) members, two (2) of whom are independent directors including its Chairman Engr. Edgardo S. De Guzman. The two (2) other members, Dir. Patricia Anne T. Sevilla and Dir. Teresita G. Venturina hold concurrent roles in other Board-level Committees as Chairman of the Risk Management Committee and as member of the Credit Committee, respectively. Such membership kept them apprised of significant developments and enabled them to provide advice on risk taking and management activities. The ACC periodically reported to the Board results of its reviews over financial reporting and matters pertaining to internal operations.

The ACC discharged its responsibilities and affairs independently in compliance with its Board- approved Charter, and assisted the Board of Directors (BOD) in fulfilling its statutory and fiduciary responsibilities to enhance stakeholders' value and protect their interest by providing effective oversight on the Bank's financial reporting framework, internal audit function and compliance with bank policies, applicable laws, and regulatory requirements; monitoring and evaluating the adequacy and effectiveness of internal control system, and implementation of corrective actions; and investigating issues/ concerns raised. The ACC also reviews the external auditor's scope of work, and assesses its overall performance and effectiveness. In consultation with management, it approves the external auditor's terms of engagement and audit fees.

Year 2018 marked the start of the reorganizing of the Audit and Compliance department of the bank. It is now headed by the bank's former EVP/General Manager, Ms. Evelyn C. Garcia as CEHAC (Chief Executive Head of Audit & Compliance). The two self-assessment functions, internal audit and compliance, are now under the oversight of the CEHAC, who assists the ACC in fulfilling its charter-mandated duties and responsibilities. This strategic initiative of the board of directors is aligned with the bank's expansion plan of having 20 business units in year 2022.

INTERNAL AUDIT

Internal audit is an independent, objective assurance and consulting services designed to add value and improve the Bank's operations. It helps the Bank accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. It is established by the Board of Directors and its responsibilities are defined by the ACC as part of its oversight function.

The internal audit personnel have the authority to access all records, documents, personnel, and physical properties relative to ascertaining the strength of the Bank's control and identifying any fraud related activities.

The scope of work of the Internal Audit includes all processes, systems, units and activities of the Bank, covering, among others the evaluation of the adequacy, efficiency and effectiveness of internal control, risk management and governance systems in the context of current and potential future risks; review of the reliability, effectiveness and integrity of management and financial information systems; review of the systems of safeguarding the Bank's physical and information assets; review of the compliance system and implementation of established policies and procedures; and review of areas of interest to regulators such as monitoring of compliance with relevant laws, rules and regulations. As a recognized advocate for good governance, the Internal Audit supports the Bank's programs

aimed at strengthening a corporate culture of integrity, which is a critical component of corporate risk management, and ensures that its work is aligned with the Senior Management's strategic and operational objectives, and takes into account the Bank's aim for enhancement and growth.

In 2018, the Internal Audit took a step to assess its approaches and evaluate the strength of the foundations on which the internal audit methodologies are built upon. Even with limited manpower, it aims to stride onward, driven with the commitment to provide quality assurance and consulting services to support the Bank in enhancing corporate risk management. With the increasing operational risk faced by the Bank due to expansion of operations, introduction of new products and re-launching of old products, the Internal Audit endeavors to further realize efficiencies & increase effectiveness. It focused on preventive measures and identification of improvement opportunities in the bank processes. Where control weaknesses exist and where the achievement of objectives is at risk, it provided the Board of Directors (BOD), through the ACC, constructive insights and recommendations with the end in view of strengthening operations by enhancing accountability and performance. It does not only contribute to the achievement of Bank's objectives but also supports management and BOD in the decision-making process.

COMPLIANCE

The Compliance Office' job is to ensure that all activities are carried out and addressed within the regulatory framework. Its role is to oversee the design of an appropriate compliance system, promote its effective implementation to address breaches that may arise and to ensure the integrity and accuracy of all documents submitted to the regulatory bodies.

To effectively manage compliance risk, the CO has been conducting periodic compliance testing and monitoring on possible breaches of compliance policy. Recently issued circulars were disseminated within the organization and briefing on the provisions of Anti-Money Laundering Act and its implementing rules and regulations were also conducted during the induction of the newly hired employees.

The CO reports to the Board of Directors or Audit and Compliance committee on matters pertaining to compliance on regular basis. The CO also updates the collection of information by ensuring that copies of new laws and regulatory issuances, interpretations and amendments thereto are filed with the bank.

Meanwhile, an updated comprehensive Compliance Program guides the CO in discharging her duties and responsibilities. This program is updated annually to incorporate the latest updates on BSP regulations and other relevant laws as well as the revision of the National Internal Revenue Code of 1997 known as the "Train Law".

Since regulations are always changing, the CO needs to stay up to date on the developments to ensure that the bank stays compliant. The CO dedicates time to internet researches about the latest compliance trends in the industry and attend seminars from time to time conducted by BSP and other regulatory agencies to keep aware of the latest best practices and regulatory changes.

AUDIT AND COMPLIANCE COMMITTEE

EDGADO S. DE GUZMAN (Independent Director)	CHAIRMAN
PATRICIA ANNE T. SEVILLA (Independent Director)	VICE-CHAIRMAN
TERESITA G. VENTURINA (Non-Executive Director)	MEMBER

Risk Management Committee (RMC)

The Risk Management Committee is composed of three (3) members of the board plus one alternate director.

Each member of the committee should have adequate knowledge and experience in the identification, evaluation or control of risk. Additionally, as a qualification for continued committee membership, each member of the committee shall complete training requirements provided or approved by the Board Governance Committee or as required by the Bangko Sentral ng Pilipinas and Securities and Exchange Commission.

The committee and its sub-committee (Credit Committee) shall oversee and monitor the bank policies and procedures in relation to the management and control of all risks faced by the bank.

The committee is responsible in establishing bank polices on investment and loans, assets and liabilities management , formulating business strategies for planning and budgeting, to review regularly the performance of management against business plans and strategies and to take actions to ensure that the business strategies are achieved.

The committee shall also set threshold limits in all transactions that will expose the bank to significant risks, to establish policies to limit or mitigate risk exposures and to periodically review risk exposures of the bank.

Credit and Collection Committee (CCC)

The Credit and Collection Committee's function is to formulate, adopt and maintain adequate lending and investment policies, guidelines and procedures relating to the management of credit risk. The committee evaluate and recommend loans for board approval, review credit and loan product manuals, evaluate market surveys and establish necessary policies in the creation of new loan products and services. It also serves a monitoring body for the proper administration of Real and other Properties Acquired (ROPA).

RISK MANAGEMENT COMMITTEE

PATRICIA ANNE T. SEVILLA (Independent Director)	CHAIRMAN
ROQUE FELIPE M. GRANADA (Non-executive Director)	VICE-CHAIRMAN
LEE ANDREW T. TIONGSON (Non-Executive Director)	MEMBER
LOUIE G. TIONGSON (Non-executive Director)	MEMBER

Sub-committee:

a. Credit Committee (CRECOM)

Members:

1. LOUIE G. TIONGSON
2. LEE ANDREW T. TIONGSON
3. TERESITA G. VENTURINA
4. ROQUE FELIPE M. GRANADA (Alternate)

Nomination and Election Committee (NEC)

The Nomination and Election Committee is composed of three (3) members as follows:

1) Stockholder that can qualify as independent director who is not a candidate;
2) Stockholder with nominal share; and
3) Compliance Officer

The composition of the committee and its independence will be reviewed annually by the board.

NOMINATION AND ELECTION COMMITTEE

PACITA T. DUMPIT (Stockholder)	CHAIRMAN
ESTELITA M. BALUT (Stockholder)	VICE-CHAIRMAN
MA. CHERIL DEL ROSARIO Compliance Officer	MEMBER

It is the responsibility of the Nomination and Election Committee to identify and review qualifications of individuals who are best qualified to become members of the board. The criteria for selecting nominees for election as directors shall include, but not limited to, experience, accomplishments, education, skills and personal and professional integrity.

The committee also reviews the board committee's structure and composition and recommend to the board for its approval of directors to serve as members of each committee.

Annually, the committee oversees the periodic evaluation of the board, committees and executive management and decide whether or not a director is able to carry out his/her duties and responsibilities.

The committee likewise make recommendations to the board regarding the continuing education of directors to enable them to enhance their understanding of the banks business and remain updated regarding issues on governance matters.

The committee evaluates succession plan and review the performance of the committee and report thereon to the board of directors.

Finally, the committee will meet as often as appropriate to fulfill its duties and responsibilities.

BOARD COMPENSATION

Article IV Section 10 of the By Laws state that "No compensation shall be paid to any director as such, but the director of the Bank may be allowed reasonable honoraria for actual attendance at meetings, which shall include fare and other actual expenses incurred in connection thereto…

The Risk Based management approach and the utmost regard to Good Corporate Governance has made Board contribution vital and necessary in sound and sustainable operations. Departing from old practice of "informal board meeting and family ran banks" the board as performing body now becomes the essential key to "Sound Banking Practice" to sustainability and profitability. Thus, the need to periodically review and grant reasonable honoraria and allowances commensurate to the duties, responsibilities and commitment that every incoming board is deemed to undertake.

The Corporate Governance Committee prior to the close of each fiscal year shall initiate the review of the compensation structure for both the Board of Directors and the Executive Officers.

In tandem with the Risk Management Committee sub-committee on Banking Operation together with the Administrative Head in-charge of Human Resource, an annual review of compensation structure for the rank and file is likewise to be done.

All amendments to the compensation structure shall take effect as per resolution and declaration of the Board of Directors. The Compensation structure of the Board of Directors shall, however, take effect only the following fiscal year and benefit the in-coming set of directors.

All remuneration owing to the Board of Directors shall be credited to him/her on the day of holding of meeting at the end of each month. No board remuneration shall be drawn by way of cash advances.

Any member of the Board of Director joined by at least one independent director may call the suspension of any payment of remuneration if he/she deems it in violation of the law, regulation, resolution or any policy and guideline of the Rural Bank of Solano. The matter shall then be taken up and decided in the next board meeting.

RETIREMENT AND SUCCESSION PLAN

To ensure leaders of the future are in place and to ensure continued success of the business, the board has adopted a Succession Plan. The bank's Succession Plan defines the criteria for selecting candidates who has the capacity to fill key positions in the company.

To qualify for the position of Chairman and Vice-chairman of the board, he/she must have attended seminars for board of directors and with good reputation.

The President should be at least an MBA or with any post graduate equivalent and must undergo post graduate programs or studies related to banking operations and with a good leadership capabilities.

Other officers of the bank namely, CEHAC, AVP - General Services, AVP- Loans, AVP-Operations and CO must be fit and proper for the position. We consider integrity/probity, education/training, knowledge and experience, skills and diligence in appointing applicants for these positions.

DIRECTOR READINESS

In order to prepare a pool of abled directors with the end in view of ensuring Succession and Good Governance, all stockholders, are enjoined to attend the Annual Stockholders Meeting in person or by proxy, provided that in the later, he/she shall issue a certification of personal review over the Annual Report.

In addition, any stockholder who intends to qualify for a seat as a director shall:

- Attend all mandatory seminars especially those offered during the occasion of the Annual Meeting and those as enumerated in Section I above.
- Seat as understudy by attending the orientation and at least 6 board meetings and committee meetings
- Qualified independent directors must undergo a one (1) year OJT as a regular director in which case the ruling of cooling-off period shall NOT apply in the succeeding year, should they be elected as an independent director.

Retirement Plan

A contribution plan was made by the bank for its regular officers and employees to provide for the payment of benefits to deserving regular and permanent officers and employees upon their secession/retirement.

CORPORATE SOCIAL RESPONSIBILITY

At Rural Bank of Solano, we take corporate governance and business ethics seriously. Corporate responsibility is integrated into our business practices. It is a reflection of our values, and the way we do business. The RBS Mission, Vision and Core Values serve as our compass for us to consistently act without compromise as we build trusted relationships with all customers. At RBS, our customers are not just our current clients but also the employees, directors, stockholders and potential clients (which is the general public).

Since its inception, Our Core Values (2001), and Mission Vision (1998) statement from the base upon which we continue to build our policies, programs and services. In 2010, RBS launched the "GO GREEN POLICY STATEMENT" because we recognize our role of corporate social responsibility to the environment. As such, RBS is committed to operate in a way that respects what is environmentally acceptable and to promote environmental awareness and social responsibility. Rural Bank of Solano is committed to: (1) 3R's – reduce, reuse and recycle; (2) conserve energy; (3) make a difference by creating social impact.

DIVIDENDS DECLARED

As stated in the amended By-Laws of the Rural Bank of Solano (N.V.) Inc., Article VII Miscellaneous Provisions, Section 5. Earnings. " Any sums remaining shall be distributed as dividends to stockholders, but no dividends in excess of 14% per annum shall be paid. Provided, however that when the surplus (retained earnings not available for dividend distribution) shall have reached 50% of the private paid-up capital of the rural bank, the rural bank may declare dividends in excess of said percentage. Whenever dividend is declared on common stock, the government preferred shares shall receive cash dividend not exceeding two (2%) percent thereof.

Under Section X136.5 of the MORB, the liability for dividends shall be taken up in the books upon receipt of BSP approval thereof, or if no approval is received, after thirty (30) business days from the date the required report on dividend declaration was received by the appropriate supervising and examining department of the BSP, whichever comes earlier.

On March 16, 2018, the Bank through Board Resolution No. 18-41 declared dividend amounting to ₱9,969,821, respectively, paid on April 16, 2018. The dividend declaration and payment was approved by the BSP on April 16, 2018.

LIST OF EXECUTIVE OFFICERS/SENIOR MANAGEMENT/KEY OFFICERS

NAMES	POSITION	RELEVANT QUALIFICATION	AGE	NATIONALITY
ATTY. MARY ANN E. M. TUPASI	President /CEO/Chairman of the Board	**EDUCATIONAL BACKGROUND** BS HRM/Juris Doctor Bachelor of Law	52	Filipino
EVELYN C. GARCIA, MBA, MPA	Chief Executive Head of Audit & Compliance	**EDUCATIONAL BACKGROUND** BSC-Accounting/CPA/Master in Business Administration **PAST POSITIONIN THIS INSTITUTION AND WORK EXPERIENCE** RURAL BANK OF SOLANO, INC. – EVP/General Manager RURAL BANK OF SOLANO, INC. – AVP- Accounting/ GS RURAL BANK OF SOLANO, INC. – AVP- Internal Auditor/ Compliance Officer RURAL BANK OF SOLANO, INC. – Head- Auditing Department RURAL BANK OF SOLANO, INC. – AVP- Compliance Officer/ Corporate Trainor RURAL BANK OF SOLANO, INC. – AVP – Accounting & General Services RURAL BANK OF SOLANO, INC. – Internal Auditor/ Compliance Officer RURAL BANK OF SOLANO, INC. – Bank Internal Auditor RURAL BANK OF SOLANO, INC. – OIC/Manager RURAL BANK OF SOLANO, INC. – Accounting Department Head RURAL BANK OF SOLANO, INC. – General Accountant/General Bookkeeper RURAL BANK OF SOLANO, INC. – Assistant Auditor	55	Filipino
CATHERINE F. TUPASI	AVP-General Services	**EDUCATIONAL BACKGROUND** BS Commerce-Major in Accounting **PAST POSITION IN THIS INSTITUTION AND WORK EXPERIENCE** RURAL BANK OF SOLANO, INC. – AVP-BCOO RURAL BANK OF SOLANO, INC. – Loan Manager RURAL BANK OF SOLANO, INC. – Management Trainee – Loans/Branch OIC RURAL BANK OF SOLANO, INC. – Savings Bookkeeper RURAL BANK OF SOLANO, INC. – Audit Aide	47	Filipino
MA. CHERIL C. DEL ROSARIO	Compliance Officer	**EDUCATIONAL BACKGROUND** BS Commerce-Major in Accounting **PAST POSITION IN THIS INSTITUTION AND WORK EXPERIENCE** RURAL BANK OF SOLANO, INC. – Compliance Officer RURAL BANK OF SOLANO, INC. – General Bookkeeper RURAL BANK OF SOLANO, INC. – Head- Accounting Department RURAL BANK OF SOLANO, INC. – Internal Auditor RURAL BANK OF SOLANO, INC. – Branch/Cluster Manager RURAL BANK OF SOLANO, INC. – Customer Care Manager RURAL BANK OF SOLANO, INC. – Bookkeeper RURAL BANK OF SOLANO, INC. – Accounting Clerk	51	Filipino

PERFORMANCE ASSESMENT PROGRAM

The bank has adopted the Guidelines on BOD Assessment and Evaluation to serve as a basis for the computation of the overall rating of the Board of Directors.
The Board Self –Evaluation Questionnaire is designed as an annual board evaluation which seeks to help the board answer the questions what are we as board now doing well and what can we do better?
The rating scale on the bottom of section (My Over-all Rating) asks the board members to add up to the total number circled on each section. This number is a rough interpretation of the results of each section.
The Human Resource Department will conduct the evaluation by distributing the questionnaire among the officers and employees. The Internal Audit Department will compute, compile and summarize and then Human Resource Department will report on the results.

Board evaluation is to be done preferably towards the end of the year and be included the board's annual agenda.The questionnaire is divided into sections consisting of how well the board has done its job, how well the board conducted itself, its relationship with the CEO/Board Chairman, performance of the board members and assesses feedback to the Chair of the Board.
Aside from this self-evaluation questionnaire, the following factual information shall be the basis for the board individual performance evaluation:

A. BOD/COMMITTEE

1. Regularity of meetings
a. BOD (as a whole)- minimum of one (1) meeting per month as fixed in the organizational meeting
b. Committee- at least six (6) meetings per year or more if necessary

2. Attendance – measured as body per month then per year.

3. Performance
    - a. Planning
    - b. Setting objectives
    - c. Evaluation/Performance Review-self

B. INDIVIDUAL DIRECTOR

1. Membership in committee
2. Attendance
3. Resolutions proposed

C. MANAGEMENT COMMITTEE

1. Frequency of MANCOM Meetings
2. Attendance
3. Performance

The Corporate Secretary will present a summary of the individual/collegial performance of the Board to be presented at the Annual Stockholder's Meeting.

HUMAN RESOURCE REPORT
SEMINARS, TRAININGS, ORIENTATION AND EDUCATION PROGRAM

RBS is committed in providing a strong learning and development platform across echelon in the organization. The Human Resource Department (HRD) continuously sustains in function of strengthening and equipping bank's talent pipeline by facilitating various training programs and seminars. Human Resource aims to honing the skills and competency of all bank personnel for them to be effectively and efficiently perform their basic functions and responsibilities.

In the year 2018, RBS was able to provide a total of five (5) trainings/seminars for its officers and staff, which were conducted internally (in house facilitator) and externally (through training provider). As for newly hired employees, RBS make sure that each of them underwent the Induction Program of the Human Resource.

Title of the training and seminar are as follows;

TITLE OF THE SEMINAR/TRAININGS	DATE	PARTICIPANTS
MABSTER	FEBRUARY 2018	1st Batch- Account Officers
MABSTER	MAY 2018	2nd Batch- Account Officers
MABSTER	AUGUST 2018	3rd Batch- Account Officers
MABSTER	SEPTEMBER 2018	4th Batch- Account Officers
BASIC LEADERSHIP SEMINAR	AUGUST 18-19 2018	Selected RBS employees

Furthermore, the Management Training Program for aspiring managers of RBS was also successfully implemented in 2018. This program aims to provide the availability of potential successors that are prepared to fill key positions at the bank.

A 2 day seminar entitled "Basic Leadership Seminar" was organized at the RBS Seminar Hall last August 18 -19 2018. The seminar was facilitated by Mr. Rene Austria, a well-known speaker for transformational training programs. There were 60 selected employees who were participated in the seminar. The objective of the seminar is to have an effective transformational program designed for behavior and attitude modification towards consistency in performance. This would lead to a culture of responsibility, teamwork and excellence among RBS employees.

RBS implemented the revised Management Training program for its managers and supervisors and continuously implement the enhanced MABSTER training for the Account Officers. New Board of Directors and management officers are sent to attend trainings or seminars conducted by the Bangko Sentral ng Pilipinas and/or the Rural Bankers' Association of the Philippines.

HUMAN RESOURCE

TRAINING WITH SMALL BUSINESS CORPORATION

With the passing of stricter BSP regulations on credit risk management systems particularly the internal risk rating system, the Bank realized the need to equip its employees on risk-based lending methodology. Thus, on the 1st quarter of 2018, the Bank signified its intent to avail of the Capacity Building Program of Small Business Corporation (SBC) for Rural Banks on Risk-based Lending (RBL) Strategy. This program is intended to provide better credit access to SMEs through the promotion of risk-based lending among small banks versus the collateral –oriented lending. The cost for the program involves a huge amount of more or less P1M, however, through this program, cluster banks (composing of 5 banks) will only shoulder P250,000.00 (P50,000.00 for each bank), the difference of which will be subsidized by SBC. The Bank, therefore, invited four (4) other banks here in Nueva Vizcaya to form a cluster, followed by SBC's engagement of the services of a consultant, Ms. Virgilia A. Balmes, to implement the program with the formed cluster. Ten (10) core team members namely, CEHAC Evelyn C. Garcia as Lead Person, AVP-BCOO Catherine F. Tupasi, Compliance Officer Ma. Cheril C. Del Rosario, Director/Systems Administrator Lee Andrew T. Tiongson, Director Louie G. Tiongson, Loans Manager Gene F. Baybayan, Loans Supervisor Ryan Anthony F. Coballes and Branch Managers Jayson B. Acosta, Analyn B. Lannu and Eloisa A. Atencio, joined this capacity building program.

Gawad CFI Award

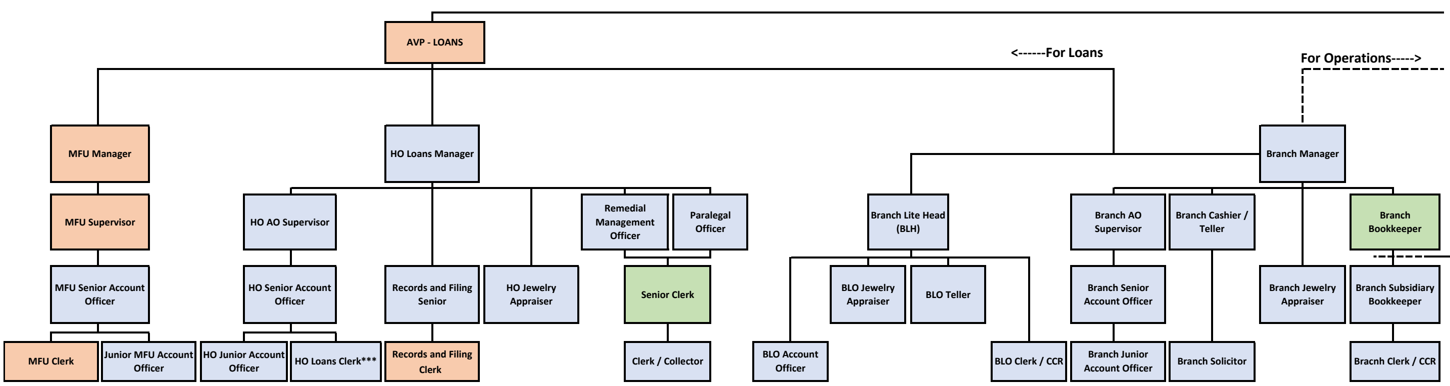
It has been since 1998 that LANDBANK started to search for outstanding countryside financial institutions (CFI) clients through its Gawad CFI program and recognized them for serving as models of excellence in rural financial services by providing credit to marginalized sectors and promoting rural development through agriculture and agrarian reform credit. The search is open to rural banks, cooperative banks, and thrift banks with good credit relationship with LANDBANK of at least five years.

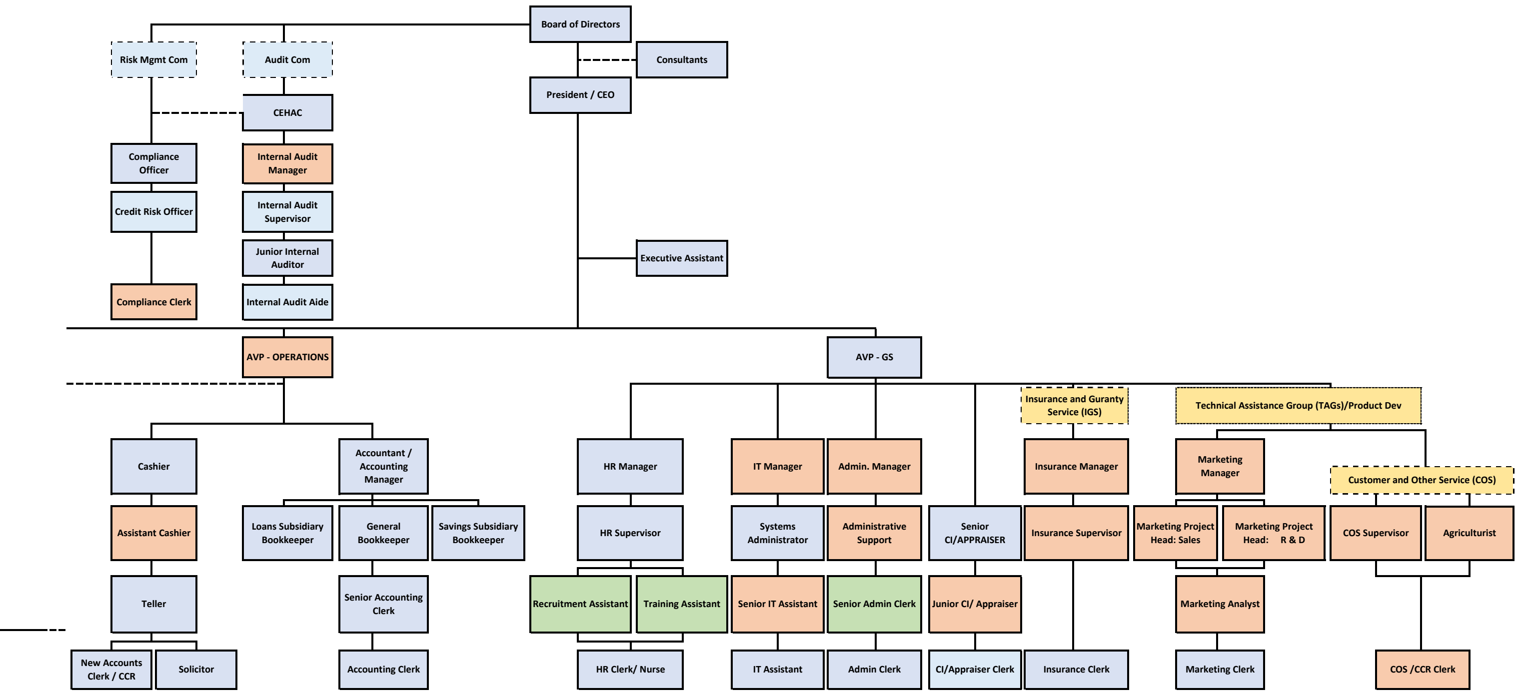
Early last year, our dear President, Atty. Mary Ann E.M. Tupasi declared her desire to join in the annual search and when the Rural Bank of Solano (RBS) was notified to be a nominee for the Gawad CFI award, the CEHAC, Ms. Evelyn C. Garcia, was assigned to facilitate the documentation and submission of qualification requirements. The rating period for the award covers the previous year's performance, i.e., 2017. All contenders were assessed based on the following criteria: a) Organizational management, business operations, financial management, b) Pass-on rate to Sub-borrowers, c) Partnership with LANDBANK. Finally, RBS was one of the shortlisted contenders for the National Major Award.

Thus, on August 8, 2018, during the recognition ceremony held at the Philippine International Convention Center, Pasay City, RBS was named Outstanding Rural Bank -3rd Placer under the Gawad CFI program. The incentive for this award was a plaque and cash prize amounting to P150,000.00, net of tax.

The board of directors, during their meeting last August 17, 2018, conveyed their appreciation to the management and employees of the bank for a job well done, for being a recipient of the Gawad CFI – Outstanding Rural Bank 3rd placer, awarded by the Land Bank of the Philippines.

Organizational Structure as of December 31, 2018




Board of Directors
Risk Mgmt Com
Audit Com
Consultants
President / CEO
CEHAC
Compliance Officer
Internal Audit Manager
Credit Risk Officer
Internal Audit Supervisor
Junior Internal Auditor
Executive Assistant
Compliance Clerk
Internal Audit Aide
AVP - OPERATIONS
AVP - GS
Insurance and Guranty Service (IGS)
Technical Assistance Group (TAGs)/Product Dev
Cashier
Accountant / Accounting Manager
HR Manager
IT Manager
Admin. Manager
Insurance Manager
Marketing Manager
Customer and Other Service (COS)
Assistant Cashier
Loans Subsidiary Bookkeeper
General Bookkeeper
Savings Subsidiary Bookkeeper
HR Supervisor
Systems Administrator
Administrative Support
Senior CI/APPRAISER
Insurance Supervisor
Marketing Project Head: Sales
Marketing Project Head: R & D
COS Supervisor
Agriculturist
Teller
Senior Accounting Clerk
Recruitment Assistant
Training Assistant
Senior IT Assistant
Senior Admin Clerk
Junior CI/ Appraiser
Marketing Analyst
New Accounts Clerk / CCR
Solicitor
Accounting Clerk
HR Clerk/ Nurse
IT Assistant
Admin Clerk
CI/Appraiser Clerk
Insurance Clerk
Marketing Clerk
COS /CCR Clerk

RURAL BANK OF SOLANO (NUEVA VIZCAYA), INC.
SOLANO, NUEVA VIZCAYA - PHILIPPINES

FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of **RURAL BANK OF SOLANO (NUEVA VIZCAYA), INC.**, is responsible for the preparation and fair presentation of financial statements including the schedules attached therein, for the years ended December 31, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and 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.

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 of the Bank.

Alas, Oplas & Co., CPAs, the independent auditor appointed by the stockholders for the years ended December 31, 2018 and 2017, has audited the financial statements of the Bank in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

ATTY. MARY ANN E. M. TUPASI
President/Chairman of the Board

LOUIE G. TIONGSON
Chief Financial Officer

Signed this 13th day of April, 2019

BUREAU OF INTERNAL REVENUE
REVENUE DISTRICT NO. 14
RECEIVED
APR 29 2019
BY
DATE
DOC. PROCESSING SECTION

Alas Oplas & Co., CPAs

Alas Oplas & Co., CPAs
23/F Philippine AXA Life Centre
1286 Sen. Gil Puyat Avenue
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www.alasoplascpas.com

Independent Member of
BKR International

INDEPENDENT AUDITORS' REPORT
TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING WITH THE SECURITIES AND EXCHANGE COMMISSION

To Stockholders and the Board of Directors
RURAL BANK OF SOLANO (NUEVA VIZCAYA), INC.
Maharlika Highway, Poblacion South,
Solano, Nueva Vizcaya

We have examined the financial statements of **RURAL BANK OF SOLANO (NUEVA VIZCAYA), INC.** for the years ended December 31, 2018 and 2017, on which we have rendered the attached report dated
April 13, 2019.

In compliance with SRC Rule 68, As Amended (2011), we are stating that the said Bank has a total number of fifty five (55) stockholders owning one hundred (100) or more shares each.

ALAS, OPLAS & CO., CPAs
BOA Registration No. 0190, valid from January 1, 2017 to December 31, 2019
SEC A.N. (Firm) 0321-FR-1, issued on February 7, 2019; effective until February 6, 2022
TIN 002-013-406-000
BIR A.N. 08-001026-000-2018, issued on January 25, 2018; effective until January 24, 2021

By:

DANILO T. ALAS
Partner
CPA License No. 0027120
SEC A.N. (Individual) 1529-AR-1, issued on February 7, 2019; effective until February 6, 2022
TIN 132-466-021-000
BIR A.N. 08-001026-001-2018, issued on January 25, 2018; effective until January 24, 2021
PTR No. 7333597, issued on January 3, 2019, Makati City

April 13, 2019
Makati City, Philippines

Alas Oplas & Co., CPAs

Alas Oplas & Co., CPAs
23/F Philippine AXA Life Centre
1286 Sen. Gil Puyat Avenue
Makati City, Philippines 1200
Phone: (632) 759-5090 | Fax: (632) 887-6180
Email: aocheadoffice@alasoplascpas.com
www.alasoplascpas.com

Independent Member of
BKR International

INDEPENDENT AUDITORS' REPORT

To the Stockholders and the Board of Directors
RURAL BANK OF SOLANO (NUEVA VIZCAYA), INC.
Maharlika Highway, Poblacion South,
Solano, Nueva Vizcaya

Qualified Opinion

We have audited the financial statements of **RURAL BANK OF SOLANO (NUEVA VIZCAYA), INC.** (the "Bank") which comprise the statements of financial position as of December 31, 2018 and 2017, and the related 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, except for the effect on the financial statements of the matters described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standard.

Basis for Qualified Opinion

As discussed in Note 3 to the financial statements, the Bank adopted PFRS 9, Financial Instruments on January 1, 2018, except for the impairment requirements of the new standard. PFRS 9 introduces a forward-looking expected credit loss (ECL) model to assess impairment on debt financial assets not measured at fair value through profit or loss and loan commitments and financial guarantee contracts.

Following the guidance of Circular 1011 and Appendix 97 of the Manual of Regulations for Banks (MORB) of the Bangko Sentral ng Pilipinas in adopting PFRS 9 impairment requirements, the Bank adopted Appendix 18 of the MORB in assessing and measuring impairment for its credit exposures. Appendix 18 of the MORB provides arbitrary rates for provisioning which is inconsistent with PFRS 9 and thus constitutes a departure from PFRS. As of December 31, 2018 and 2017, the Bank's total allowance on credit losses amounted to ₱19.62 million and ₱14.12 million.

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As the Bank has not implemented the ECL requirements of PFRS 9, any adjustments to the amounts of allowance for credit losses and related deferred tax assets as at January 1 and December 31, 2018 and surplus as at January 1, 2018 has not been determined.

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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 PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

Alas Oplas & Co., CPAs

Report on Other Legal and Regulatory Requirements

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Information Required under Revenue Regulations Nos. 15-2010 and 19-2011 on taxes, duties and license fees paid or accrued during the taxable year, taxable income, and deductions in Notes to the financial statements are presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of **RURAL BANK OF SOLANO (NUEVA VIZCAYA), INC.** The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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ALAS, OPLAS & CO., CPAs
BOA Registration No. 0190, valid from January 1, 2017 to December 31, 2019
SEC A.N. (Firm) 0321-FR-1, issued on February 7, 2019; effective until February 6, 2022
TIN 002-013-406-000
BIR A.N. 08-001026-000-2018, issued on January 25, 2018; effective until January 24, 2021

By:

Ma. Criselda S. Oplas

MA. CRISELDA S. OPLAS
Partner
CPA License No. 0063314
SEC A.N. (Individual) 1565-A, issued on June 8, 2016; effective until June 8, 2019
TIN 132-466-039-000
BIR A.N. 08-001026-002-2018, issued on January 25, 2018; effective until January 24, 2021
PTR No. 7333596, issued on January 3, 2019, Makati City

April 13, 2019
Makati City, Philippines

Satellite Office Securities and Exchange Commission ROBINSONS GALLERIA
Electronic Records Management Division
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RURAL BANK OF SOLANO (NUEVA VIZCAYA), INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017
In Philippine Peso

	Notes	2018	2017
ASSETS			
Cash and other cash items	8	**2,738,851**	1,363,006
Due from Bangko Sentral ng Pilipinas	8	**10,847,363**	8,942,510
Due from other banks	8	**74,217,388**	71,452,240
Investment securities at amortized cost	9	**25,476,320**	–
Held-to-maturity financial assets – net	9	**–**	25,456,166
Loans and other receivables – net	10	**394,914,995**	332,545,785
Bank premises, furniture, fixtures and equipment – net	11	**36,856,921**	34,301,539
Investment properties – net	12	**19,662,235**	15,658,779
Deferred tax assets	26	**6,342,342**	4,765,660
Other assets	13	**687,399**	802,605
TOTAL ASSETS		**571,743,814**	495,288,290
LIABILITIES AND EQUITY			
LIABILITIES			
Deposit liabilities	14	**331,081,955**	274,033,444
Bills payable	15	**12,811,000**	15,000,000
Deposit for stocks subscription	16	**25,000,600**	25,000,600
Accrued and other liabilities	17	**7,779,244**	6,064,449
Income tax payable		**5,136,523**	2,893,478
Total Liabilities		**381,809,322**	322,991,971
EQUITY			
Capital stock	19	**99,698,200**	99,698,200
Surplus reserve	20	**157,867**	157,867
Surplus free	20	**90,078,425**	72,440,252
Total Equity		**189,934,492**	172,296,319
TOTAL LIABILITIES AND EQUITY		**571,743,814**	495,288,290

See Notes to Financial Statements.

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RURAL BANK OF SOLANO (NUEVA VIZCAYA), INC.
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
In Philippine Peso

	Notes	2018	2017
INTEREST INCOME			
Loans and other receivables	10	**62,578,705**	49,575,541
Due from other banks	8	**916,991**	1,050,238
Investment securities at amortized cost	9	**869,595**	–
Held-to-maturity financial assets	9	**–**	369,088
		64,365,291	50,994,867
INTEREST EXPENSE			
Deposit liabilities	14	**(3,566,739)**	(3,291,663)
Bills payable	15	**(427,226)**	(97,940)
		(3,993,965)	(3,389,603)
NET INTEREST INCOME		**60,371,326**	47,605,264
OTHER INCOME	22	**26,022,983**	17,610,196
TOTAL OPERATING INCOME		**86,394,309**	65,215,460
OPERATING EXPENSES	23	**(38,892,741)**	(30,847,077)
NET OPERATING INCOME BEFORE PROVISIONS		**47,501,568**	34,368,383
PROVISION FOR CREDIT LOSSES	24	**(8,511,414)**	(1,691,692)
PROFIT BEFORE TAX		**38,990,154**	32,676,691
INCOME TAX EXPENSE	26	**(11,382,160)**	(9,552,851)
PROFIT		**27,607,994**	23,123,840
OTHER COMPREHENSIVE INCOME		**–**	–
TOTAL COMPREHENSIVE INCOME		**27,607,994**	23,123,840

See Notes to Financial Statements.

RURAL BANK OF SOLANO (NUEVA VIZCAYA), INC.
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
In Philippine Peso

	Capital Stock (Note 19)	Surplus Reserve (Note 20)	Surplus Free (Note 20)	Total
Balance at December 31, 2016	**99,698,200**	**157,867**	**59,286,233**	**159,142,300**
Cash dividends declared (Note 21)	–	–	(9,969,821)	(9,969,821)
Profit	–	–	23,123,840	23,123,840
Balance at December 31, 2017	**99,698,200**	**157,867**	**72,440,252**	**172,296,319**
Cash dividends declared (Note 21)	–	–	(9,969,821)	(9,969,821)
Profit	–	–	27,607,994	27,607,994
Balance at December 31, 2018	**99,698,200**	**157,867**	**90,078,425**	**189,934,492**

See Notes to Financial Statements.

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RURAL BANK OF SOLANO (NUEVA VIZCAYA), INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
In Philippine Peso

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**38,990,154**	32,676,691
Adjustments for:			
Gain on sale of investment property	12,22	**(4,894,892)**	(4,590,479)
Depreciation	23,25	**4,060,551**	3,494,518
Provision for credit losses	24	**8,511,414**	1,691,692
Interest income	8,9	**(1,786,586)**	(1,419,326)
Gain on sale of bank premises, furniture fixtures and equipment	11,22	**-**	(150,150)
Operating income before working capital changes		**44,880,641**	31,702,946
Decrease (increase) in operating assets:			
Loans and other receivables		**(75,544,778)**	(60,099,472)
Other assets		**(252,086)**	686,841
Increase in operating liabilities:			
Deposit liabilities		**57,048,511**	32,285,859
Accrued expenses and other liabilities		**1,656,918**	311,323
Cash generated from operations		**27,789,206**	4,887,497
Income tax paid		**(10,715,797)**	(10,734,304)
Interest received		**1,383,663**	971,153
Net cash generated from (used in) operating activities		**18,457,072**	(4,875,654)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of bank premises, furniture fixture and equipment	11	**(6,290,949)**	(9,307,617)
Proceeds from disposal of investment properties	12	**6,000,819**	4,060,587
Acquisition of investment securities at amortized cost	9	**(1,476,320)**	-
Proceeds from redemption of investment securities at amortized cost	9	**1,456,166**	-
Acquisition of held to maturity financial asset	9	**-**	(16,456,166)
Proceeds from redemption of held to maturity financial asset	9	**-**	1,439,697
Proceeds from disposal of bank premises, furniture, fixture and equipment	11	**-**	150,151
Net cash used in investing activities		**(310,284)**	(20,113,348)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	21	**(9,911,942)**	(9,911,941)
Payments of bills payable	15	**(2,189,000)**	(3,011,000)
Proceeds from bills payable	15	**-**	15,000,000
Net cash generated from (used in) financing activities		**(12,100,942)**	2,077,059
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**6,045,846**	(22,911,943)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items		**1,363,006**	1,600,505
Due from Bangko Sentral ng Pilipinas		**8,942,510**	8,023,808
Due from other banks		**71,452,240**	95,045,386
		81,757,756	104,669,699
CASH AND CASH EQUIVALENTS AT END OF YEAR	8		
Cash and other cash items		**2,738,851**	1,363,006
Due from Bangko Sentral ng Pilipinas		**10,847,363**	8,942,510
Due from other banks		**74,217,388**	71,452,240
		87,803,602	81,757,756

See Notes to Financial Statements.

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1. CORPORATE INFORMATION

RURAL BANK OF SOLANO (NUEVA VIZCAYA), INC (the "Bank") was incorporated and registered with the Philippine and Securities and Exchange Commission (SEC) on December 11, 1969 with Registration No. 39997. On February 27, 1970, the Bangko Sentral ng Pilipinas (BSP) granted the Bank its Certificate of Authority to operate as a financial institution.

The Bank was formed to carry and engage in the business of extending rural credits to small farmers and tenants and to deserving rural industries or enterprises, to have and exercise all authorities and powers, to do and perform all acts, to transact all business which may legally be had or done by rural banks organized under and in accordance with the Rural Banks' Act as it exists or may be amended; and to do all other things incident thereto and necessary and proper in connection with said purposes within such territory, as may be determined by the Monetary Board of the Bangko Sentral ng Pilipinas.

The Bank's product and services are traditional deposits such as regular savings deposits and certificate of time deposits. The Bank also offers various types of loans such as commercial, agricultural, and various consumer loans and microfinance loans.

The Bank's registered office address is located at Maharlika Highway, Poblacion South, Solano, Nueva Vizcaya. The Bank is domiciled in the Philippines.

The Bank currently has three (3) branches and one (1) Branch Lite located as follows:

Branches	Address	Commencement Date
Bagabag Branch	San Pedro, Bagabag, N. Vizcaya	August 25, 1995
Bambang Branch - *formerly MBO Bambang*	Bernabe Valley Homes Subd., Bambang, N. Vizcaya	March 20, 2017
	Banggot, Bambang, N. Vizcaya	September 29, 2011
Bayombong Branch - *formerly MBO Bayombong*	Don Tomas Maddela, Bayombong, N. Vizcaya	July 23, 2018
	Don Tomas Maddela, Bayombong, N. Vizcaya	September 29, 2011
MBO Solano	Poblacion South, Solano, N. Vizcaya	March 15, 2012

On February 13, 2014, the Board of Directors of the Bank approved the amendment of the Articles of Incorporation of the Bank, particularly the extension of the term of existence of the corporation which is fifty (50) years from and after date of incorporation shall be extended for another fifty years from December 11, 2019.

On July 13, 2017, the Bangko Sentral ng Pilipinas approved the conversion of the Micro Banking Office located in Maharlika Road, Bambang, Nueva Vizcaya to a regular branch.

On July 23, 2018, the Bangko Sentral ng Pilipinas approved the conversion of the Micro Banking Office located in Don Tomas Maddela, Bayombong, Nueva Vizcaya to a regular branch.

2. BASIS FOR THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

2.01 Statement of Compliance

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

2.02 Basis of Preparation

The financial statements are prepared on a going concern basis under the historical cost convention, except for financial assets and financial liabilities at fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI).

2.03 Presentation and Functional Currency

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

2.04 Use of Judgments and Estimates

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

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

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

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

2.05 Going Concern Assumption

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

3. ADOPTION OF NEW AND AMENDED ACCOUNTING STANDARDS

3.01 New and Amended Standards, and Philippine Interpretation

The Bank applied, for the first time, the following applicable new and amended accounting standards.

Unless otherwise indicated, these new and amended accounting standards have no impact to the Bank. Except for these new and amended standards which were adopted as of January 1, 2018, the accounting policies adopted are consistent with those of previous financial year.

New Standards

PFRS 9, *Financial Instruments*
PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, Financial Instruments: Recognition and Measurement, and all previous versions of PFRS 9. It introduces new requirements for classification and measurement, impairment, and hedge accounting.

Classification and Measurement
PFRS 9 requires all recognized financial assets to be subsequently measured at amortized cost or fair value through profit or loss or through other comprehensive income (OCI), depending on their classification by reference to the business model within which these are held and its contractual cash flow characteristics.

For financial liabilities, the most significant effect of PFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at FVPL that is attributable to changes in the credit risk of that liability is recognized in OCI (rather than in profit or loss), unless this creates an accounting mismatch.

Impairment
PFRS 9 recognizes expected credit loss (ECL) for all loans and other debt financial assets not classified as FVTPL, together with loan commitments and financial guarantee contracts.

Incurred loss versus ECL methodology
ECL represents credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The objective is to record lifetime losses on all financial instruments which have experienced a significant increase in credit risk since their initial recognition. As a result, ECL allowances are measured at amounts equal to either:

(i) 12-month ECL; or
(ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition (General Approach)

The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. The lifetime ECL are credit losses that result from all possible default events over the expected life of a financial instrument. In comparison, the previous incurred loss model un-der PAS 39 recognizes lifetime credit losses only when there is objective evidence of impairment while ECL model eliminates the threshold or trigger event required under the incurred loss model, and lifetime ECL are recognized earlier.

Hedge Accounting
PFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and nonfinancial risk exposures. The derecognition provisions are carried over almost unchanged from PAS 39. The Bank has no hedge accounting.

Transition to PFRS 9
As permitted by transitional provisions of PFRS 9, the Bank elected not to restate comparative figures. The Bank adopted PFRS 9 on January 1, 2018 and the comparative information for 2017 financial instruments in scope of PFRS 9 was not restated and was reported under PAS 39, thus not comparable with the information presented for 2018.

The adoption of PFRS 9 has resulted in changes mainly in the Bank's accounting policies for recognition, classification and measurement. However, for the impairment of financial assets, the Bank still uses the incurred loss model under PAS 39 which is consistent with the BSP requirements under Circular 855, instead of expected credit loss model under PFRS 9. The Bank is still on the process of preparing the policy on ECL model. There were no changes in the classification of financial liabilities. PFRS 9 also significantly amends other standards dealing with financial instruments such as PFRS 7, *Financial Instruments: Disclosures.*

The adoption of PFRS 9 did not result to any adjustment in the account balances as of December 31, 2017.

In Philippine Peso

Set out below are disclosures relating to the impact of the adoption of PFRS 9 on the Banks.

Classification and measurement of financial assets
The measurement category and the carrying amount of financial assets in accordance with PAS 39 and PFRS 9 at January 1, 2018 are as follows:

	December 31, 2017 (PAS 39)		January 1, 2018 (PFRS 9)	
Financial assets	Measurement category	Carrying amount	Measurement category	Carrying amount
Cash and other cash items	Amortized cost	1,363,006	Amortized cost	1,363,006
Due from Bangko Sentral ng Pilipinas	Amortized cost	8,942,510	Amortized cost	8,942,510
Due from other banks	Amortized cost	71,452,240	Amortized cost	71,452,240
Investment securities				
Debt	Amortized cost (HTM)	25,456,166	Amortized cost	25,456,166
Loans and receivables	Amortized cost	332,545,785	Amortized cost	332,545,785
Other financial assets	Amortized cost	585,891	Amortized cost	585,891

PFRS 15, *Revenue from Contract with Customers*
The new standard replaces PAS 11, Construction Contracts, PAS 18, Revenue, and related interpretations. It establishes a single comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (e.g., the point at which revenue is recognized, accounting for variable considerations, costs of fulfilling and obtaining a contract, etc.). Further, the standard was subsequently amended to provide clarifications on the following topics: (a) identifying performance obligations; (b) principal versus agent considerations; and (c) licensing. The amendments also provide some transition relief for modified contracts and completed contracts.

Based on the Bank's assessment, all of the Bank's contracts with customers generally undertake to provide single performance obligation at a fixed price which is mainly the delivery of goods or services to customers. Revenue is recognized at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for transferring goods or services to a customer.

Accordingly, the adoption of PFRS 15 has no significant impact in the timing of the Bank's revenue recognition.

Amendments

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Philippine Accounting Standards (PAS) 40, Investment Property
The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

Philippine Interpretation IFRIC 22, Foreign Currency Transaction and Advance Consideration
This clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency and covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related as-set, expense or income. It does not apply when an entity measures the related asset, expense or income on initial recognition at fair value or at the fair value of the consideration received or paid at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability. Also, the Interpretation need not be applied to income taxes, insurance contracts or reinsurance contracts.

All the amendments above have no significant impact on the Bank's financial statements.

3.02 Standards Issued but not yet Effective

The list below consists of standards and interpretations issued, which the Bank reasonably expects to be applicable at a future date. The Bank intends to adopt these standards when they become effective. Except as otherwise indicated, the Bank does not expect the adoption of these new and amended standards and interpretations to have significant impact on its financial statements.

Effective beginning on or after January 1, 2019

New standard - PFRS 16, Leases
Lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, Leases. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements. The accounting by lessors is substantially unchanged as the new standard carries for-ward the principles of lessor accounting under PAS 17. Lessors, however, will be re-quired to disclose more information in their financial statements, particularly on the risk exposure to residual value. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Bank is currently assessing the impact of adopting PFRS 16.

Amendments

Amendments to PFRS 9, Financial Instruments - Prepayment Features with Negative Compensation The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or FVOCI. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

Amendments to PAS 28, *Investments in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures*

The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

Subject to Board of Accountancy's Approval

Amendments to PAS 19, Employee Benefits - *Plan Amendment, Curtailment or Settlement*

The measurement requires the current service cost and the net interest for the period after the remeasurement be determined using the assumptions used for the remeasurement if a plan amendment, curtailment or settlement occurs.

Annual Improvements to PFRS 2015 to 2017 Cycle

PFRS 3, *Business Combinations and PFRS 11, Joint Arrangements - Previously held interest in a joint operation* – The amendments clarify when an entity remeasures previously held interests in a business that is classified as a joint operation. If the entity obtains control, it remeasures previously held interests in that business. If the entity only obtains joint control, it does not remeasure previously held interests in that business.

PAS 12, *Income Taxes - Income tax consequence of payments on financial instruments classified as equity* – The amendments clarify that the requirements to recognize the income tax consequence of dividends where the transactions or events that generate distributable profits are recognized apply to all income tax consequences of dividends.

PAS 23, *Borrowing Costs - Borrowing costs eligible for capitalization* – The amendments clarify that a specific borrowing that remains outstanding after the related asset is ready for its intended use becomes part of the general borrowings when calculating the capitalization rate on general borrowings.

Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments* – This addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The Bank is currently assessing the impact of adopting this interpretation.

Effective beginning on or after January 1, 2020 (subject to Board of Accountancy's Approval)

Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material* – The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements. An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Deferred effectivity

Amendments to PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* - The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity ac-counting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the financial statements of the Bank.

4. SIGNIFICANT ACCOUNTING POLICIES

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

4.01 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity or a financial liability or equity instrument of another entity.

Date of Recognition
The Bank recognizes a financial asset or a financial liability in the statements of financial position when it becomes a party to the contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

'Day 1' Difference
Where the transaction price in a non-active market is different with the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Bank recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of income. In cases where the transaction price used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the 'Day 1' difference amount.

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4.01.01 Financial Assets

Policies applicable beginning January 1, 2018 (PFRS 9)

Initial Recognition and Measurement
Financial assets are recognized initially at fair value, which is the fair value of the consideration given. The initial measurement of financial assets, except for those designated at FVPL, includes transaction cost.

Classification

The Bank classifies its financial assets at initial recognition under the following categories: (a) financial assets at amortized cost, (b) financial assets at FVOCI, and (c) financial assets at FVPL. The classification of a financial asset at initial recognition largely depends on the Bank's business model for managing the asset and its contractual cash flow characteristics.

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 a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process.

As of December 31, 2018, the Bank's cash and cash equivalents, due from BSP, due from other banks, and loans and receivables are classified under this category as disclosed in Notes 8 and Note 10.

Cash and cash equivalents include cash on hand, cash in bank, and short-term placements. These are highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Financial assets at FVOCI

Financial assets at FVOCI include debt and equity securities.

Debt Instruments at FVOCI

For debt instruments that are not designated at FVPL under the fair value option, the financial assets are measured at FVOCI if both of the following conditions are met: (1) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and (2) the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, interest income (calculated using the effective interest rate method), foreign currency gains or losses and impairment gains or losses of debt instruments measured at FVOCI are recognized directly in profit or loss. When the financial asset is derecognized, the cumulative gains or losses previously recognized in OCI are reclassified from equity to profit or loss as a reclassification adjustment.

As of December 31, 2018, the Bank does not have debt instruments at FVOCI.

Equity Instruments at FVOCI

For equity instruments that are not held for trading, the Bank may irrevocably designate, at initial recognition, a financial asset to be measured at FVOCI when it meets the definition of equity instrument under PAS 32, *Financial Instruments: Presentation*. This option is available and made on an instrument by instrument basis.

Dividends from equity instruments held at FVOCI are recognized in profit or loss when the right to receive payment is established, unless the dividend clearly represents a recovery of part of the cost of the investment. All other gains or losses from equity instruments are recognized in OCI and presented in the equity section of the statements of financial position. These fair value changes are recognized in equity and are not reclassified to profit or loss in subsequent periods, instead, these are transferred directly to retained earnings. Equity securities at FVOCI are not subject to impairment assessment.

As of December 31, 2018, the Bank does not have equity securities at FVOCI.

Financial Assets at FVPL
Financial assets that do not meet the criteria for being measured at amortized cost or FVOCI are classified under this category. Specifically, financial assets at FVPL include financial assets that are (a) held for trading, (b) designated upon initial recognition at FVPL, or (c) mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

This category includes debt instruments whose cash flows, based on the assessment at initial recognition of the assets, are not "solely for payment of principal and interest", and which are not held within a business model whose objective is either to collect contractual cash flows or to both collect contractual cash flows and sell. The Bank may, at initial recognition, designate a debt instrument meeting the criteria to be classified at amortized cost or at FVOCI, as a financial asset at FVPL, if doing so eliminates or significantly reduces accounting mismatch that would arise from measuring these assets.
This category also includes equity instruments which the Bank had not irrevocably elected to classify at FVOCI at initial recognition.

After initial recognition, financial assets at FVPL are subsequently measured at fair value. Gains or losses arising from the fair valuation of financial assets at FVPL are recognized in profit or loss.

As of December 31, 2018, the Bank does not have equity securities at FVPL.

Reclassification
The Bank reclassifies its financial assets when, and only when, it changes its business model for managing those financial assets. The reclassification is applied prospectively from the first day of the first reporting period following the change in the business model (reclassification date).

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVPL, any gain or loss arising from the difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVOCI, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in OCI.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at amortized cost, its fair value at the reclassification date becomes its new gross carrying amount.

For a financial asset reclassified out of the financial assets at FVOCI category to financial assets at amortized cost, any gain or loss previously recognized in OCI, and any difference between the new amortized cost and maturity amount, are amortized to profit or loss over the remaining life of the investment using the effective interest method. If the financial asset is subsequently impaired, any gain or loss that has been recognized in OCI is reclassified from equity to profit or loss.

In the case of a financial asset that does not have a fixed maturity, the gain or loss shall be recognized in profit or loss when the financial asset is sold or disposed. If the financial asset is subsequently impaired, any previous gain or loss that has been recognized in OCI is reclassified from equity to profit or loss.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at FVOCI, its fair value at the reclassification date becomes its new gross carrying amount. Meanwhile, for a financial asset reclassified out of the financial assets at FVOCI category to financial assets at FVPL, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss as a reclassification adjustment at the re-classification date.

Impairment
The Bank follows the policies applicable prior to January 1, 2018 (PAS 39).

Derecognition
A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The right to receive cash flows from the asset has expired;
- The Bank retains the right to receive cash flows from the financial asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- The Bank has transferred its right to receive cash flows from the financial asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its right to receive cash flows from a financial asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Bank's continuing involvement in the financial asset. Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset and the maximum amount that the Bank could be required to repay.

Policies applicable prior to January 1, 2018 (PAS 39)

Initial Recognition of Financial Assets
Financial assets are recognized in the Banks financial statements when the Bank becomes a party to the contractual provisions of the instrument. Financial assets are recognized initially at fair value. Transaction costs are included in the initial measurement of the Bank's financial assets, except for investments classified at fair value through profit or loss (FVTPL).

Classification of Financial Assets
Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'available-for-sale' (AFS) financial assets, 'held-to-maturity' (HTM) investment and 'loans and receivables'. The classification depends on the nature and purpose for which the financial assets were acquired and is determined at the time of initial recognition.

As of December 31, 2018 and 2017, the Bank has not designated any financial asset at FVTPL and AFS financial assets.

- Loans and receivables

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Bank's loans and receivables comprise cash and cash equivalents, loans and other receivables and other assets in the statements of financial position.

a) *Cash and Cash Equivalents*

Cash and cash equivalents include cash and other cash items, due from BSP and other banks and other short item highly liquid investments with original maturities of three months or less from the date of acquisition that are subject to insignificant risk of changes in value.

Cash is valued at face value. If a bank holding the funds of the Bank is in bankruptcy or financial difficulty, cash should be written down to estimated realizable value if the amount recoverable is estimated to be lower than the face amount.

b) *Loans and Other Receivables*

Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This category includes loans receivable and sales contract receivable.

<u>*Loans Receivable*</u>
Loans and receivable are recognized when cash is advanced to the borrowers. These are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

After initial measurement, 'Loans and receivables' are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is included as 'Interest income' in the statement of comprehensive income. The losses arising from impairment are recognized in profit or loss.

Unearned discount is amortized using the effective interest method of amortization and any unamortized loan discount is deducted from the outstanding balance to arrive at the amortized cost of the account. Interest income on non-discounted loans is accrued monthly as earned, except in the case of non-accruing loans.

Loans are classified as non-accruing when the principal becomes past due, or when, in the opinion of management, collection of interest and principal is already doubtful. Interest income on these loans is recognized only to the extent of actual collections. Loans are not classified as accruing until interest and principal payments are brought to current status or the loan is restructured in accordance with existing BSP regulations and future collections appear assured.

Credit losses is the estimated amount of losses in the Bank's loan portfolio, based on evaluation of the estimated future cash flows discounted at loan's original effective interest rate or the last re-pricing rate for loans issued at variable rates. It is established through an allowance account which is charged to expense. Loans and discount are written off against the allowance for credit losses when management believes that the collectability of the principal is unlikely, subject to BSP regulations.

Sales Contract Receivable (SCR)
This refers to the amortized cost of assets acquired in settlement of loans through foreclosure or dation in payment and subsequently sold on installment basis whereby the title to the said property is transferred to the buyer upon full payment of the agreed selling price. This shall be recorded initially at the present value of the installment receivable discounted at the imputed rate of interest. Discount shall be accreted over the life of the SCR by crediting interest income using the effective interest method. Any difference between the present value of the SCR and the derecognized assets shall be recognized in profit or loss at the date of sale in accordance with the provisions of PAS 18.

- Held-to-maturity financial assets

  Held-to-maturity financial assets (HTM) include non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as held-to-maturity if the Bank has the positive intention and ability to hold them until maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity financial instruments are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

  After initial measurement, these financial assets are subsequently measured at amortized cost. Gains and losses are recognized in income when the HTM financial assets are derecognized and impaired, as well as through the amortization process. Impairment loss, which is the difference between the carrying value and the present value of estimated cash flows of the investment, is recognized when there is objective evidence that the investment has been impaired. The losses arising from the impairment of such investments are recognized in profit or loss.

Effective Interest Method
The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts, through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis.

Impairment of Financial Assets
The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial assets or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

- significant financial difficulty of the issuer or obligor;
- breach of contract, such as a default or delinquency in interest or principal payments;
- the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganization;

  - the disappearance of an active market for that financial asset because of financial difficulties; or,
  - observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including: adverse changes in the payment status of borrowers in the group, or national or local economic conditions that correlate with defaults on the assets in the group.

- Assets Carried at Amortized Cost

  The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually 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 asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets 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 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 the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

  The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

  For the purpose of collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the grading process of the Bank that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

  Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan or receivable is determined to be uncollectible, it is written off against the related allowance for impairment. Such loan or receivable is written off after all the prescribed procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses in profit or loss.

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 amount of the reversal is recognized in statement of income.

- Assets Carried at Fair Value

In the case of equity investments classified as AFS securities, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for AFS securities, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed and recognized in the statement of income.

Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as AFS securities increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the statement of income.

Derecognition
The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. 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.

4.01.02 Financial Liabilities

Initial Recognition and Measurement

Financial liabilities are recognized initially at fair value, which is the fair value of the consideration received. In case of financial liabilities at amortized costs, the initial measurement is net of any directly attributable transaction costs.

Classification

The Bank classifies its financial liabilities at initial recognition as either financial liabilities at FVPL or financial liabilities at amortized cost.

As at December 31, 2018 and 2017, the Bank does not have liabilities at FVPL.

Financial Liabilities at Amortized Cost

Financial liabilities are categorized as financial liabilities at amortized cost when the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or an-other financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or impaired or through the amortization process.

As at December 31, 2018 and 2017, the Bank's deposit liabilities, accrued and other liabilities (except statutory payables), and bills payable are classified under this category as disclosed in Notes 14, 15 and 16.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

Classification of Financial Instrument between Liability and Equity. A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Bank; or
- Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Bank does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

4.01.03 Offsetting of Financial Assets and Liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

4.02 Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment are measured at cost less any accumulated depreciation, amortization and impairment losses. Cost consists of purchase price and costs directly attributable to bringing the asset to its working condition for its intended use.

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

Land is not depreciated. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets as follows:

Furniture, fixtures and equipment	–	2 to 5 years
Leasehold improvements	–	20 years
Transportation equipment	–	5 years
Building	–	10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Fully depreciated assets still in use are retained in the financial statements. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and any impairment in value are removed from the financial statements and any resulting gain or loss is credited or charged to profit or loss. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss.

4.03 Investment Properties

Properties that are held either to earn rental income or for capital appreciation or both, and are not significantly occupied by the Bank, are classified as investment properties.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and any impairment in value. Depreciation is computed using straight-line method based on the estimated useful lives of the assets of 10 years. Land is not depreciated. Impairment test is conducted when there is an indication that the carrying amount of the asset may not be recovered. An impairment loss is recognized for the amount by which the property's carrying amount exceeds its recoverable amount, which is the higher between the property's fair value less cost to sell and value in use.

Investment properties are derecognized by the Bank upon disposal or when the investment property is permanently withdrawn from use and no future benefit is expected to arise from the continued use of the asset. Any gain or loss on derecognition of an investment property, calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the statement of comprehensive income in the period in which the property is derecognized.

Transfers are made to investment properties when there is a change in use evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner-occupation or commencement of development with a view to sale.

Transfers to and from investment properties do not result in gain or loss.

4.04 Other Assets

Other assets not classified as financial assets, bank premises, furniture, fixture and equipment, and investment property, includes prepaid assets, accounts receivable and the likes. These other assets qualifying into the definition of assets under PAS 1 Presentation of Financial Statements are resources controlled by the Bank as a result of past events and from which future economic benefits are expected to flow to the entity. Other assets are recognized on an accrual basis of accounting.

4.05 Impairment of Non-financial Assets

At the end of each reporting date, the Bank assesses whether there is any indication that any non-financial assets may have suffered an impairment loss. If any such indication exists, the recoverable amount of these assets is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized as an expense.

4.06 Related Party Relationships and Transactions

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

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

4.07 Revenue and Expense Recognition

4.07.01 Revenue Recognition for Revenues within the scope of PFRS 15
Prior to January 1, 2018, under PAS 18, *Revenue*, revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is recognized to the extent that it is probable that the economic benefit will flow to the Bank and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable by the Bank for services provided in the normal course of business.

Upon adoption of PFRS 15 beginning January 1, 2018, revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those services.

The Bank assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Bank has assessed that it is acting as principal in all arrangements.
The following specific recognition criteria must also be met before revenue is recognized:

Income from Assets Sold or Exchange
Income from assets sold or exchanged is recognized when the title to the assets is transferred to the buyer or when the collectability of the entire sales price is reasonably assured. This is included as part of "other operating income" account in the statement of profit or loss.

Service Fees, Commissions, and Other Income
Fees, commissions and other income are generally recognized on an accrual basis when the service has been provided. Penalties are recognized only upon collection or where there is a reasonable degree of certainty as to their collectibility.

4.07.02 Revenue Recognition for Revenues outside the scope of PFRS 15
For revenues outside the scope of PFRS 15, the following specific recognition criteria must also be met before revenue is recognized:

Interest Income
Interest income are recognized in the statements of comprehensive income for all interest-bearing financial instruments using the effective interest rate method, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, the net carrying amount of the financial asset or liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are integral part of the effective interest rate. The change in carrying amounts is recorded as "interest income".

In the case of past due accounts, interest income is recognized only upon the actual collection, as provided under existing BSP regulations.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Unearned discount is recognized as income over the terms of the receivables using the effective interest rate method and shown as deduction from loans.

4.07.03 Expense Recognition
Expenses are recognized in profit or loss when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in profit or loss:

- on the basis of a direct association between the costs incurred and the earning of specific items of income;
- on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or
- immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statements of financial position as an asset.

Interest expense are expenses incurred that are associated with the Bank's deposit liabilities and bills payable. Non-interest expenses are costs attributable to administrative, marketing, collection and other business activities of the Bank.

4.08 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

4.08.01 The Bank as Lessee
Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

4.08.02 The Bank as Lessor
Property leased out under operating lease is included in investment property in the statement of financial position. Rental income under operating lease is recognized in profit or loss on a straight-line basis over the period of the lease.

4.09 Employee Benefits

Employee benefits are all forms of consideration given by the Bank in exchange for services rendered by employees, including trustees and management.

4.09.01 Short-term Employee Benefits
The Bank recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. Short-term benefits given by the Bank to its employees include salaries and wages, bonus and incentives, directors' fees, SSS, PHIC, HDMF contributions, accumulating and vesting credit leaves and gratuity pay.

4.09.02 Post-employment Benefits
The Bank maintains a defined contribution retirement benefit plans for all qualifying employees. The assets of the plans are held separately from those of the Bank in funds under the control of trustees. Where employees leave the plans prior to full vesting of the contributions, the contributions payable by the Bank are reduced by the amount of forfeited contributions. The only obligation of the Bank with respect to the retirement benefit plan is to make the specified contributions.

4.10 Income Tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the 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.

4.10.01 Current Income Tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statements of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

4.10.02 Deferred Income Tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, carry-forward of unused tax credits from excess Minimum Corporate Income Tax (MCIT) over Regular Corporate Income Tax (RCIT) and unused Net Operating Loss Carry-over (NOLCO), to the extent that it is probable that taxable profits will be available against which those deductible temporary differences and carry forward of unused MCIT and unused NOLCO can be utilized. Deferred income tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction that affects neither the accounting profit nor taxable profit or loss.

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

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

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

4.11 Earnings Per Share

Earnings per share is computed by dividing net income for the year by the weighted average number of common shares outstanding during each year after giving retroactive effect to share dividends and share splits declared during the year, if any.

4.12 Provisions, Contingent Liabilities and Contingent Assets

4.12.01 Provisions

Provisions are recognized when the Bank has a present obligation, whether legal or constructive, as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made for the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

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

4.12.02 Contingencies
Contingent liabilities and assets are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank. Contingent liabilities are disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are disclosed only when an inflow of economic benefits is probable.

4.13 Borrowing Costs

Borrowing costs are recognized in profit or loss in the period in which they are incurred.

4.14 Events After the End of the Reporting Period

The Bank identifies events after the reporting date as events that occurred after the reporting date but before the date the financial statements were authorized for issue. Any event that provides additional information about the Bank's financial position at the reporting date is reflected in the financial statements. Non-adjusting events are disclosed in the notes to the financial statements when material.

5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the financial statements in compliance with PFRSs requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements. The judgments, estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances at the end of the reporting period. Actual results could differ materially from such estimates.

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.

5.01 Critical Judgments in Applying Accounting Policies

The Bank has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements.

5.01.01 Classification of financial assets (Note 4)
The Bank follows the guidance of PFRS 9 starting January 1, 2018 in classifying financial assets at initial recognition whether it will be subsequently measured at fair value through other comprehensive income, at amortized cost, or at fair value through profit or loss.

The Bank determines the classification based on the contractual cash flow characteristics of the financial assets and on the business model it uses to manage these financial assets. The Bank determines whether the contractual cash flows associated with the financial asset are solely payments of principal and interest (the "SPPI"). If the instrument fails the SPPI test, it will be measured at fair value through profit or loss.

Prior to January 1, 2018, the Bank followed the guidance of PAS 39 in classifying its financial assets. Key judgment was applied particularly in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity at amortized cost. In making this judgment, the Bank has assessed its intention and ability to hold such investments to maturity.

In both years, Management assessed that there is no change in the objective of holding the investments. The carrying amounts of investment securities at amortized cost, previously classified as held-to-maturity investments in 2017, are ₱25,476,320 and ₱25,456,166 as of December 31, 2018 and 2017, respectively, as disclosed in Note 9.

5.01.02 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, these are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. These judgments may include considerations of liquidity and model inputs.

5.01.03 Non-application of Accounting for Employee Benefits under PIC Q&A No. 2013-03

PIC Q&A No. 2013-03, PAS 19 – Accounting for Employee Benefits under a Defined Contribution Plan subject to Requirements of Republic Act (RA) No. 7641, The Philippine Retirement Pay Law, requires the recognition of Defined Contribution (DC) liability to be measured at the fair value of the DC assets upon which the benefits depend, with an adjustment for margin on asset returns, if any where this is reflected in the benefits, less any forfeitures during the period and any excess of the projected Defined Benefit (DB) obligation over the projected DC obligation, apply the projected unit credit method on such excess to determine the additional liability. Valuation should be carried out with sufficient regularity such that the amounts recognized in the financial statements do not differ materially from those that would be determined at the statement of the condition date.

In applying the above guidelines, the Bank considered to fully adopt the requirements. The Bank has manually computed the retirement benefits of employees under R.A. No. 7641 and it was determined that the provident fund, known as the Retirement Plan set up by the Bank is greater than the required retirement benefit obligation. Thus, the Management decided to depart from the requirements of the above standard.

In both years, Management believes that there was no material impact on the financial statements as a result of the departure since the plan asset is sufficient to cover the required retirement benefit obligation. Retirement benefit expense in 2018 and 2017 amounted to ₱1,203,927 and ₱838,410, respectively, as disclosed in Note 18. Fair value of the plan asset as of December 31, 2018 and 2017 amounted to ₱42,159,843 and ₱38,998,135, respectively.

5.02 Key Sources of Estimation Uncertainties

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

5.02.01 Estimating Allowances for Credit Losses

The Bank estimates the allowance for credit losses related to its loans and receivables based on assessment of specific accounts where the Bank has information that certain customers are unable to meet their financial obligations. In these cases, judgment used was based on the best available facts and circumstances including but not limited to, the length of relationship with the customer and the customer's current credit status based on third party credit reports and known market factors. The Bank used judgment to record specific reserves for customers against amounts due to reduce the expected collectible amounts. These specific reserves are re-evaluated and adjusted as additional information received impacts the amounts estimated, notwithstanding the provisioning requirements under Manual of Regulations for Banks (MORB).

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

In both years, the Bank assessed its loans and receivables and determined that certain borrowers are unable to meet their financial obligations. Consequently, the Bank recognized provision for credit losses amounting to ₱7,028,544 and ₱1,691,692 in 2018 and 2017, respectively, as disclosed in Note 10. Allowance for credit losses – loans amounted to ₱17,938,820 and ₱13,915,930 as of December 31, 2018 and 2017, respectively, as disclosed in Note 10. Allowance for credit losses – SCR amounted to ₱1,300,689 and ₱185,113 as of December 31, 2018 and 2017, respectively, as disclosed in Note 10.

5.02.02 Reviewing Residual Values, Useful Lives and Depreciation Method of Bank's Premises, Furniture, Fixtures and Equipment and Investment Properties

The residual values, useful lives and depreciation method of the Bank's premises, furniture, fixtures and equipment and investment properties are reviewed at least annually, and adjusted prospectively if appropriate, if there is an indication of a significant change in, how an asset is used; significant unexpected wear and tear; technological advancement; and changes in market prices since the most recent annual reporting date. The useful lives of the Bank's assets are estimated based on the period over which the assets are expected to be available for use. In determining the useful life of an asset, the Bank considers the expected usage, expected physical wear and tear, technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output and legal or other limits on the use of the Bank's assets. In addition, the estimation of the useful lives is based on Bank's collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of bank's premises, furniture, fixtures and equipment and investment properties would increase the recognized operating expenses and decrease non-current assets. The Bank uses a depreciation method that reflects the pattern in which it expects to consume the asset's future economic benefits. If there is an indication that there has been a significant change in the pattern used by which the Bank expects to consume an asset's future economic benefits, the entity shall review its present depreciation method and, if current expectations differ, change the depreciation method to reflect the new pattern.

In both years, Management assessed that there are no indications that there has been a significant change in pattern used by the Bank to consume its asset's future economic benefit. As of December 31, 2018 and 2017, the carrying amounts of bank premises, furniture, fixtures and equipment as disclosed in Note 11 amounted to ₱36,856,921 and ₱34,301,539, respectively. The carrying amounts of investment properties amounted to ₱19,662,235 and ₱15,658,779, as of December 31, 2018 and 2017, respectively, as disclosed in Note 12.

5.02.03 Determining Impairment of Non-Financial Asset

The Bank performs an impairment review when certain impairment indicators are present. Determining the fair value of real and other properties acquired, and bank premises, furniture, fixtures and equipment, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Bank to make estimates and assumptions that can materially affect the financial statements. Future events could cause the Bank to conclude that real and other properties acquired and bank premises, furniture, fixtures and equipment are impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations.

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

In both years, Management determined that there was no indication of impairment that occurred on its bank premises, furniture, fixtures and equipment and real and other properties acquired.

5.02.04 Recoverability of Deferred Tax Assets
The Bank reviews the carrying amounts at each reporting date and reduces deferred tax assets 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 assets to be utilized prior to expiration.

The Bank recognized deferred tax assets amounting to ₱6,342,342 and ₱4,765,660 as of December 31, 2018 and 2017, respectively, which Management believes to be fully recoverable prior to expiration, as disclosed in Note 26.

5.02.05 Contingent Assets
The Bank is currently involved in various legal proceedings. Estimates of probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon on an analysis of potential results. The Bank currently does not believe these proceedings will have a material adverse effect on the financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the Bank's strategies relating to these proceedings.

In the normal course of the Bank's operations, there are various outstanding commitments to extend credit. The Bank filed several legal actions on loan borrowers who defaulted in payment on their outstanding loan balance. Management believes that those actions will yield positively in favor of the Bank and does not anticipate material losses.

As of December 31, 2018 and 2017, estimated amount expected to be recovered from the proceedings amounting to ₱4,718,373, as disclosed in Note 30. However, said amounts were not recognized in the financial statements because the realization of the related income is not yet virtually certain as it is dependent on the outcome of future events.

6. RISK MANAGEMENT OBJECTIVES AND POLICIES

6.01 General Risk Management Principles

The Bank's financial assets comprise cash and other cash items, due from other banks, held-to-maturity investment, loans and receivable, and other assets while financial liabilities comprise savings deposits, bills payable, accrued expenses and other liabilities to finance the Bank's operations.

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

	Notes		2018		2017
Financial assets					
Cash and other cash items	8	₱	**2,738,851**	₱	1,363,006
Due from BSP	8		**10,847,363**		8,942,510
Due from other banks	8		**74,217,388**		71,452,240
Investment securities at amortized cost	9		**25,476,320**		–
Held-to-maturity financial assets	9		–		25,456,166
Loans and other receivables – net	10		**394,914,995**		332,545,785
Other assets*	13		**497,858**		585,891
		₱	**508,692,775**	₱	440,345,598
Financial liabilities					
Deposit liabilities	14	₱	**331,081,955**	₱	274,033,444
Bills payable	15		**12,811,000**		15,000,000
Accrued and other liabilities**	17		**3,823,120**		3,454,075
		₱	**347,716,075**	₱	292,487,519

**excluding non-financial assets amounting to ₱189,541 and ₱216,714 in 2018 and 2017, respectively.*
***excluding government-related payables and non-financial liabilities amounting to ₱3,956,124 and ₱2,610,374 in 2018 and 2017, respectively.*

<u>*6.01.01 Credit Risk and Concentration of Assets and Liabilities and Off-balance Sheet Items*</u>

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Bank. The Bank has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Bank only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Bank uses other publicly available financial information and its own trading records to rate its major customers. The Bank's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

The Bank enforces credit risk management fundamentally via its Credit Policy Manual (CPM), the provisions of which are regularly reviewed and updated to reflect changing risk conditions. The CPM defined, among others, the following:

a. the Bank's credit structure;
b. target market;
c. credit evaluation, administration, monitoring, and collection guidelines; and
d. remedial management.

The Bank likewise manages risk by setting limits such as:

a. approving authority limits;
b. individuals and borrower group limits; and
c. concentration limits as to facility and industry segments.

Moreover, the Bank monitors credit exposures, and continually assesses the creditworthiness of counterparties. It also obtains security where appropriate, enters into collateral arrangement with counterparties and financial decision making.

The Bank has an internal credit risk rating system for the purpose of measuring, in a consistent manner, credit risk for every exposure. The risk information derived is then used for business and financial decision making.

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

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

	Notes		2018		2017
Cash and other cash items*	8	₱	**188,809**	₱	429,978
Due from BSP	8		**10,847,363**		8,942,510
Due from other banks	8		**74,217,388**		71,452,240
Investment securities at amortized cost	9		**25,476,320**		–
Held-to-maturity financial assets	9		–		25,456,166
Loans and other receivables	10		**414,205,231**		346,726,182
Other assets**	13		**497,858**		585,891
		₱	**525,432,969**	₱	453,592,967

**except for cash on hand amounting to ₱2,550,042 and ₱933,028 in 2018 and 2017, respectively.*
***excluding non-financial assets amounting to ₱189,541 and ₱216,714 in 2018 and 2017, respectively.*

Where financial instruments are recorded at fair value, the amounts represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

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6.01.03 Credit Quality of Financial Assets

The table below shows the credit quality by class of financial assets as of December 31, 2018 and 2017.

2018

	Neither Past Due nor Impaired					
	High Grade	**Standard Grade**	**Substandard Grade**	**Past Due but not Impaired**	**Impaired**	**Total**
Cash and other cash items*	188,809	–	–	–	–	188,809
Due from BSP	10,847,363	–	–	–	–	10,847,363
Due from other banks	74,217,388	–	–	–	–	74,217,388
Investment securities at amortized cost	25,476,320	–	–	–	–	25,476,320
Loans and other receivables	377,566,803	–	–	33,555,557	3,082,871	414,205,231
Other assets**	497,858	–	–	–	–	497,858
	488,794,541	**–**	**–**	**33,555,557**	**3,082,871**	**525,432,969**

2017

	Neither Past Due nor Impaired					
	High Grade	Standard Grade	Substandard Grade	Past Due but not Impaired	Impaired	Total
Cash and other cash items*	429,978	–	–	–	–	429,978
Due from BSP	8,942,510	–	–	–	–	8,942,510
Due from other banks	71,452,240	–	–	–	–	71,452,240
Held-to-maturity financial assets	25,456,166	–	–	–	–	25,456,166
Loans and other receivables	324,396,692	–	–	17,611,117	4,718,373	346,726,182
Other assets**	585,891	–	–	–	–	585,891
	431,263,477	–	–	17,611,117	4,718,373	453,592,967

**except for cash on hand amounting to ₱2,550,042 and ₱933,028 in 2018 and 2017, respectively.*
***excluding non-financial assets amounting to ₱189,541 and ₱216,714 in 2018 and 2017, respectively.*

High grade cash on hand and in banks and working capital cash fund placed, invested, or deposited in local banks belonging to the top ten (10) banks in the Philippines in terms of resources and profitability. Other high grade accounts are accounts considered to be high value. The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits.

Standard grade accounts are active accounts with minimal to regular instances of payment default, due to ordinary/common collection issues. These accounts are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly.

Substandard grade accounts are accounts which has a probability of impairment based on historical trend. These accounts show propensity to default in payment despite regular follow-up and extended payment terms.

Past due but not impaired loans and receivables and investment securities are loans and receivables and investment securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of collateral available or status of collection of amounts owed to the Bank.

Loans with negotiated terms are loans that have been restructured due to deterioration in the borrower's financial position. In respect of some of these loans, the Bank has made concessions that it would not otherwise consider. Once the loan is restructured, it remains in this category independent of satisfactory performance after restructuring.

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Impaired loans and receivables and investment securities are loans and receivables and investment securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due based on the contractual terms of the promissory notes and securities agreements.

The Bank holds collateral against loans receivables in the form of real estate and chattel mortgages, and deposit hold outs over assets. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally are not updated except when a loan is assessed to be impaired.

6.01.04 Aging Analysis

An aging analysis of the Bank's loans and other receivable (gross of unamortized discount and allowance for credit losses) as of December 31, 2018 and 2017 are as follows:

		2018		2017
Outstanding receivables:				
Current accounts	₱	**377,566,803**	₱	324,396,692
Past due accounts:				
1 – 30 days past due		**15,543,527**		3,782,442
31 – 60 days past due		**4,116,932**		2,337,415
61 – 90 days past due		**1,893,620**		1,514,738
over 90 days past due*		**15,084,349**		14,694,895
	₱	**414,205,231**	₱	346,726,182

**includes items in litigation amounting to ₱3,082,871 and ₱4,718,373 in 2018 and 2017, respectively.*

6.02 Liquidity Risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Bank's short, medium and long-term funding and liquidity management requirements. The Bank manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The Bank seeks to manage its liquidity profile to be able to finance its capital expenditures and cover its operating costs. The Bank's objective is to maintain a balance between continuity of funding and flexibility through valuation of projected and actual cash flow information.

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The table below summarizes maturity profile of the Bank's financial assets and liabilities as of December 31, 2018 and 2017 based on undiscounted contractual cash flows.

2018	On Demand	Due Within 1 Year	Due Beyond 1 Year But Not More Than 5 Years	Due Beyond 5 Year But Not More Than 15 Years	Total
Financial Assets:					
Cash and other cash items	₱ 2,738,851	₱ –	₱ –	₱ –	₱ 2,738,851
Due from BSP	10,847,363	–	–	–	10,847,363
Due from other banks	41,598,968	30,612,399	2,006,021	–	74,217,388
Investment securities at amortized cost	–	1,476,320	19,000,000	5,000,000	25,476,320
Loans and other receivables*	45,089,604	150,418,916	167,355,464	51,290,520	414,154,504
Other assets**	497,858	–	–	–	497,858
	₱ 100,772,644	₱ 182,507,635	₱ 188,361,485	₱ 56,290,520	₱ 527,932,284
Financial Liabilities:					
Deposit liabilities	₱ 255,942,880	₱ 69,004,072	₱ 130,002	₱ 6,005,000	₱ 331,081,954
Bills payable	–	12,811,000	–	–	12,811,000
Accrued and other liabilities***	3,823,120	–	–	–	3,823,120
	₱ 259,766,000	₱ 81,815,072	₱ 130,002	₱ 6,005,000	₱ 347,716,074

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2017	On Demand	Due Within 1 Year	Due Beyond 1 Year But Not More Than 5 Years	Due Beyond 5 Year But Not More Than 15 Years	Total
Financial Assets:					
Cash and other cash items	₱ 1,363,006	₱ –	₱ –	₱ –	₱ 1,363,006
Due from BSP	8,942,510	–	–	–	8,942,510
Due from other banks	28,929,258	37,074,649	5,448,333	–	71,452,240
Held-to-maturity financial assets	–	1,456,166	–	24,000,000	25,456,166
Loans and other receivables*	19,164,636	108,588,001	165,180,552	53,713,639	346,646,828
Other assets**	585,891	–	–	–	585,891
	₱ 58,985,301	₱ 147,118,816	₱ 170,628,885	₱ 77,713,639	₱ 454,446,641
Financial Liabilities:					
Deposit liabilities	₱ 227,022,155	₱ 40,816,788	₱ 189,501	₱ 6,005,000	₱ 274,033,444
Bills payable	–	15,000,000	–	–	15,000,000
Accrued and other liabilities***	3,454,075	–	–	–	3,454,075
	₱ 230,476,230	₱ 55,816,788	₱ 189,501	₱ 6,005,000	₱ 292,487,519

**net of unamortized loan discount amounting to ₱50,727 and ₱79,354 in 2018 and 2017 respectively.*
***excluding non-financial assets amounting to ₱189,541 and ₱216,714 in 2018 and 2017, respectively.*
****excluding government-related payables and non-financial liabilities amounting to ₱3,956,124 and ₱2,610,374 in 2018 and 2017, respectively.*

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6.03 Interest Rate Risk

The Bank is exposed to interest rate risk because entities in the Bank borrow funds at both fixed and floating interest rates. The risk is managed by the Bank by maintaining an appropriate mix between fixed and floating rate borrowings.

The Bank's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

The interest rate risk arising from cash and cash equivalents are managed by means of effective investment planning and analysis, and maximizing investment opportunities in various local banks and financial institutions.

On deposit liabilities, the Bank has no significant exposure since most of these are subject to fixed interest rates. Therefore, any change in the market interest rates has no effect on the amounts of future cash flows.

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate assets, the analysis is prepared assuming the amount of the assets at the end of the reporting period was outstanding for the whole year. A 5% decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

2018	Amount	Ave. Effective Interest Rates	Decrease 5%	Interest Based on Average	Interest Based on Decrease	Net effect
Finance Income						
Due from BSP	₱ 589,311	0.00%	0.00%	₱ –	₱ –	₱ –
Due from other Banks	327,680	2.563%	2.434%	8,398	7,976	(422)
Investment securities at amortized cost	869,595	3.688%	3.504%	32,071	30,471	(1,600)
	₱ 1,786,586			**₱ 40,469**	**₱ 38,447**	**₱ (2,022)**
2017						
Finance Income						
Due from BSP	₱ 594,664	0.00%	0.00%	₱ –	₱ –	₱ –
Due from other Banks	455,574	3.188%	3.029%	14,524	13,799	(725)
Held-to-maturity financial assets	369,088	4.875%	4.631%	17,993	17,092	(901)
	₱ 1,419,326			₱ 32,516	₱ 30,891	₱ (1,625)

The Bank's sensitivity to interest rates has decreased during the current period mainly due to decrease in interest rates.

6.04 Operational Risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from legal and regulatory requirements and generally accepted standards of corporate behavior.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility of the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas;

a) Requirements for appropriate segregation of duties, including the independent authorization of transactions;
b) Requirements for the reconciliation and monitoring of transactions;
c) Compliance with regulatory and other legal requirements;
d) Documentation of controls and procedures;
e) Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
f) Requirements for the reporting of operational losses and proposed remedial action;
g) Development of contingency plans;
h) Training and professional development;
i) Ethical and business standards; and
j) Risk mitigation, including insurance where this is effective.

Compliance with Bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

In Philippine Peso

7. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The following table presents a comparison by category of carrying amounts and estimate fair value of the Bank's financial instruments as of December 31, 2018 and 2017:

		Fair Value			
2018	**Carrying Value**	**Quoted (Unadjusted) Prices in Active Markets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
ASSETS					
Cash	2,738,851	-	2,738,851	-	2,738,851
Due from BSP	10,847,363	-	10,847,363	-	10,847,363
Due from other banks	74,217,388	-	74,217,388	-	74,217,388
Investment securities at amortized cost	25,476,320	-	25,476,320	-	25,476,320
Loans and other receivables – net	394,914,995	-	394,914,995	-	394,914,995
Other assets*	497,858		497,858		497,858
	508,692,775	**-**	**508,692,775**	**-**	**508,692,775**
LIABILITIES					
Deposit liabilities	331,081,954	-	331,081,954	-	331,081,954
Bills payable	12,811,000	-	12,811,000	-	12,811,000
Accrued and other liabilities**	3,823,120	-	3,823,120	-	3,823,120
	347,716,074	**-**	**347,716,074**	**-**	**347,716,074**
2017					
ASSETS					
Cash	1,363,006	-	1,363,006	-	1,363,006
Due from BSP	8,942,510	-	8,942,510	-	8,942,510
Due from other banks	71,452,240	-	71,452,240	-	71,452,240
Held-to-maturity investments	25,456,166	-	25,456,166	-	25,456,166
Loans and other receivables – net	332,545,785	-	332,545,785	-	332,545,785
Other assets*	585,891		585,891	-	585,891
	440,345,598	-	440,345,598	-	440,345,598
LIABILITIES					
Deposit liabilities	274,033,444	-	274,033,444	-	274,033,444
Bills payable	15,000,000	-	15,000,000	-	15,000,000
Accrued and other liabilities**	3,454,075	-	3,454,075	-	3,454,075
	292,487,519	-	292,487,519	-	292,487,519

**excluding non-financial assets amounting to ₱189,541 and ₱216,714 in 2018 and 2017, respectively.*
***excluding government-related payables and non-financial liabilities amounting to ₱3,956,124 and ₱2,610,374 in 2018 and 2017, respectively.*

The fair values of financial assets and financial liabilities measured at amortized cost approximates their carrying values either because these instruments are short-term in nature or the effect of discounting for those with maturities of more than one year is not material.

Fair Value Hierarchy
In accordance with PFRS 13, the fair value of financial assets and 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 financial assets with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values.

There were neither transfers between Levels 1 and 2 instruments in both years.

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.

Fair Value Measurement for Non-financial Assets
The fair value of the Bank's land classified under Investment Properties account, as disclosed in Note 12, is determined on the basis of the appraisals performed by an appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. To some extent, the valuation process was conducted by the appraiser 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 buildings, and the comparable prices in the corresponding property location.

The fair value of investment property as of December 31, 2018 and 2017 amounting to ₱75,934,374 and ₱65,431,246 respectively, is currently categorized within Level 2. In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. There has been no change to the valuation techniques used by the Bank during the year for its non-financial assets.

In Philippine Peso

8. CASH AND CASH EQUIVALENTS

The account consists of the following:

		2018		2017
Cash and other cash items:				
Cash on hand	₱	**2,550,042**	₱	933,028
Checks and other cash items		**188,809**		429,978
		2,738,851		1,363,006
Due from BSP		**10,847,363**		8,942,510
Due from other banks		**74,217,388**		71,452,240
		85,064,751		80,394,750
	₱	**87,803,602**	₱	81,757,756

Cash and Other Cash Items
Cash and other cash items refers to cash on hand representing the total amount of cash in the Bank's vault in the form of notes and coins under the custody of the cashier, including notes and coins in the possession of tellers while checks and other cash Items account refers to the total amount of checks and other cash items received after the clearing cut-off time until the close of the regular banking hours.

Due from Bangko Sentral ng Pilipinas (BSP)
Mandatory reserves represent the balance of the deposit account maintained with the BSP to meet reserve requirements and to serve as clearing account for interbank claims. Due from BSP bears annual interest rate of zero in 2018 and 2017.

Under Section 251 of the Manual of Regulation for Banks (MORB), the required reserves shall be kept in the form of deposits placed in the banks' demand deposit accounts with BSP. Section 251 of the MORB further provides that such deposit account with the BSP is not considered as a regular current account as BSP checks for drawings against such deposit shall be limited to settlement of obligations with the BSP and withdrawals to meet cash requirements

Due from Other Banks
Due from other banks comprise of savings deposits with interest rates ranging from 0.125% to 1% and time deposits with interest rates ranging from 4.5% to 5%.

Interest earned on deposits on local banks amounted to ₱916,991 and ₱1,050,238 in 2018 and 2017, respectively.

9. INVESTMENT SECURITIES AT AMORTIZED COST

This account consists of:

			2018 (PFRS 9)			
			Date			
Issuer	**Particulars**	**Yield Rate**	**Issued**	**Maturity**	**Face Value**	**Book Value**
Short-term						
SBGFC	Promisory Note	1.71%	11/07/18	11/06/19	1,476,320	1,476,320
Long-term						
Metrobank	TSA	3.625%	09/21/16	03/21/33	2,000,000	2,000,000
Allied Bank	RTB	3.25%	11/15/16	08/13/23	2,000,000	2,000,000
East West	RTB	3.25%	11/23/16	08/15/23	2,000,000	2,000,000
BPI	RTB	5.88%	12/01/16	03/01/32	3,000,000	3,000,000
Landbank	RTB	4.625%	11/22/17	08/15/23	15,000,000	15,000,000
					25,476,320	**25,476,320**

In Philippine Peso

The following are the investment in securities previously classified as held to maturity as of December 31, 2017:

2017 (PAS 39)						
			Date			
Issuer	Particulars	Yield Rate	Issued	Maturity	Face Value	Book Value
Short-term						
SBGFC	Promisory Note	1.71%	11/08/17	11/07/18	1,456,166	1,456,166
Long-term						
Metrobank	TSA	3.625%	09/21/16	03/21/33	2,000,000	2,000,000
Allied Bank	RTB	3.25%	11/15/16	08/13/23	2,000,000	2,000,000
East West	RTB	3.25%	11/23/16	08/15/23	2,000,000	2,000,000
BPI	RTB	5.88%	12/01/16	03/01/32	3,000,000	3,000,000
Landbank	RTB	4.625%	11/22/17	08/15/23	15,000,000	15,000,000
Total					25,456,166	25,456,166

Movements in the account are disclosed below:

	2018	2017
Balance at January 1	₱ **25,456,166**	₱ 10,439,697
Acquisitions during the year	**1,476,320**	16,456,166
Maturities during the year	**(1,456,166)**	(1,439,697)
Balance, December 31	₱ **25,476,320**	₱ 25,456,166

Total interest earned on these financial assets amounted to ₱869,595 and ₱369,088 for 2018 and 2017, respectively.

Under current banking regulations, investments in bonds and other debt instruments shall not exceed 50% of adjusted statutory net worth plus 40% of total deposits liabilities. As of December 31, 2018 and 2017 the Bank is compliant with such regulations.

10. LOANS AND OTHER RECEIVABLES – net

The account consists of the following:

	2018	2017
Current loans	₱ **354,641,499**	₱ 304,463,708
Past due loans	**30,821,028**	14,459,683
Under litigation	**3,082,871**	4,718,373
Total loans receivable	**388,545,398**	323,641,764
Sales contract receivable	**12,551,587**	12,597,461
Accrued interest receivable	**13,108,246**	10,486,957
	414,205,231	346,726,182
Unamortized discount	**(50,727)**	(79,354)
	414,154,504	346,646,828
Allowance for credit losses – loans (Note 24)	**(17,938,820)**	(13,915,930)
Allowance for credit losses – SCR (Note 24)	**(1,300,689)**	(185,113)
Total loans and other receivables – net	₱ **394,914,995**	₱ 332,545,785

The Bank's loan accounts are stated at the outstanding balance reduced by estimated allowance for credit losses and unearned interest and discounts.

As of December 31, 2018 and 2017 loans receivable with carrying amount of ₱12,811,000 and ₱15,000,000, respectively, were used as collateral for bills payable, as disclosed in Note 15.

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Sales contract receivable refers to the amortized cost of assets acquired in settlement of loans through foreclosure or dacion in payment and subsequently sold on installment basis whereby the title to the said property is transferred to the buyers only upon full payment of the agreed selling price.

The movements of the allowance for credit losses on loans receivable at December 31 as disclosed in Note 24 is summarized as follows:

		2018		2017
At January 1	₱	**13,915,930**	₱	12,722,175
Provision for credit losses		**7,028,544**		1,691,692
Write-off of loans receivable*		**(3,005,654)**		–
Reversal		**–**		(497,937)
	₱	**17,938,820**	₱	13,915,930

**including write-off of allowance of loans receivable transferred to ROPA amounting to ₱1,508,033 in 2018.*

Allowance for credit losses is comprised of the following:

		2018		2017
Specific loan loss				
Loans to individuals for other purposes	₱	**14,420,592**	₱	10,679,512
General loan loss		**3,518,228**		3,236,418
	₱	**17,938,820**	₱	13,915,930

The allowance for credit losses which include both specific and general loan loss reserves, represent management estimates of credit losses inherent in the portfolio, after consideration of the prevailing and anticipated economic conditions, prior to loss experience, estimated recoverable value based on fair market values of underlying collateral and prospects of support from guarantors, subsequent collections and evaluations made by BSP Supervision and Examination Sector.

The BSP observes certain criteria and guidelines based largely on the classification of loans in establishing specific loss reserves.

In compliance with the regulations of the BSP, the Bank strictly adheres to the setting up the valuation allowance for risk assets. The Bank reviews the quality of its loan portfolio and prepares a quantitative classification of its risks assets including loans. Accordingly, a specific valuation allowance for credit losses were provided on regular loans based on the following schedule.

Classification of Risk Assets	**Required Valuation Allowance**
Loans especially mentioned	5%
Substandard – secured	10%
Substandard – unsecured	25%
Doubtful	50%
Loss	100%

For micro-finance portfolio, the specific allowances are computed based on portfolio at risk. Portfolio at risk (PAR) refers to loan outstanding with one day amortization missed payment. Specific allowance based on PAR follows:

Number of Days PAR	**Required Allowance**
1 – 30 days	2%
31 – 60 days	25%
61– 90 days	50%
91 days and over	100%

For unclassified loans whether regular or micro-finance, a general loan loss provision equivalent to 1% of the total loan portfolio is provided.

In Philippine Peso

Interest income earned by the Bank from its loans and other receivables are disclosed below:

	2018	2017
Loans receivable	₱ 61,674,297	₱ 48,598,821
Sales contract receivable	904,408	976,720
	₱ 62,578,705	₱ 49,575,541

Disclosures as to industry/economic sector are as follows (net of unamortized discount):

	2018		2017	
	Peso Amount	%	Peso Amount	%
Agricultural, forestry and fishing	137,117,456	35.29%	87,477,002	27.04%
Real estate activities	112,005,458	28.83%	102,120,169	31.56%
Wholesale and retail trade; repair of motor vehicles and motorcycles	55,627,182	14.32%	53,685,365	16.59%
Other services activities	50,408,248	12.98%	45,778,793	14.15%
Construction	16,249,796	4.18%	17,180,174	5.31%
Accommodation and food service activities	11,088,305	2.85%	9,036,375	2.79%
Transportation and storage	3,395,479	0.87%	3,567,764	1.10%
Education	976,914	0.25%	1,968,434	0.61%
Manufacturing	672,869	0.17%	846,374	0.26%
Electricity, gas, steam and air-conditioning supply	680,820	0.18%	773,379	0.24%
Human health and social work activities	272,144	0.08%	460,274	0.14%
Professional, scientific and technical activities	–	0.00%	597,969	0.18%
Arts, entertainment and recreation	–	0.00%	50,894	0.02%
Activities of households as employers; undifferentiated goods-and-services-producing activities of households for own use	–	0.00%	19,444	0.01%
Total	388,494,671	100.00	323,562,410	100.00

The BSP considers the concentration of credit exists when the total loan exposure to a particular industry or economic sector exceeds 30% of the total loan portfolio.

In 2018 the Bank is exposed to credit risk concentration on agricultural, forestry and fishing being 35.29% of the total loan portfolio. While in 2017 the Bank is exposed to credit risk concentration on real estate, renting and business activities being 31.56% of the total loan portfolio.

Breakdown of loans as to secured and unsecured, and secured loans as to type of security (net of unamortized discount):

	2018	2017
Secured by real estate mortgage	₱ 252,680,967	₱ 249,617,011
Secured by chattel mortgage	13,770,774	7,142,375
Secured	266,451,741	256,759,386
Unsecured	122,042,930	66,803,024
	₱ 388,494,671	₱ 323,562,410

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10.01 Past Due Loans

Past due loans of a bank shall, as a general rule, refer to all accounts in its loan portfolio, all receivable components of trading account securities and other receivables, which are not paid at maturity.

Section 304 of the BSP Manual of Regulations for Banks, defined the classification of past due loans as follows:

As a general rule, loans, investments, receivables, or any financial asset, including restructured loans, shall be considered past due when any principal and/or interest or instalment due, or portions thereof, are not paid at their contractual date, in which case, the total outstanding balance thereof shall be considered past due.

Installment refers to principal and/or interest amortizations that are due on several dates as indicated in the loan documents. The allowance for loan losses is the estimated amount of losses in the Bank's loan portfolio, based on evaluation of the collectability of loans and prior loss experience

Any amounts set aside in respect of losses on loans and advances in addition to those losses that have been specifically identified or potential losses which experience indicates to be present in the portfolio of loans and advances are accounted for as appropriations from retained earnings. Any credits resulting from the reduction of such amounts result in an increase in retained earnings and are not included in the determination of net profit or loss for the period.

The allowance is increased by provisions charged to expenses and reduced by write-offs and reversals.

10.02 Non-Performing Loans

Breakdown of non-performing loans (based on BSP Circular 941) based on days outstanding are as follows:

	2018	2017
Past due accounts:		
Less than 30 days	₱ **2,640,353**	₱ –
30 – 60 days	**3,742,629**	1,902,729
61 – 90 days	**1,870,928**	1,514,737
91 – 180 days	**5,009,293**	3,357,090
Over 180 days	**9,795,739**	10,306,145
	₱ **23,058,942**	₱ 17,080,701

As of December 31, 2018 and 2017, non-performing loans (NPLs) not fully covered by allowance for credit losses are as follows:

	2018	2017
Total Non-performing loans	₱ **23,058,942**	₱ 17,080,701
Less: Non-performing loans covered by allowance for credit losses	**14,420,592**	10,679,512
	₱ **8,638,350**	₱ 6,401,189

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Information regarding the Bank's non-performing loans are as follows:

	2018	2017
Gross Non-performing loans	₱ **23,058,942**	₱ 17,080,701
Ratio of gross NPLs to gross TLP (%)	**5.93%**	5.28%
Net non-performing loans	₱ **8,638,350**	₱ 6,401,189
Ratio of net NPLs to gross TLP (%)	**2.22%**	1.98%
Ratio of total allowance for credit losses to gross NPLs (%)	**77.80%**	81.47%
Ratio of specific allowance for credit losses on gross TLP to gross NPLs (%)	**62.54%**	62.52%

Section 304 of the MORB defined non-performing loans (NPLs) as follows:

Loans, investments, receivables or any financial asset shall be considered non-performing, even without missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal hg interest is unlikely without foreclosure of collateral. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than 90 days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due.

Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

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11. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT – net

A reconciliation of the carrying amounts at the beginning and end of years 2018 and 2017, and the gross carrying amounts and accumulated depreciation of bank premises, furniture, fixtures and equipment are shown below.

2018	Land	Building	Leasehold rights and improvements	Furniture, Fixtures and Equipment	Transportation Equipment	Total
Cost:						
Balance, January 1	₱ 9,990,000	₱ 20,780,098	₱ 3,039,923	₱ 9,785,050	₱ 10,562,300	₱ 54,157,371
Additions	3,500,000	1,273,094	20,000	1,489,175	8,680	6,290,949
Balance, December 31	**13,490,000**	**22,053,192**	**3,059,923**	**11,274,225**	**10,570,980**	**60,448,320**
Accumulated depreciation:						
Balance, January 1	–	6,689,626	86,753	7,700,131	5,379,322	19,855,832
Depreciation (Note 25)	–	870,925	154,761	1,017,869	1,692,012	3,735,567
Balance, December 31	**–**	**7,560,551**	**241,514**	**8,718,000**	**7,071,334**	**23,591,399**
Carrying amount	**₱ 13,490,000**	**₱ 14,492,641**	**₱ 2,818,409**	**₱ 2,556,225**	**₱ 3,499,646**	**₱ 36,856,921**

2017	Land	Building	Leasehold rights and improvements	Furniture, Fixtures and Equipment	Transportation Equipment	Total
Cost:						
Balance, January 1	₱ 9,990,000	₱ 19,749,961	₱ –	₱ 8,004,543	₱ 7,724,995	₱ 45,469,499
Additions	–	1,030,137	3,039,923	1,780,507	3,457,050	9,307,617
Disposals	–	–	–	–	(619,745)	(619,745)
Balance, December 31	9,990,000	20,780,098	3,039,923	9,785,050	10,562,300	54,157,371
Accumulated depreciation:						
Balance, January 1	–	5,879,550	–	6,786,756	4,596,735	17,263,041
Depreciation (Note 25)	–	810,076	86,753	913,375	1,402,331	3,212,535
Disposals	–	–	–	–	(619,744)	(619,744)
Balance, December 31	–	6,689,626	86,753	7,700,131	5,379,322	19,855,832
Carrying amount	₱ 9,990,000	₱ 14,090,472	₱ 2,953,170	₱ 2,084,919	₱ 5,182,978	₱ 34,301,539

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Management believes that there are no indications of impairment in the value of its bank premises, furniture, fixtures and equipment as of December 31, 2018 and 2017. Acquisition of bank premises, furniture, fixtures and equipment for 2018 and 2017 are through cash.

Depreciation expenses amounting to ₱3,735,567 and ₱3,212,535 are presented as separate components of operating expenses under non-interest expenses in the statement of comprehensive income in 2018 and 2017, respectively, as disclosed in Note 25.

All additions were paid in cash.

In 2017, the Bank sold transportation equipment with carrying value amounting to ₱1 for a total consideration of ₱150,151 resulting to a gain on sale amounting to ₱150,150, as disclosed in Note 22.

No bank premises, furniture, fixture and equipment were used as collateral for liabilities as at December 31, 2018 and 2017.

As of December 31, 2018 and 2017, the Bank has no commitment to purchase bank premises, furniture, fixture and equipment.

12. INVESTMENT PROPERTIES – net

This account pertains to real properties, such as land, held by the bank for capital appreciation. The account also includes real properties foreclosed from delinquent borrowers which are held for sale.

Details of the Bank's investment properties are as follows:

2018	Land	Building	Others	Total
Cost:				
Balance, January 1	₱ 13,340,665	₱ 4,441,275	₱ 208,000	₱ 17,989,940
Additions	5,800,015	1,865,911	–	7,665,926
Disposals	(3,029,667)	(547,567)	–	(3,577,234)
Balance, December 31	**16,111,013**	**5,759,619**	**208,000**	**22,078,632**
Accumulated Depreciation:				
Balance, January 1	–	1,978,042	208,000	2,186,042
Depreciation expense (Note 25)	–	324,984	–	324,984
Disposal	–	(94,629)	–	(94,629)
Balance, December 31	**–**	**2,208,397**	**208,000**	**2,416,397**
Carrying amount	**₱ 16,111,013**	**₱ 3,551,222**	**₱ –**	**₱ 19,662,235**

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2017	Land	Building	Others	Total
Cost:				
Balance, January 1	₱ 13,415,400	₱ 4,535,288	₱ 208,000	₱ 18,158,688
Additions	1,531,016	645,246	–	2,176,262
Disposals	(1,605,751)	(739,259)	–	(2,345,010)
Balance, December 31	13,340,665	4,441,275	208,000	17,989,940
Accumulated Depreciation:				
Balance, January 1	–	1,851,780	208,000	2,059,780
Depreciation expense (Note 25)	–	281,983	–	281,983
Disposal	–	(155,721)	–	(155,721)
Balance, December 31	–	1,978,042	208,000	2,186,042
Impairment loss	(145,119)	–	–	(145,119)
Carrying amount	₱ 13,195,546	₱ 2,463,233	₱ –	₱ 15,658,779

In 2018, the Bank disposed certain investment properties with carrying amount of ₱2,755,457 for cash proceeds of ₱4,613,051, realizing a gain on sale of ₱1,857,594, as disclosed in Note 22. Also, certain investment properties with carrying amount of ₱727,148 were sold through sales contract receivable at selling price of ₱3,764,446 realizing a gain on sale of ₱3,037,298, as disclosed in Note 22. Out of the total selling price, ₱1,387,768 were collected in 2018.

In 2017, the Bank disposed certain investment properties with carrying amount of ₱1,171,600 for cash proceeds of ₱2,829,919, realizing a gain on sale of ₱1,658,319, as disclosed in Note 22. Also, certain investment properties with carrying amount of ₱1,017,690 were sold through sales contract receivable at selling price of ₱3,949,850 realizing a gain on sale of ₱2,932,160, as disclosed in Note 22. Out of the total selling price, ₱1,230,668 were collected in 2017.

The Bank carried out a review of the recoverable amounts of its investment properties. The Bank has determined that there is no indication that an impairment loss has occurred on its investment properties.

The property rental income earned by the Bank from its real and other properties acquired amounted to ₱797,342 and ₱698,791 for the years ended December 31, 2018 and 2017, respectively, as disclosed in Notes 22 and 27. All ROPA are accounted for as investment properties.

No amount of investment property of the Bank has been pledged to secure general banking facilities granted to the Bank.

The fair value of investment property as of December 31, 2018 and 2017 amounting to ₱75,934,374 and ₱65,431,246 respectively, is currently categorized within Level 2. In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. There has been no change to the valuation techniques used by the Bank during the year for its non-financial assets.

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13. OTHER ASSETS

The account consists of the following:

		2018		2017
Accounts receivable – net*	₱	**486,858**	₱	338,341
Stationary and supplies on hand		**94,083**		81,064
Prepaid expense		**56,686**		96,880
Petty cash fund		**11,000**		5,000
Returned checks and other cash items		**–**		242,550
Miscellaneous assets		**38,772**		38,770
	₱	**687,399**	₱	802,605

**net of allowance for credit losses amounting to ₱384,644 and ₱17,350 in 2018 and 2017, respectively.*

14. DEPOSIT LIABILITIES

This account consists of the following:

		2018		2017
Savings deposits	₱	**233,744,073**	₱	193,031,439
Demand deposits		**22,198,807**		19,377,411
Time certificate of deposits		**75,139,075**		61,624,594
	₱	**331,081,955**	₱	274,033,444

Savings earn annual interest rate of 0.75%. Time deposits earn annual interest rate of 2% to 5% in 2018 and 2017, respectively.

Total interest expense on deposit liabilities amounted to ₱3,566,739 and ₱3,291,663 for 2018 and 2017, respectively.

15. BILLS PAYABLE

Movements of the account are as follows:

		2018		2017
At January 1	₱	**15,000,000**	₱	3,011,000
Proceeds		**–**		15,000,000
Payments		**(2,189,000)**		(3,011,000)
At December 31	₱	**12,811,000**	₱	15,000,000

On December 31, 2017, the Bank availed rediscounting facilities of Land Bank of the Philippines at 5% per annum, the same interest rate given to the Bank in 2016.

As of December 31, 2018 and 2017 loans receivable with carrying amount of ₱12,811,000 and ₱15,000,000, respectively, were used as collateral for bills payable.

Interest expense on bills payable for the years ended December 31, 2018 and 2017 amounted to ₱427,226 and ₱97,940, respectively.

In Philippine Peso

16. DEPOSIT FOR FUTURE STOCKS SUBSCRIPTIONS

In 2016, the Bank received cash from stockholders which the Bank recognized as deposit for future stocks subscription under liabilities in the statement of financial position since, the requirements under paragraph 11 of PAS 32 and SEC Financial Reporting Bulletin no 6 – 2012, as amended, were not met for it to be recognized as equity. The balance of deposit for stocks subscription as of December 31, 2018 and 2017 amounted to ₱25,000,600.

17. ACCRUED AND OTHER LIABILITIES

Details of this account are disclosed below:

	Note		2018		2017
Accrued accumulating and vesting credit leaves		₱	**1,516,986**	₱	1,622,019
Accrued interest expense			**861,859**		793,007
Accounts payable			**658,209**		613,848
Dividends payable	21		**363,299**		305,420
Withholding tax payable			**137,495**		163,192
Government payables			**195,148**		160,357
Documentary stamp payable			**142,873**		90,936
Miscellaneous payable			**3,903,375**		2,315,670
Total		₱	**7,779,244**	₱	6,064,449

Accumulating and vesting credit leaves pertains to employees' unused leave credits convertible to cash.

Miscellaneous pertains to overpayment of loans, compromise, tax refund for separated employees, purchase of gift of time certificate which accounts are not yet opened by the benefactors, accrued taxes, and security deposit.

17.01 Movement in Accrued accumulating and vesting credit leaves

		2018		2017
At January 1	₱	**1,622,019**	₱	1,709,351
Payment		**(105,033)**		(87,332)
At December 31	₱	**1,516,986**	₱	1,622,019

In 2014, the Board of Directors (BOD) decided to discontinue the booking of monthly provision for retirement benefits by virtue of Board Resolution No. 2014-39. According to the Management, gratuity pay is not a mandatory retirement benefit but is subject to the discretion of BOD and is granted to employees with exemplary performance.

Miscellaneous payables pertains to overpayment of loans, compromise, tax refund for separated employees, purchase of gift of time certificate which accounts are not yet opened by the benefactors and security deposit.

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18. EMPLOYEE BENEFITS

Aggregate employee benefits expense comprised:

		2018		2017
Short-term benefits	₱	**18,514,975**	₱	12,329,725
Post-employment benefits		**1,203,927**		838,410
Total	₱	**19,718,902**	₱	13,168,135

18.01 Short-term Benefits

Short-term benefits comprise of the following:

		2018		2017
Salaries and wages	₱	**9,743,875**	₱	5,621,006
Bonus and incentives		**6,347,044**		4,503,360
SSS, PHIC, HDMF contributions		**1,276,056**		939,059
Directors' fees		**1,148,000**		1,266,300
Total	₱	**18,514,975**	₱	12,329,725

18.02 Post-employment Benefits

18.02.01 Defined Contribution Plan

The Bank operates defined contribution retirement benefit plans for all qualified employees. The plan assets are held separately from the Bank, under the control of trustees. Where employees leave the Bank prior to full vesting of the contributions, the contributions payable by the Bank are reduced by the amount of forfeited contributions. The only obligation of the Bank with respect to the retirement benefit plan is to make the specified contributions.

Members of the plan contribute to the fund 5% of their basic monthly salary while the Bank shall pay to the fund as its monthly contribution equal to 15% of each member's basic salary.

The total expense recognized in the profit or loss amounting to ₱1,203,927 and ₱838,410 in 2018 and 2017, respectively, as disclosed in Note 23, represents contributions payable to these plans by the Bank at rates specified in the rules of the plans, and is included in "compensation and fringe benefits" as disclosed in Note 23.

19. CAPITAL STOCK

19.01 Preferred Stock

Shown below are the details on preferred stock:

	2018			2017		
	Stocks		Amount	Stocks		Amount
Authorized capital at ₱100 par value	**3,018**	₱	**301,800**	3,018	₱	301,800

No preference shares were issued as of December 31, 2018 and 2017 Preferred share shall be issued only against government investment in the capital stock of the Bank.

Preferred shares shall share in divided distributions at two percent (2%) thereof without preference. The amount of any dividends payable to any holder of share may be applied to the repayments of the stockholders indebtedness to the Bank.

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19.02 Common Stock

Shown below are the details on the movement of common stock:

	2018		2017	
	Shares	**Amount**	Shares	Amount
Authorized capital at ₱100 par value	**996,982**	**₱ 99,698,200**	996,982	₱ 99,698,200
Issued and fully paid at ₱100 par value				
Balance, January 1	**996,982**	**99,698,200**	996,982	99,698,200
Balance, December 31	**996,982**	**₱ 99,698,200**	996,982	₱ 99,698,200

Ordinary shares carry one (1) vote per share and a right to dividends.

19.03 Capital Management

The primary objectives of the Bank's capital management are to ensure the ability of the Bank to have sufficient capital to underpin the Bank's risk taking activities, to continue as a going concern, to maintain a strong credit rating and quality capital adequacy ratios, to ensure compliance with BSP regulations and to provide reasonable returns and benefits to shareholders.

The Bank manages its capital structure, which composed of paid-up capital and surplus reserve, and makes adjustments to these ratios in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital structure or issue capital securities.

Under the current banking regulations, the qualifying capital accounts of the Bank should not be less than an amount equal to ten percent (10%) of its risk-weighted assets. The qualifying capital of the Bank for purposes of determining the capital-to-risk assets is total capital funds excluding:

(a) unbooked valuation reserves and other capital adjustments as may be required by the BSP;
(b) total outstanding unsecured credit accommodations to DOSRI;
(c) deferred tax asset;
(d) goodwill, if any;
(e) sinking fund for redemption of redeemable preferred stock; and
(f) other regulatory deductions.

Risk assets consists 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.

As of December 31, 2018 and 2017, the Bank is in compliance with the current banking regulation.

The regulatory capital is analysed into two tiers which are Tier 1 Capital plus Tier 2 Capital less allowable deductions from the total of Tier 1 and Tier 2 capital.

Tier 1 Capital and Tier 2 are defined as follows:

a. Tier 1 Capital includes the following:
   i. paid up common stock
   ii. deposit for common stock
   iii. surplus,
   iv. surplus reserves, and
   v. undivided profits (for domestic banks only).

   Subject to deductions for:
   i. deferred income tax.

b. Tier 2 Capital includes:
   i. general loan loss provision.

Under the existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's unimpaired capital regulatory capital reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRS in some respects.

Information regarding the Bank's "unimpaired capital" as of December 31, 2018 and 2017 is shown below.

		2018 In (000's)		2017 In (000's)
Tier 1 Capital	₱	**208,510**	₱	192,531
Tier 2 Capital		**3,518**		3,236
Gross qualifying capital		**212,028**		195,767
Total risk-weighted assets	₱	**504,309**	₱	489,334
Total capital ratio		**42.04%**		40.01%

20. SURPLUS

20.01 Surplus – Free

The table below shows the retained earnings free for the year:

		2018		2017
Retained earnings – free, beginning	₱	**72,440,252**	₱	59,286,233
Dividends declared (Note 21)		**(9,969,821)**		(9,969,821)
Profit		**27,607,994**		23,123,840
Balance, December 31	₱	**90,078,425**	₱	72,440,252

The Bank's retained earnings is not subject and is exempt from the provision of improperly accumulated earnings tax as provided under Section 29 of National Internal Revenue Code of the Philippines and as implemented by Revenue Regulation No. 02-2001, and Section 34 Republic Act No. 8791 requiring banks to maintain a specific minimum Capital Adequacy Ratio (CAR).

20.02 Surplus – Reserves

The surplus reserves pertain to reserve set aside by Bank for contingencies. For the years ended December 31, 2018 and 2017, there was no movement in surplus reserves. Total reserves amounted to ₱157,867 for both years.

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21. DIVIDENDS DECLARED

Under Section X136.5 of the MORB, the liability for dividends shall be taken up in the books upon receipt of BSP approval thereof, or if no approval is received, after thirty (30) business days from the date the required report on dividend declaration was received by the appropriate supervising and examining department of the BSP, whichever comes earlier.

On March 18, 2017, the Bank, through Board Resolution No.17-46, declared dividend amounting to ₱9,969,821, respectively, to be paid on April 5, 2017. The dividend declaration and payment was approved by the BSP on May 24, 2017.

On March 16, 2018, the Bank through Board Resolution No. 18-41 declared dividend amounting to ₱9,969,821, respectively, to be paid on April 16, 2018. The dividend declaration and payment was approved by the BSP on April 16, 2018.

Movements of dividends payable are as follows:

		2018		2017
Balance at January 1	₱	**305,420**	₱	247,540
Dividends declared		**9,969,821**		9,969,821
Dividends paid		**(9,911,942)**		(9,911,941)
Dividends payable, December 31	₱	**363,299**	₱	305,420

22. OTHER INCOME

This account consists of the following:

	Notes		**2018**		2017
Income from assets acquired	12	₱	**4,894,892**	₱	4,590,479
Service charges and fees			**1,842,602**		2,003,848
Recovery from charge off assets			**901,315**		534,315
Rental income	12		**797,342**		698,791
Gain from sale of transportation equipment	11		**-**		150,150
Miscellaneous income			**17,586,832**		9,632,613
		₱	**26,022,983**	₱	17,610,196

Miscellaneous income pertains to filling fees, income from sale of checkbooks, penalties for late payment of amortization, passed on GRT and other incidental income.

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23. OTHER EXPENSES

Details of other expenses are shown below:

	Notes	2018	2017
Compensation and fringe benefits	18	₱ **19,718,902**	₱ 13,168,135
Taxes and licenses		**5,151,257**	4,038,278
Depreciation	25	**4,060,551**	3,494,518
Security, clerical, messengerial and janitorial expense		**1,315,561**	3,063,950
Fuel and lubricants		**1,230,710**	753,493
Stationary and supplies used		**1,018,108**	672,828
Power light and water		**850,048**	669,504
Documentary stamp used		**583,900**	376,215
Insurance – PDIC		**570,555**	506,732
Repairs and maintenance expense		**487,068**	254,038
Management and other professional fees		**439,876**	464,780
Insurance – others		**433,717**	415,924
Litigation expense		**328,373**	499,208
Advertising and publicity		**300,540**	341,070
Postage, telephone, cable and telegrams		**293,604**	245,652
Representation and entertainment		**174,030**	171,196
Rentals	27	**160,000**	140,263
Traveling expense		**141,477**	176,943
Donation and charitable contributions		**129,283**	47,175
Supervision fees		**93,946**	80,722
Information technology expense		**26,114**	34,443
Fees and commission		**14,915**	15,790
Membership fees and dues		**13,040**	25,040
Loss on reversal of sale of investment properties		**–**	422,483
Miscellaneous expense		**1,357,166**	768,697
		₱ **38,892,741**	₱ 30,847,077

Miscellaneous expense pertain to expenses incurred in staff trainings, meetings and conferences, auxiliary collection fees, team building and other expenses.

Compensation and fringe benefits consists of:

	Note	2018	2017
Salaries and wages		₱ **9,743,875**	₱ 5,621,006
Other fringe benefits		**6,347,044**	4,503,360
Directors' fee		**1,148,000**	1,266,300
Government contributions		**1,276,056**	939,059
Contributions to retirement fund	18	**1,203,927**	838,410
		₱ **19,718,902**	₱ 13,168,135

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24. ALLOWANCE FOR CREDIT LOSSES

Allowance for credit losses is comprised of the following:

	2018	2017
Balance at January 1		
Loans and receivables (Note 10)	₱ 13,915,930	₱ 12,722,175
Sales contract receivables (Note 10)	185,113	185,113
Investment properties (Note 12)	145,119	145,119
Accounts receivable (Note 13)	17,350	17,350
	14,263,512	13,069,757
Provision		
Loans and receivables (Note 10)	7,028,544	1,691,692
Sales contract receivables	1,115,576	–
Accounts receivable	367,294	–
	8,511,414	1,691,692
Write off		
Loans and receivable (Note 10)	(3,005,654)	–
Reversal		
Loans and receivables	–	(497,937)
Investment properties (Note 12)	(145,119)	–
	(145,119)	(497,937)
Balance at December 31		
Loans and receivables (Note 10)	17,938,820	13,915,930
Sales contract receivables (Note 10)	1,300,689	185,113
Investment properties (Note 12)	–	145,119
Accounts receivable (Note 13)	384,644	17,350
	₱ 19,624,153	₱ 14,263,512

25. DEPRECIATION

	2018	2017
Depreciation expense		
Bank premises, furniture, fixtures and equipment (Note 11)	₱ 3,735,567	₱ 3,212,535
Investment properties (Note 12)	324,984	281,983
	₱ 4,060,551	₱ 3,494,518

26. INCOME TAX

Under Philippine tax laws, the bank is subject to percentage and other taxes (included in taxes and licenses in the comprehensive income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp tax. The bank's liability will be based on regulations to be issued by tax authorities.

Income taxes include the corporate income tax, discussed below, and final tax paid which represents the final withholding tax on gross interest income from government securities and other deposit substitutes. These income taxes, as well as the deferred tax benefits and provisions, are presented as provision for income tax in the statements of income.

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Under current tax regulations, the applicable income tax rate is thirty percent (30%). Interest allowed as a deductible expense is reduced by an amount equivalent to thirty three percent (33%) of interest income subjected to final tax. Also, entertainment, amusement and recreation (EAR) expense is limited to one percent (1%) of net revenues, as defined, for sellers of services beginning September 1, 2002. The current regulations also provide for MCIT of 2% on modified gross income and allow a three year NOLCO. Any excess of the MCIT over the regular income tax is deferred and can be used as a tax credit against future income tax liability while NOLCO can be applied against taxable income, both in the next three years from the year of occurrence.

The Bank's liability for income tax is based on existing tax laws and BIR regulations. However, income tax expense as shown on the statement of position comprehensive income is determined under the provision of PAS 12 *Income Taxes*. Under PAS 12, income tax expense is the sum of current tax expense computed under tax laws and deferred tax expense determined through the use of balance sheet liability method.

Deferred tax expense is the sum of changes in deferred tax asset and deferred tax liability. The balance sheet liability method focuses on temporary differences. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the statement of financial position. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

26.01 Income Tax Recognized in Profit

Components of income tax expense are as follows:

	2018	2017
Income tax expense – current	₱ **12,958,842**	₱ 9,884,778
Income tax expense (benefit) – deferred	**(1,576,682)**	(331,927)
	₱ **11,382,160**	₱ 9,552,851

A numerical reconciliation between tax expense and the product of accounting profit multiplied by the tax rate in 2018 and 2017 is as follows:

	2018	2017
Accounting profit	₱ **38,990,154**	₱ 32,676,691
Tax expense at 30%	**11,697,046**	9,803,007
Tax effect of income that is subject to lower rate:		
Interest income subject to final tax	**(535,976)**	(425,798)
Disallowed interest expense	**221,090**	175,642
	₱ **11,382,160**	₱ 9,552,851

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26.02 Deferred Tax Assets

The Bank's deferred tax assets (DTA) as of December 31, 2018 and 2017 are as follows:

	Allowance for Credit Losses	Accrued Credit Leaves	Total
Balance, January 1, 2017	₱ 3,920,927	₱ 512,806	₱ 4,433,733
Origination	507,508	–	507,508
Reversal	(149,381)	(26,200)	(175,581)
Balance, December 31, 2017	4,279,054	486,606	4,765,660
Origination	2,553,424	–	2,553,424
Reversal	(945,232)	(31,510)	(976,742)
Balance, December 31, 2018	**₱ 5,887,246**	**₱ 455,096**	**₱ 6,342,342**

The Management believes that it is highly probable they will generate taxable profit to allow all deferred tax assets to be utilized.

27. OPERATING LEASE COMMITMENTS

27.01 The Bank as a Lessee

On June 1, 2016, the Bank entered into another agreement with Mr. Jonathan Paul J. Villanueva, with a lease term of six (6) months ending on December 31, 2016, renewable upon mutual agreement of both parties. Monthly rental amounted to ₱5,000, net of tax, with a deposit of equivalent to one (1) monthly rental.

The Bank leases a commercial space from Mr. Hector Tupasi, which is automatically renewed every year.

Rent expense in the statements of comprehensive income amounted to ₱160,000 and ₱140,263 in 2018 and 2017, respectively, as disclosed in Note 23.

The Bank had outstanding commitments for future minimum lease payments under non-cancelable operating leases, which fall due not later than a year, amounted to ₱60,000 in 2018 and 2017, respectively.

27.02 The Bank as a Lessor

Operating leases relate to ROPA of the Bank with average lease term of five (5) years.

In 2014, the Bank entered into agreement with Cebu Oven Magic Corporation (Julie's Bakeshop) to lease out a commercial building located at Gadang Street Nueva Vizcaya (MBO SOLANO), for a lease term of five (5) years commencing on November 2, 2014 and expiring on November 2, 2019. Monthly rentals for the lease of unit amounts to ₱24,000, net of withholding tax, with eight percent (8%) escalation rate in the second year of the lease period.

The property rental income earned, by the Bank from its investment property, all of which is leased out under operating leases, amounted to ₱797,342 and ₱698,791 for the years ended 2018 and 2017, respectively, as disclosed in Notes 12 and 22.

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

	2018	2017
Not later than one year	₱ **444,324**	₱ 423,166
Later than one year but not later than five years	**548,424**	457,020
	₱ **992,748**	₱ 880,186

28. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has loans and other transactions with certain directors, officers, stakeholders and related interests (DOSRI). Under the Bank's policy, these loans and other transactions are made substantially on the terms as with other individuals and businesses of comparable risks. The General Banking Act and BSP regulations limit the amount of the loans to each DOSRI as follows:

a. The individual ceiling for credit accommodations of a bank to each of its directors, officers and related interests shall be equivalent to his outstanding deposits and book value of his paid-in capital in the lending bank. The unsecured credit accommodations to each of the Bank's directors and officers shall not exceed 30% of his total credit accommodations.
b. The aggregate ceiling for credit accommodations, whether direct or indirect, to directors and officers of a bank shall not exceed 15% of the total loan portfolio of the Bank or its combined capital accounts net of deferred income tax, unbooked valuation reserves and other capital adjustments required by the BSP, whichever is lower. The total unsecured direct and indirect borrowings of directors and officers shall not exceed 30% of the aggregate ceiling or the outstanding direct/indirect credit accommodations thereto, whichever is lower.

As of December 31, 2018 and 2017, the Bank has no DOSRI loans.

28.01 Remuneration of Key Management Personnel

The key management compensation amounted to ₱4,774,631 and ₱3,219,878 for the years ended December 31, 2018 and 2017, respectively, and are shown as part of salaries and wages under compensation and fringe benefit.

29. BASIC QUANTITATIVE INDICATORS OF FINANCIAL PERFORMANCE

The key financial performance indicators of the Bank are shown below (in %):

	2018	2017
Return on average equity	**14.80%**	13.79%
Return on average assets	**5.20%**	5.12%
Net interest margin	**13.34%**	9.51%
Capital adequacy ratio	**42.04%**	40.01%

30. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

In the normal course of the Bank's operations, there are various outstanding commitments to extend credit, which are not reflected in the Banking financial statements. Management does not anticipate material losses from these commitments.

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The Bank filed several legal actions against loan borrowers who defaulted in payment on their outstanding loan balance. Management believes that those actions will yield positive result in favor of the Bank and does not anticipate material losses. Estimated value to be collected amounts to ₱4,718,373 as of December 31, 2018 and 2017.

31. EVENTS AFTER THE REPORTING DATE

The Bank identifies events after the reporting date as events that occurred after the reporting date but before the date the financial statements were authorized for issue. Any event that provides additional information about the Bank's financial position at the reporting date is reflected in the financial statements. Non-adjusting events are disclosed in the notes to the financial statements when material.

32. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements for the year ended December 31, 2018 was approved and authorized for issue by the Board of Directors (BOD) on April 13, 2018

33. SUPPLEMENTARY INFORMATION UNDER REVENUE REGULATIONS 15 – 2010

Revenue Regulations (RR) No. 21 – 2002 prescribing additional procedural and/or documentary requirements in connection with the preparation and submission of financial statements accompanying income tax returns was amended under RR 15 – 2010. The amendment that became effective on December 28, 2010 requires the inclusion in the notes to financial statements, information on taxes and license fees paid or accrued during the year in addition to what is required under the Philippine Financial Reporting Standards and such other standards and/or conventions.

Below are the additional information required by RR 15 – 2010. This information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

33.01 Gross Receipts Tax

	2018	2017
Gross receipts tax paid	₱ **3,446,564**	₱ 3,178,134
Gross receipts tax payable	**1,286,308**	379,852
	₱ **4,732,872**	₱ 3,557,986

33.02 All Other National and Local Taxes

All other local and national taxes paid by the Bank and presented as part of operating expenses for the periods ended December 31, 2018 and 2017 consist of:

	2018	2017
National tax:		
Percentage tax	₱ **4,732,872**	₱ 3,557,986
Local taxes:		
Business permit and other fees	**414,465**	356,269
BIR permit	**3,920**	3,918
	₱ **5,151,257**	₱ 3,918,173

In Philippine Peso

33.03 Withholding Taxes

Withholding taxes paid or accrued for the years ended December 31, 2018 and 2017 consist of:

		Paid		Accrued		Total
2018						
Withholding tax on compensation	₱	525,441	₱	20,154	₱	545,595
Final withholding tax		413,695		98,914		512,609
Expanded withholding tax		103,674		18,427		122,101
	₱	**1,042,810**	**₱**	**137,495**	**₱**	**1,180,305**

		Paid		Accrued		Total
2017						
Expanded withholding tax	₱	692,682	₱	57,631	₱	750,313
Withholding tax on compensation		382,563		81,407		463,970
Final withholding tax		266,560		24,153		290,713
	₱	1,341,805	₱	163,191	₱	1,504,996

33.04 Tax Assessments

The Bank has no outstanding tax assessments as of December 31, 2018 and 2017.

33.05 Tax Cases

The Bank has no outstanding tax cases in any other court or bodies outside of the BIR as of December 31, 2018 and 2017.

34. SUPPLEMENTARY INFORMATION UNDER REVENUE REGULATIONS 19 – 2011

RR No. 19 – 2011 that prescribes the use of new income tax forms starting with calendar year 2013 became effective on December 9, 2012. Companies are now required to include, as part of the notes to the financial statements, the schedules and information on taxable income and deductions.

Below are the additional information required by RR 19 – 2011. This information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

34.01 Interest Income

The breakdown of the Bank's interest income consists of:

		Financial Statement		Income Tax Return
Loans receivable	₱	62,578,705	₱	62,578,705
Deposits with other banks		916,991		–
Investment securities at amortized cost		869,595		–
	₱	**64,365,291**	**₱**	**62,578,705**

34.02 Cost of Service

The breakdown of the Bank's cost of service consists of:

		Financial Statement		Income Tax Return
Interest expense	**₱**	**3,993,965**	**₱**	**3,256,998**

In Philippine Peso

34.03 Other Operating Income

Details of other operating income of Bank for 2018 are as follows:

		Financial Statement		Income Tax Return
Income from asset acquired	₱	4,894,892	₱	4,894,892
Service charges and fees		1,842,602		1,842,602
Recovery from charge off assets		901,315		901,315
Rental income		797,342		797,342
Miscellaneous income		17,586,832		17,586,832
	₱	**26,022,983**	₱	**26,022,983**

34.04 Operating Expenses

Details of operating expenses for 2018 are as follows:

		Financial Statement		Income Tax Return
Compensation and fringe benefits	₱	19,718,902	₱	19,718,902
Taxes and licenses		5,151,257		5,151,257
Depreciation and amortization		4,060,551		4,060,551
Security, clerical, messengerial and janitorial expense		1,315,561		1,315,561
Fuel and lubricants		1,230,710		1,230,710
Stationery and supplies used		1,018,108		1,018,108
Power light and water		850,048		850,048
Documentary stamp used		583,900		583,900
Insurance – PDIC		570,555		570,555
Repairs and maintenance expense		487,068		487,068
Management and other professional fees		439,876		439,876
Insurance – others		433,717		433,717
Litigation expense		328,373		328,373
Advertising and publicity		300,540		300,540
Postage, telephone, cable and telegrams		293,604		293,604
Representation and entertainment		174,030		174,030
Rentals		160,000		160,000
Traveling expense		141,477		141,477
Donation and charitable contributions		129,283		129,283
Supervision fees		93,946		93,946
Information technology expense		26,114		26,114
Fees and commission		14,915		14,915
Membership fees and dues		13,040		13,040
Miscellaneous expense		1,357,167		1,357,167
		38,892,742		38,892,742
Provision for credit losses		8,511,413		–
Reversal of allowance for credit losses of loans transferred to ROPA		–		1,508,034
Write-off of credit losses		–		1,497,621
Reversal of allowance or credit losses – ROPA		–		145,119
Payment of accumulating vesting leave		–		105,033
	₱	**47,404,155**	₱	**42,148,549**

Alas Oplas & Co., CPAs

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Independent Member of
BKR International

INDEPENDENT AUDITORS' REPORT

To the Stockholders and the Board of Directors
RURAL BANK OF SOLANO (NUEVA VIZCAYA), INC.
Maharlika Highway, Poblacion South,
Solano, Nueva Vizcaya

We have audited in accordance with Philippine Standards on Auditing, the financial statements of **RURAL BANK OF SOLANO (NUEVA VIZCAYA), INC.** as of and for the year ended December 31, 2018 and have issued our report thereon dated April 13, 2019. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole.

The accompanying list of effective standards and interpretations under Philippines Financial Reporting Standards as of December 31, 2018 is the responsibility of the Bank's management. This schedule is presented for the purpose of complying with the requirements of the Securities Regulation Code Rule 68, As Amended (2011) and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, fairly states in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

ALAS, OPLAS & CO., CPAs
BOA Registration No. 0190, valid from January 1, 2017 to December 31, 2019
SEC A.N. (Firm) 0321-FR-1, issued on February 7, 2019; effective until February 6, 2022
TIN 002-013-406-000
BIR A.N. 08-001026-000-2018, issued on January 25, 2018; effective until January 24, 2021

By:

Ma. Criselda S. Oplas

MA. CRISELDA S. OPLAS
Partner
CPA License No. 0063314
SEC A.N. (Individual) 1565-A, issued on June 8, 2016; effective until June 8, 2019
TIN 132-466-039-000
BIR A.N. 08-001026-002-2018, issued on January 25, 2018; effective until January 24, 2021
PTR No. 7333596, issued on January 3, 2019, Makati City

April 13, 2019
Makati City, Philippines

SUPPLEMENTARY SCHEDULE OF ALL THE EFFECTIVE STANDARDS AND INTERPRETATIONS

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Financial Reporting Standards				
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards			✔
PFRS 2	Share-based Payment			✔
	Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions			✔
PFRS 3	Business Combinations			✔
PFRS 4	Insurance Contracts			✔
	Amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts			✔
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✔
PFRS 6	Exploration for and Evaluation of Mineral Resources			✔
PFRS 7	Financial Instruments: Disclosures	✔		
PFRS 8	Operating Segments			✔
PFRS 9	Financial Instruments	✔		
PFRS 10	Consolidated Financial Statements			✔
PFRS 11	Joint Arrangements			✔
PFRS 12	Disclosure of Interests in Other Entities			✔
PFRS 13	Fair Value Measurement	✔		
PFRS 14	Regulatory Deferral Accounts			✔
PFRS 15	Revenue from Contracts with Customers	✔		
Philippine Accounting Standards				
PAS 1	Presentation of Financial Statements	✔		
PAS 2	Inventories			✔
PAS 7	Statement of Cash Flows	✔		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✔		
PAS 10	Events after the Reporting Period	✔		
PAS 12	Income Taxes	✔		
PAS 16	Property, Plant and Equipment	✔		
PAS 17	Leases		✔	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 19	Employee Benefits		✔	
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✔
PAS 21	The Effects of Changes in Foreign Exchange Rates			✔
PAS 23	Borrowing Costs			✔
PAS 24	Related Party Disclosures	✔		
PAS 26	Accounting and Reporting by Retirement Benefit Plans		✔	
PAS 27	Separate Financial Statements			✔
PAS 28	Investments in Associates and Joint Ventures			✔
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)			✔
PAS 29	Financial Reporting in Hyperinflationary Economies			✔
PAS 32	Financial Instruments: Presentation	✔		
PAS 33	Earnings per Share	✔		
PAS 34	Interim Financial Reporting			✔
PAS 36	Impairment of Assets	✔		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✔		
PAS 38	Intangible Assets	✔		
PAS 39	Financial Instruments: Recognition and Measurement	✔		
PAS 40	Investment Property	✔		
	Amendments to PAS 40, Transfers of Investment Property	✔		
PAS 41	Agriculture			✔
Philippine Interpretations				
Philippine Interpretation IFRIC-1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✔
Philippine Interpretation IFRIC-2	Members' Shares in Co-operative Entities and Similar Instruments			✔
Philippine Interpretation IFRIC-4	Determining whether an Arrangement contains a Lease			✔

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Interpretation IFRIC-5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✔
Philippine Interpretation IFRIC-6	Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment			✔
Philippine Interpretation IFRIC-7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✔
Philippine Interpretation IFRIC-10	Interim Financial Reporting and Impairment			✔
Philippine Interpretation IFRIC-12	Service Concession Arrangements			✔
Philippine Interpretation IFRIC-14	PAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction		✔	
Philippine Interpretation IFRIC-16	Hedges of a Net Investment in a Foreign Operation			✔
Philippine Interpretation IFRIC-17	Distributions of Non-cash Assets to Owners		✔	
Philippine Interpretation IFRIC-19	Extinguishing Financial Liabilities with Equity Instruments			✔
Philippine Interpretation IFRIC-20	Stripping Costs in the Production Phase of a Surface Mine			✔
Philippine Interpretation IFRIC-21	Levies			✔
Philippine Interpretation IFRIC-22	Foreign Currency Transactions and Advance Consideration			✔
Philippine Interpretation SIC-7	Introduction of the Euro			✔
Philippine Interpretation SIC-10	Government Assistance—No Specific Relation to Operating Activities			✔
Philippine Interpretation	Operating Leases—Incentives	✔		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
SIC-15				
Philippine Interpretation SIC-25	Income Taxes—Changes in the Tax Status of an Entity or its Shareholders	✔		
Philippine Interpretation SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✔		
Philippine Interpretation SIC-29	Service Concession Arrangements: Disclosures			✔
Philippine Interpretation SIC-32	Intangible Assets—Web Site Costs			✔

BANK WEBSITE: www@rbsolano.com

LIST OF BANKING UNITS

BRANCHES	ADDRESS	CONTACT NUMBER
RBS HEAD OFFICE	Maharlika Highway, Poblacion South Solano, NV	(078)326-5172/5509
		GLOBE 0917-843-0035
		SMART 0908-862-5144
BAGABAG BRANCH	San Pedro, Bagabag, Nueva Vizcaya	(078) 332-2192
BAMBANG BRANCH	Bernabe Valley Homes Subd., Bambang, NV	(078) 431-3401
BAYOMBONG BRANCH	Don Tomas Maddela, Bayombong, NV	(078)321-2109
BLU- Solano	Gaddang St., Poblacion South, Solano, NV	(078) 326-6970