

1. Corporate Policy

a. Bank's Vision and Mission Statements

- **Corporate Mission**

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

- **Corporate Vision**

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

b. Introduction of the Bank's Brand

Bangko Mabuhay (A Rural Bank), Inc. is a private, stock corporation engaged in the business of rural banking. It provides the public with financial services such as loans, deposit, bills payment and remittance. Originally incorporated in 1972 bearing the name “Rural Bank of Tanza (Cavite), Inc.”, the Bank started as a one unit bank in Tanza, Cavite until it established three (3) branches within the Province of Cavite in the mid-90s, at the same time, adopted its business name “Bangko Mabuhay”.

In 2013, the Monetary Board of the Bangko Sentral ng Pilipinas (BSP) approved the agreement of consolidation between the Bank and Rural Bank of Teresa (Rizal) Inc. (RB Teresa) to create a new consolidated bank to be known as Bangko Mabuhay (A Rural Bank), Inc. The Securities and Exchange Commission (SEC) approved the registration of consolidation in January, 2015. On March 23, 2015, the BSP granted the authority to operate the consolidated bank which commenced operation on April 1, 2015.

In line with the Bank's strategic plan to expand its branch network, the Bank acquired Rural Bank of Mendez, Inc. thru the Purchase of all its assets and Assumption of all liabilities (P&A) in 2016. With over 60 thousand customer accounts and twelve (12) business locations in the Provinces of Cavite, Rizal and Occidental Mindoro, the Bank offers a wide array of retail banking services – deposit products including checking and savings deposit, time deposit and Automated Teller Machine (ATM) accounts; loans such as microfinance, consumer, and real estate mortgage loans; and other services namely bill payment and remittance service.

c. Business model of the Bank

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

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

2. Financial Summary/ Financial Highlights

	2018	2017	Increase (Decrease)	%
Profitability				
Total Net Interest Income	109,360,638	109,749,106	(388,468)	-0.35
Total Non-Interest Income	53,407,219	51,680,632	1,726,587	3.34
Total Non-interest expense	128,663,666	123,266,736	5,396,930	4.38
Pre-provision profit	34,104,191	38,163,002	(4,058,811)	-10.64
Provision for Credit Losses	5,019,759	6,963,856	(1,944,097)	-27.92
Net Income	24,471,698	24,304,896	166,802	0.69
Selected Balance Sheet Data				
Liquid Assets	1,178,175,335	988,730,749	189,444,586	19.16
Gross Loans	517,590,643	519,218,886	(1,628,243)	-0.31
Total Assets	1,867,141,452	1,674,841,485	192,299,967	11.48
Deposits	1,521,156,286	1,360,678,227	160,478,059	11.79
Total Stockholders' Equity	292,838,708	268,367,009	24,471,699	9.12
Selected Ratios				
Return on equity	8.53%	9.23%	(0.7%)	-7.58
Return on assets	1.38%	1.51%	(0.13%)	-8.61
Past Due Ratio	28.43%	19.41%	9.02%	46.47
Capital Adequacy Ratio	17.69%	17.50%	0.19%	1.09
Headcount				
Officers	19	19	-	-
Staff	165	156	9	5.77

3. Financial Condition and Results of Operation

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

The Bank's total assets rose 11.48% to P 1.867 Billion, while deposits increased by 11.79% to P1.521 Billion. Stockholders' Equity grew by 9.12% to P 293 Million. On the other hand, loan portfolio dropped

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0.31% to P 517 Million. Past Due ratio stood at 28.43% in 2018 and 19.41% in 2017, still higher than industry level.

Net interest income slightly slid 0.35% to P 109 Million, while non-interest income rose 3.34% to P 53 Million. Non-interest expense increased 4.38% to P 129 Million. However, net income slightly increased 0.69% to P 24.5 Million.

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

in September, 2018, a new branchlite was opened at Josephine Village, Brgy. Luksuhin, Silang, Cavite to cater microfinance customers in the area, which brought the number of branchlite units operating by year-end to three (3).

c. Major strategic initiatives of the bank

The Bank, with its expansion of operation through consolidation and acquisition of other rural banks in 2015 and 2016, respectively, increased its branch network from four to eight branches. In 2017, the Bank, through the approval of the Board, embarked to migrate its Core Banking System from decentralized to centralized one. In December 2017, the said migration of system was first implemented at Head Office and was expected to be completed within the First Semester of 2019.

MB Philippines, Inc. (MBPHIL), the bank's Core Banking System provider for more than 20 years, had developed MBPHIL EXPRESS-O which would replace the existing system and was designed to centrally manage all banking operations at the Head office of the bank for speedy, efficient, and accurate processing of banking transactions.

d. Challenges, opportunities, and responses during the year, if any

In order to push the banking industry towards full adoption of EMV technology at a much faster pace, the BSP had given its supervised financial institutions until 30 June 2018 to fully comply with the EMV requirement. Failure to do so, will subject BSP Supervised Financial Institutions (BSFIs) to monetary sanctions provided under relevant provisions of BSP Regulations. In view thereof, the Bank was able to comply with full implementation of EMV technology as of June 30, 2018. As of December 31, 2018, the number of the Bank's ATM cardholders is 1,219.

4. Risk Management Framework Adopted

The Bank's risk management framework, aligned with BSP Circular No. 971 series of 2017, seeks to ensure that there is an effective process in place to manage risk across the Bank. The Risk Management program is driven by a formal approach and aligned with the organization's profile and strategic objectives, through formalizing roles within the organization, active committees, policies and procedures, reporting, communication, and technology. This program also produces various risk mitigation activities within the business units. The resulting strategic, financial, and operational risk mitigation activities are implemented to: 1) strengthen the organization; 2) reduce the potential for unexpected losses; and 3) manage the volatility experienced by the Bank.

a. Overall risk management culture and philosophy

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

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

- i. The Bank is in the business of business of taking risks and therefore, risk must be managed and controlled if it is measured consistently and accurately.
- ii. The Bank recognizes that an effective risk management system is a critical component of bank management and a foundation for its safe and sound operation.
- iii. The Risk Management process is a top-down process and shall continually operate at all levels within the Bank. It is important to emphasize that each individual within the Bank has a role and must participate in the process.
- iv. The Bank shall promote a culture of risk awareness aligned on the expectations of Bank's regulatory supervisors.
- v. All bank's activities shall be in accordance with applicable legal and regulatory provisions of the Philippines as well as to the Bank's internal policies and procedures.
- vi. Policies and practices that generate incentives for inappropriate actions shall be avoided. These include, but are not limited to overemphasis on short term performance results that ignore long term risks, ineffective segregation of duties that allow misuse of assets or concealment of poor results, etc.
- vii. It is the Bank's firm policy that liquidity will never be compromised for profitability.

b. Risk appetite and strategy

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

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

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

- i. **Strategic Risks.** The Bank aspires to be among the country's top twenty rural bank measured by asset size. This requires on-going development and innovation in its operations through strategic plan. The Bank has a low appetite for threats to the effective and efficient delivery of its strategic plan. It recognizes that the actual or perceived inability to deliver strategic plan could have a significant impact on its ability to achieve its objectives as well as its reputation. The Bank's Board meets regularly to discuss actual performance vis-à-vis plan. A framework is in place to ensure the Bank's strategic plan is managed and reported on a consistent basis.

- ii. **Liquidity Risks.** The Bank has a very low appetite for liquidity risks because these have significant impact on the Bank's reputation.
- iii. **Credit Risk.** The Bank has a low appetite for credit risks. Risk tolerances for the Bank's credit activities are approved by the Board. Performance against these measures is monitored and reported to the Board and Senior Management on a monthly basis.
- iv. **People and Culture Risks.** The Bank's significant people and culture-related risks include the following:
 - **Calibre of People** – The Bank relies on motivated and high quality staff to perform its functions. It aims to create an environment where employees are empowered to the full extent of their abilities. The appetite for losses to the value of the Bank's collective competencies, knowledge and skills is very low.
 - **Conduct of People** – The Bank expects employees to conduct themselves with a high degree of integrity, to strive for excellence in the work they perform and the outcomes they achieve, and to promote the public interest. The appetite for behaviors which do not meet these standards is very low. The Bank takes very seriously any breaches of its Code of Conduct.
 - **Work Health & Safety (WHS)** – The Bank aims to create a safe working environment for all its staff, where people are protected from physical or psychological harm. It has a very low appetite for practices or behaviors that lead to staff being harmed while at work.
- v. **Operational Risks.** The Bank's appetite for specific operational risks is detailed below. Risks are carefully analyzed in all the Bank's operational activities, including to ensure that the benefit of the risk control measures exceeds the costs of these measures.
 - (i) **Information Technology Information Technology (IT)** risks cover both daily operations and on-going enhancements to the Bank's IT systems. These include:
 - **Processing** – Prolonged outage of the Bank's Core System: The Bank has a very low appetite for risks to the availability of systems which support its critical business functions including those which relate to inter-bank settlements, banking operations and financial markets operations. Maximum recovery times have been identified and agreed with each business area.
 - **Information Security** – Cyber-attack on Bank's systems or networks: The Bank has a very low appetite for threats to Bank assets arising from external malicious attacks. To address this risk, the Bank aims for strong internal control processes and the development of robust technology solutions.
 - **On-going Development** - The implementation of new technologies creates new opportunities, but also new risks. The Bank has a low appetite for IT system-related incidents which are generated by poor change management practices.
 - (ii) **Fraud and Corruption.** The Bank has no appetite for any fraud or corruption perpetrated by its staff. The Bank takes all allegations of suspected fraud or corruption very seriously and responds fully and fairly as set out in the Code of Conduct.
 - (iii) **Physical Security.** The Bank strives to provide a highly-secure environment for its people and assets by ensuring its physical security measures meet high standards. The Bank has a very low appetite for the failure of physical security measure.

(iv) Compliance. The Bank is committed to a high level of compliance with relevant law, regulation, industry codes and standards as well as internal policies and sound corporate governance principles. Identified breaches of compliance will be remedied as soon as practicable. The Bank has no appetite for deliberate or purposeful violations of law or regulatory requirements.

(v) Information Management. The Bank is committed to ensuring that its information is authentic, appropriately classified, properly conserved and managed in accordance with regulatory and business requirements. It has a very low appetite for the compromise of processes governing the use of information, its management and publication. The Bank has no appetite for the deliberate misuse of its information.

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

The Bank's risk management framework, aligned with BSP Circular No. 971 series of 2017, seeks to ensure that there is an effective process in place to manage risk across the Bank. Risk management is integral to all aspects of the Bank's activities and is the responsibility of all staff. Managers have a particular responsibility to evaluate their risk environment, to put in place appropriate controls and to monitor the effectiveness of those controls. The risk management culture emphasizes careful analysis and management of risk in all business processes.

Risks are identified, assessed and managed at both an enterprise level ('top-down') and business level ('bottom-up'). The Risk Management Committee, which is chaired by a non-executive director, has oversight of these processes. This Committee meets at least once a month and provides a report on its activities to the Executive/ Credit Committee and the Audit Committee, and as well as the Board of Directors.

d. Money Laundering and Terrorist Financing Prevention Program

The Money Laundering and Terrorist Financing Prevention Program (MTPP) of the Bank, through its governing principles and standards, is primarily designed to protect the Bank, its employees, products, services and operations from being used for money laundering (ML) and terrorist financing (TF) purposes. The MTPP is updated to adopt new rules and regulations.

The Bank is committed to develop and implement an effective money laundering and terrorist financing prevention program, take appropriate action on detected or potential suspicious activity, comply with applicable anti-money laundering laws and regulations, and promote AML awareness among its employees.

5. Corporate Governance

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

a. Overall corporate governance structure and practices

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

The Board of Directors is composed of 11 members. The Board is assisted in its governance function by four (4) Board Committees such as 1) Executive/Credit; 2) Audit; 3) Corporate Governance; and 4) Risk Management. All board committees report regularly to the BOD on their activities as follows:

- **Executive/ Credit Committee**

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

- **Audit Committee**

The Audit Committee is tasked primarily with assisting the Board in fulfilling its oversight responsibilities. The Committee reviews the Bank's financial information, its systems of internal controls and risk management, the audit process, and compliance with significant applicable legal, ethical and regulatory requirements. It monitors the Bank's compliance with approved internal policies and controls, as well as statutory regulations, emphasizing an accounting system that is compliance with prescribed Accounting Standards. The Committee facilitates free and open communication among Management, Compliance, Risk Management, Internal Audit, the external auditors, BSP examiners and the Committee. It enjoys sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of audit reports, and appropriate action on audit recommendations. It is also empowered, among others, to appoint, compensate and oversee external audit engagements, review and comment on internal and external audit reports; and resolve financial reporting disputes between management and the auditor.

- **Corporate Governance Committee**

The Corporate Governance Committee assists the Board of Directors in fulfilling its corporate governance responsibilities. It reviews and evaluates the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board of Directors. The committee is responsible for ensuring the Board's effectiveness and due observance of corporate governance principles and guidelines. It oversees the periodic performance evaluation of the board and its committees and executive management; and also conducts an annual self-evaluation of its performance. The corporate governance committee decides whether or not a director is able to and has been adequately carrying out his/her duties as director based on its own assessment or the assessment of external facilitators, bearing in mind the director's contribution and performance (e.g. competence, candor, attendance, preparedness and participation).

- **Risk Management Committee**

Risk Management Committee is responsible for the development and oversight of the bank's risk management program. The members of the risk oversight committee must possess a range of expertise as well as adequate knowledge of bank's risk exposures to be able to develop appropriate strategies for preventing losses and minimizing the impact of losses when they occur. It oversees the system of limits to discretionary authority that the Board delegates to management, ensures that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached. The risk oversight committee has access to external expert advice, particularly in relation to proposed strategic transactions, such as mergers and acquisitions.

b. Selection process for the Board and Senior Management

The Board recognizes that its Members as well as the Senior Management must have the appropriate skill set, as well as the necessary experience and commitment, to effectively contribute towards the growth of the Bank. The Directors and Senior Management are expected to remain fit and proper for the duration of their terms. They should possess unquestionable credibility to make decisions objectively and resist undue influence. The Directors treat board directorship as a profession and have a clear understanding of their duties and responsibilities as well as their role in promoting good governance.

c. Board's Over-All Responsibility

The Board of Directors, composed of eleven (11) directors, is primarily responsible for defining the Bank's vision and mission. The Board has the fiduciary responsibility to the Bank and all its shareholders including minority shareholders. It approves and oversees the implementation of strategies to achieve corporate objectives. It likewise approves and oversees the implementation of the risk governance framework, the systems of checks and balances, establishment of a sound corporate governance framework. The Board of Directors approves the selection of the Chief Executive Officer and key members of Senior Management and control functions and oversees their performance.

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

The President & General Manager is an executive director who is responsible in the general supervision, administration and management of the Bank. There are ten (10) non-executive directors who are responsible for oversight function on the business and affairs of the Bank, and one (1) of whom is an independent director. To meet the criteria of independence, an independent director is not involved in the day-to-day management of the Bank, does not participate in any of its business dealings, and is not an owner of more than 2% of the outstanding shares, among others.

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

- effective functioning of the board of directors, including maintaining a relationship of trust with members of the board of directors;
- Overseeing the meeting agenda focuses on strategic matters including discussion on risk appetites, and key governance concerns;
- Ensuring a sound decision making process;
- Encouraging and promoting critical discussion to ensure that dissenting views can be expressed and discussed within the decision-making process;
- Ensuring members of the board of directors receives accurate, timely, and relevant information;
- Ensuring the conduct of proper orientation for first time directors and provides training opportunities for all directors; and
- Ensuring conduct of performance evaluation of the board of directors at least once a year.

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e. Board composition

Name of Director	Type of directorship	No. of years served as director	Number shares held	Percentage of ownership
Edwin S. Fojas	Chairman/ Executive	32	103,414	5.48%
Raymundo A. Del Rosario	Non-executive	28	157,630	8.35%
Joselito C. Fojas	Non-executive	5	4,497	0.24%
Elena J. Malabanan	Non-executive	31	158,597	8.40%
Emmanuel P. Santos	Non-executive	6	295,552	15.65%
Misael P. Santos	Non-executive	2	10,798	0.57%
Purificacion N. Garcia	Non-executive	28	81,808	4.33%
Cynia J. Fojas	Non-executive	28	57,532	3.05%
Maria Criselda M. Fojas	Non-executive	5	7,434	0.39%
Maria Elisa P. Fojas	Non-executive	6	464	0.02%
Roberto U. Teo	Non-executive -Independent	2	1	-

f. Board qualification

Name of Director	Relevant Qualifications/ experience	Age	Nationality
1. Edwin S. Fojas	AB- BSC Masters in Business Management	67	Filipino
2. Raymundo A. Del Rosario	B.S. Commerce	69	Filipino
3. Joselito C. Fojas	BS Industrial Engr.; Masters in Business Management	67	Filipino
4. Elena J. Malabanan	BS-Medicine	80	Filipino
5. Emmanuel P. Santos	BS-Medicine	57	Filipino
6. Misael P. Santos	BS-Medicine	48	Filipino
7. Purificacion N. Garcia	B.S.-Education	80	Filipino
8. Cynia J. Fojas	B.S. - Medicine	77	Filipino
9. Maria Criselda M. Fojas	Bachelor of Laws	30	Filipino
10. Maria Elisa P. Fojas	Bachelor of Arts	57	Filipino
11. Roberto U. Teo	BSC Chemical Engineering/ Masters in Business Management	68	Filipino

g. List of board-level committees including membership and function

Board Level Committees	Membership	Function
Executive/ Credit Committee	Edwin S. Fojas –Chairperson Members: Raymundo A. Del Rosario Emmanuel P. Santos Joselito C. Fojas	The Committee shall meet frequently as necessary and, acting as a loan committee, shall have the power to examine and approve or disapprove loans application.
Audit Committee	Roberto U. Teo – Chairperson Members: Joselito C. Fojas Maria Criselda M. Fojas	-Oversee the financial reporting Framework -Monitor and evaluate the adequacy and effectiveness of the internal control system

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		<ul style="list-style-type: none"> -Oversee the internal audit function and external audit function - Oversee implementation of corrective actions -Investigate significant issues /concerns raised
Corporate Governance	Roberto U. Teo – Chairperson Members: Joselito C. Fojas Maria Criselda M. Fojas	<ul style="list-style-type: none"> -Oversee the nomination process for members of the Board of Directors and for positions appointed by the Board of Directors - Oversee the continuing education program for the Board of directors - Oversee the performance evaluation process - Oversee the design and operation of the remuneration and other incentives policy
Risk Management Committee	Elena J. Malabanan - Chairperson Members: Cynia J. Fojas Misael P. Santos	<ul style="list-style-type: none"> -Oversee the risk management framework - Oversee adherence to risk appetite -Oversee the risk management function

- h. The Board of Directors was elected by the Stockholders in their annual meeting held on February 10, 2018. The term of the directors is for one (1) year. The Board met 24 times in 2018. Hereunder is the report of Directors' attendance at board and committee meetings during the election year up to December 31, 2018, including the number of board and committee meetings and percentage attended by each director.

Name of Directors	Board number of meetings Attended		Audit Committee number of meetings Attended		Corporate Governance Committee Number of Meetings Attended		Risk Management Committee Number of Meetings Attended		Executive/ Credit Committee Number of Meetings Attended	
	No.	%	No.	%	No.	%	No.	%	No.	%
Edwin S. Fojas	19	79							27	69
Raymundo A. Del Rosario	23	96							29	74
Joselito C. Fojas	24	100	4	100	12	100			39	100
Elena J. Malabanan	24	100					12	100		
Emmanuel P. Santos	24	100							34	87
Misael P. Santos	24	100					12	100		
Purificacion N. Garcia	24	100								
Maria Elisa P. Fojas	24	100								
Cynia J. Fojas	21	88					12	100		
Maria Criselda M. Fojas	23	96	4	100	12	100				
Roberto U. Teo	22	92	4	100	12	100				
Total of Meetings Held During the Year	24		4		12		12		39	

i. List of executive officers/senior management

Name	Position	Nationality	Age	Relevant qualifications/ experience
Edwin S. Fojas	President & General Manager	Filipino	67	AB- BSC/ Masters in Business Management
Imelda D. Montenegro	Assistant General Manager/Comptroller	Filipino	55	BSC – Accounting
Basil A. Perea	Compliance Officer	Filipino	56	BSC - Accounting

j. Performance assessment program

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

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

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

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

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

k. Orientation and Education Program

The Directors and Senior Management maintain professional integrity and continuously seek to enhance their skill, knowledge and understanding of the activities that the bank is engaged in or intends to pursue as well as the developments in the banking industry including regulatory changes through continuous education or training. Directors and Senior Management attend corporate governance seminar conducted by BSP accredited training providers, prior to, or at least immediately after, assumption of office.

I. Retirement and Succession Policy

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

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

m. Remuneration and Incentive Policy

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

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

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

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

Executive and non-executive directors receive a per diem of P 7,500 for actual attendance at meetings. In no case, shall the total yearly compensation exceed 10% of the net income before tax of the Bank during the preceding year. The said directors also participate in the profit sharing as provided in the Bank's By-laws.

ii. Remuneration Policy for Senior Management

The Corporate Governance Committee determines and recommends the salaries of the President/General Manager and other two senior officers, namely, the Assistant General Manager and the Compliance Officer for endorsement to the Board of Directors for approval. The said senior officers are the top three (3) highest paid officers of the Bank.

n. Policies and procedures on related party transactions

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

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

- Evaluating on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTS are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. Related parties, RPTs, and changes in relationships shall be reflected in the relevant reports to the board of directors and regulators/supervisors.
- Evaluating all material RPTs to ensure that these are not undertaken on more favorable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with nonrelated parties under similar circumstances and that no corporate or business resources of the BSFI are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions. In evaluating RPTS, the Committee takes into account, among others, the following:
 - The related party's relationship to the Bank and interest in the transaction;
 - The material facts of the proposed RPT, including the proposed aggregate value of such transaction;
 - The benefits to the Bank of the proposed RPT;
 - The availability of other sources of comparable products or services; and
 - An assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The Bank shall have in place an effective price discovery system and have exercised due diligence in determining a fair price for RPTs.

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

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

The details of material RPTs are discussed under Note 25 in the accompanying Notes to the Financial Statements.

o. Self-Assessment Function

i. Internal Audit and Compliance Functions

The internal audit function, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all of the Bank's records, physical properties, and personnel pertinent to carrying out any engagement.

It also has the authority to directly access and to communicate with any officer or employee, to examine any activity or entity of the bank, as well as to access any records, files or data whenever relevant to the exercise of its assignment. All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity also has free and unrestricted access to the Board.

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

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

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

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

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

p. Dividend policy

Prior to the declaration of dividends, the Board of Directors ensures compliance with the minimum capital requirements and risk-based capital ratios even after the dividend distribution. The Board of Directors has the power to declare and approve cash dividend, while the stockholders have the right to approve stock dividends. The net amount available for dividends is the amount of unrestricted or free retained earnings and undivided profits reported in the Financial Reporting Package (FRP) as of the calendar year-end immediately preceding the date of dividend declaration. For the years ended, December 31, 2018 and 2017, the Bank did not declare cash dividend in line with Bank's strategic plan to continuously build up capital due to consolidation initiatives.

q. Corporate Social Responsibility

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

r. Consumer Protection Practices

i. Role and Responsibility of the Board and Senior Management

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

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

ii. Consumer Protection Risk Management System of the Bank

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

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

iii. Consumer Assistance Management System

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

The Consumer Assistance Group is responsible in handling consumer concerns. The said Group is composed of the Consumer Assistance Group Head, who is concurrently the Assistant General Manager;

BANGKO MABUHAY (A RURAL BANK), INC.
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Consumer Help In-charge in the person of Department Heads and Branch Managers; and, the front-liner who is designated as Consumer Help Officer.

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

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

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

6. Corporate Information

a. Organizational structure

Name of Officer	Position
1. Edwin S. Fojas	President & General Manager
2. Imelda D. Montenegro	Assistant General Manager/ Comptroller
3. Basil A. Perea	Compliance Officer
4. Airene G. Punzalan	Cashier
5. Marites T. Luis	Accounting Manager
6. Marites L. Monzon	Loans Manager
7. Ma. Concepcion P. Perea	Credit Risk Manager
8. Jonathan I. Montesines	IT Manager
9. Marilyn P. Alcasid	Microfinance Manager
10. Eileen P. Dones	Internal Audit Manager
11. Angelina B. Gabriel	Customer Service Manager
12. Ma. Renelinda C. Tria	Branch Manager - Mamburao
13. Agnes A. Vargas	Branch Manager - Molino
14. Cezarina E. Morales	Branch Manager - Naic
15. Nemelyn V. Villeta	Branch Manager - Indang
16. Joel Trapago	Branch Manager – Teresa
17. Joseph C. Dampitan	Branch Manager – Tanay
18. Shree May M. Casaysayan	Branch Manager – Mendez
19. Ruel B. Andaya	Branch Manager – Alfonso

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

Name of Stockholder	Nationality	Percentage of Ownership	Voting Status
Emmanuel P. Santos	Filipino	15.65%	Voting
Elena J. Malabanan	Filipino	8.40%	Voting
Raymundo A. Del Rosario	Filipino	8.35%	Voting
Heirs of Lily C. Fojas	Filipino	8.30%	Voting
Edwin S. Fojas	Filipino	5.48%	Voting
Heirs of Raul J. Fojas	Spanish	4.79%	Voting
Jovencio S. Fojas, Jr.	Filipino	4.69%	Voting
Myrna S. Fojas	Filipino	4.69%	Voting
Macario S. Fojas	Filipino	4.69%	Voting
Purificacion N. Garcia	Filipino	4.33%	Voting
Leticia P. Santos	Filipino	4.25%	Voting
Cynia J. Fojas	Filipino	3.05%	Voting
Heirs of Romeo O. Ner	Filipino	2.80%	Voting
Sergio J. Fojas	Filipino	2.62%	Voting

c. List and description of products and services offered

The Bank's products and services are as follows:

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

d. Bank website

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

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e. List of banking units as of December 31, 2018:

Bank Office	Location	Contact Numbers
1. Head Office	Bangko Mabuhay Building, A. Soriano Highway, Bgy. Daang Amaya III, Tanza, Cavite	(046) 489-20-01 to 04
2. Molino Branch	Bangko Mabuhay Building, Zapote-Paliparan Road, Bgy. Molino III, Bacoor City, Cavite	(046) -477-01-50; (046)-477-01-04
3. Indang Branch	Bangko Mabuhay Building, De Ocampo St., Poblacion, Indang, Cavite	(046)-415-07-93; (046)-862-10-65
4. Naic Branch	Bangko Mabuhay Building, P. Poblete St., Bgy. Gombalza, Naic, Cavite	(046)-412-05-98 (046)-412-06-51
5. Mamburao Branch	San Jose St., Bgy. 7, Mamburao, Occidental Mindoro	(043)711-19-56 (0922)-878-58-55
6. Teresa Branch	No. 56 Pres. M.L. Quezon St., Poblacion, Teresa, Rizal	(02)-650-31-21
7. Tanay Branch	Near Tanay Public Market, SitioPasipit, Bgy. Plaza Aldea, Tanay, Rizal	(02)-635-74-58 (02)-213-34-64
8. Mendez Branch	No. 145 J.P. Rizal St., Poblacion, Mendez, Cavite	(046)-413-01-64 (046)-413-02-51
9. Alfonso MBO	Bgy. LuksuhinIbaba, Alfonso, Cavite	(046)-404-57-75
10.Dasmariñas Branchlite	Camerino Avenue corner San Juan St., Bgry. Zone 1, Dasmariñas City, Cavite	(046)-424-12-68 (046)-432-03-24
11. Manggahan Branchlite	No. 36 Grepps Building, CM Delos Reyes St., Bgy. Manggahan, Gen. Trias City, Cavite	(046)-509-50-23
12. Silang Branchlite	Josephine Village, Bgy. Lucsuhin, Silang, Cavite	(046)-409-33-85

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BANGKO MABUHAY (A RURAL BANK), INC.
STATEMENTS OF FINANCIAL POSITION
As of December 31, 2018 and 2017
(Amounts in Philippine Pesos)

ASSETS	Notes		<u>2018</u>		<u>2017</u>
Cash and cash equivalents	2,3,4,5,30	P	742,175,028	P	615,744,935
Loans and Receivables – Net	2,3,4,6,30		524,809,975		528,307,634
Investment – amortized cost	2,3,4,7,30		437,549,348		373,493,929
Bank premises, furniture, fixtures and equipment-net	2,3,4,8		47,517,151		48,937,363
Investment Property (ROPA)	2,3,4,9		87,331,981		79,285,949
Deferred Tax Asset	2,3,21,30		9,134,048		11,047,066
Other Assets – Net	2,3,4,10		18,623,921		18,024,609
TOTAL ASSETS		P	1,867,141,452	P	1,674,841,485
LIABILITIES AND SHAREHOLDERS' EQUITY	Notes		<u>2018</u>		<u>2017</u>
Deposit Liabilities	2,3,4,11	P	1,521,156,286	P	1,360,678,227
Bills Payable	2,3,4,12		25,000,000		20,000,000
Accrued and other payables	2,3,4,13,30		24,069,984		22,447,150
Other liabilities	2,3,4,14,30		4,076,474		3,349,099
TOTAL LIABILITIES			1,574,302,744		1,406,474,476
SHAREHOLDERS' EQUITY					
Share Capital	2,3,4,15		215,691,631		215,691,631
Surplus			77,147,077		52,675,378
TOTAL EQUITY			292,838,708		268,367,009
TOTAL LIABILITIES AND EQUITY		P	1,867,141,452	P	1,674,841,485

See Accompanying Notes to the Financial Statements

BANGKO MABUHAY (A RURAL BANK), INC.
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BANGKO MABUHAY (A RURAL BANK), INC.
STATEMENTS OF FINANCIAL PERFORMANCE
FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017
(Amounts in Philippine Pesos)

	Notes		<u>2018</u>		<u>2017</u>
REVENUES	2,3,4,16	P	119,766,198	P	120,432,943
DIRECT COSTS	2,3,4,18,27		67,158,723		64,195,019
GROSS PROFIT			52,607,476		56,237,924
OPERATING EXPENSES	2,3,19,27		76,968,424		76,753,464
LOSS FROM OPERATIONS			(24,360,948)		(20,515,541)
OTHER INCOME			53,445,380		51,714,687
INCOME BEFORE INCOME TAXES			29,084,432		31,199,146
PROVISION FOR INCOME TAX	2,3,21				
Current			6,130,110		8,276,550
Deferred			(1,517,377)		(1,382,300)
			4,612,733		6,894,250
NET PROFIT		P	24,471,699	P	24,304,896
Basic Earnings Per Share	31	P	12.96	P	12.87

See Accompanying Notes to the Financial Statements

BANGKO MABUHAY (A RURAL BANK), INC.
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BANGKO MABUHAY (A RURAL BANK), INC.
STATEMENTS OF CHANGES IN EQUITY
As of December 31, 2018 and 2017
(Amounts in Philippine Pesos)

	Notes	<u>2018</u>	<u>2017</u>
SHARE CAPITAL	2,3,15		
Authorized – 1,900,000 shares at P 100 par value			
Subscribed and paid-up – 1,888,798 shares	P	188,879,800	P 188,879,800
<hr/>			
Additional paid in capital		26,811,831	26,811,831
<hr/>			
RETAINED EARNINGS	2,3,15		
Beginning balance		52,675,378	44,037,482
Excess of cost of treasury shares charged against retained earnings		-	(15,667,000)
Net Income		24,471,699	24,304,896
<hr/>		77,147,077	52,675,378
<hr/>			
TOTAL SHAREHOLDERS' EQUITY		P 292,838,708	P 268,367,009
<hr/>			
BOOK VALUE PER SHARE		P 155.04	P 142.08
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See Accompanying Notes to the Financial Statements

BANGKO MABUHAY (A RURAL BANK), INC.
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BANGKO MABUHAY (A RURAL BANK), INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

(Amounts in Philippine Pesos)

	NOTES	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income taxes		P 29,084,432	P 31,199,146
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	2,3,4,8	10,196,863	10,068,062
Provision for probable losses & impairment losses	2,3,4,6,30	5,729,746	7,861,280
Gain on sale of assets sold/exchanged	2,3,4,9	(26,359,098)	(26,721,844)
Decrease (increase) in:			
Loans & receivables	2,3,4,6,30	(1,560,261)	8,322,218
Other assets	2,3,4,10	(596,134)	(1,158,136)
Increase (Decrease) in:			
Deposit liabilities	2,3,4,11	160,478,059	104,424,916
Other liabilities	2,3,4,14,30	727,375	(4,917,407)
Accrued and other payables	2,3,4,13,30	1,622,834	6,211,095
Cash generated from (used in) operations		179,323,816	135,289,330
Income taxes paid	2,3,21	(6,971,677)	(8,276,550)
Net cash provided by operating activities		172,352,139	127,012,780
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from (payment of)			
Investments – amortized cost	2,3,4,7,30	(64,055,419)	(84,991,541)
Sale of bank premises, furniture and equipment	2,3,4,8	-	2,443
Goodwill	2,3,4,10	(875,849)	256,000
Acquisition of bank premises, furniture and equipment	2,3,4,8	(4,483,783)	(4,680,690)
Acquisition of investment property (ROPA)	2,3,4,9	(19,437,125)	(15,174,858)
Sale of ROPA	2,3,4,9	37,930,130	52,387,022
Net cash used in investing activities		(50,922,047)	(52,201,624)
CASH FLOWS FROM FINANCING ACTIVITIES			
Nett borrowings/ (payment) of bills payable	2,3,4,11	5,000,000	-
Purchase of treasury shares	2,3,15	-	(25,000,000)
Proceeds from sale of treasury shares	2,3,15	-	9,333,000
Net Cash provided by financing activities		5,000,000	(15,667,000)
NET INCREASE IN CASH		126,430,093	P 59,144,156
CASH AND CASH EQUIVALENT	2,3,4,5,30		
Beginning		615,744,935	565,600,799
As at December 31		P 742,175,028	P 615,744,935

See Accompanying Notes to the Financial Statements

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

NOTES TO FINANCIAL STATEMENTS

As at and for the Years Ended December 31, 2018 and 2017

1. CORPORATE INFORMATION

Bangko Mabuhay (A Rural Bank), Inc. was organized from the consolidation of Rural Bank of Tanza (Cavite), Inc. and Rural Bank of Teresa (Rizal), Inc. The consolidation was approved by the Bangko Sentral ng Pilipinas (BSP) and the Philippine Deposit Insurance Corporation (PDIC) under the Strengthening Program for Rural Banks (SPRB) in 2013. The consolidated bank was incorporated and registered with Securities and Exchange Commission (SEC) on January 21, 2015 with Registration Number CS201500594. On March 23, 2015, the BSP granted Bangko Mabuhay the Certificate of Authority to operate as a rural bank which commenced the operation to engage in the business of rural banking on April 1, 2015.

As a banking institution, the Bank's operations are regulated and supervised by the BSP. In this regard, the Bank is required to comply with the rules and regulations of the BSP such as those relating to maintenance of reserve requirements on deposit liabilities and those relating to adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. Its activities are subject to the provisions of the Rural Bank Act [Republic Act (RA) No. 7353], the General Banking Law of 2000 RA No. 8791 and other relevant laws.

That the objects and purposes for which said Corporation is formed are: To carry and engage in the business of extending rural credit to small farmers and tenants and to deserving rural industries or enterprises; to sell, solicit of market insurance products and services an insurance agent especially for micro insurance products issued by life and exercise all authority and power, to do and perform all acts, and to transact all business which may legally be had or done by rural banks organized under and in accordance with Republic Act No. 7353 (Rural Banks Act of 1992), as amended. Furthermore, under its authority to operate as a rural bank, the Bank offers a wide array of retail banking services – deposit products including checking and savings deposit, time deposit and automated teller machine (ATM) accounts; loans such as microfinance, consumer, and real estate mortgage loans; and other services such as bills payment and remittance service.

The Bank operates in the Philippines and, as of December 31, 2018 and 2017, it has 5 branches in Cavite: Bacoor, Indang, Naic, Mendez, Alfonso; 2 branches in Rizal: Teresa and Tanay; and 1 branch in Occidental Mindoro: Mamburao. In addition, the Bank operates 3 and 2 branch-lite units as of year-end 2018 and 2017, respectively. A branch-lite, under BSP regulations, refers to any permanent office of the Bank that is other than its head office or a branch. The said branch-lite units perform limited banking activities (such as microfinance, micro-deposit, bills payment and remittance services) and records its transactions in the books of the head office or the branch to which these units are annexed.

The financial statements of the Bank for the year ended December 31, 2018 were authorized for issue by the Bank's Board of Directors (BOD) on April 13, 2019. The Board of Directors is still empowered to make amendments even after the date of issue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

This financial statements prepared by the Bank are in accordance with Philippine Financial Reporting Standards (PFRS) published by the International Accounting Standards Board (IASB) and adopted by the Philippine Financial Reporting Standards Council (FRSC). The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of Presentation

The financial statements of the Bank have been prepared under historical cost convention. The financial statements are presented in Philippine Pesos, which is the Bank's functional currency. All amounts are rounded to the nearest Philippine Peso, except when otherwise indicated.

BANGKO MABUHAY (A RURAL BANK), INC.
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The accompanying Banking financial statements have been prepared on a going concern basis, which contemplate the realization of assets and settlement of liabilities in the normal course of business.

Changes in Accounting Policies and Disclosures

I. Standards, Amendments and Interpretations Issued and Effective as of Reporting Period

The following are new and revised standards, amendments to PFRS and interpretations which became effective for the comparative reporting period.

New or Revised Standards

• **PFRS 9 Financial Instruments**

Finalized version of PFRS 9 which contains accounting requirements for financial instruments, replacing PAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas:

- **Classification and measurement.** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of PFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under PAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.
- **Impairment.** The 2014 version of PFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- **Hedge accounting.** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- **Derecognition.** The requirements for the derecognition of financial assets and liabilities are carried forward from PAS 39.

This version supersedes all previous versions and is mandatorily effective for periods beginning on or after January 1, 2018.

The management believes that the application of the said revisions to PFRS has material impact on its financial statements.

• **PFRS 15 Revenue from Contracts with Customers**

Provides a single, principles based five-step model to be applied to all contracts with customers. The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognize revenue when (or as) the entity satisfies a performance obligation.

Guidance is provided on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

This standard is applicable to annual reporting periods beginning on or after January 1, 2018.

The management believes that the application of the said revisions to PFRS has no material impact on its financial statements.

Amendments

- **Clarifications to PFRS 15 Revenue from Contracts with Customers**

Amends PFRS 15 Revenue from Contracts with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.

These amendments are applicable to annual reporting periods beginning on or after January 1, 2018.

The management believes that the application of the said relevant amendments to PFRS has no material impact on its financial statements.

- **Classification and Measurement of Share-based Payment Transactions (Amendments to PFRS 2)**

Amends PFRS 2 Share-based Payment to clarify the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.

These amendments are applicable to annual reporting periods beginning on or after January 1, 2018.

The management believes that the application of the said relevant amendments to PFRS has no material impact on its financial statements.

- **Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts (Amendments to PFRS 4)**

Amends PFRS 4 Insurance Contracts provide two options for entities that issue insurance contracts within the scope of PFRS 4:

- an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach;
- an optional temporary exemption from applying PFRS 9 for entities whose predominant activity is issuing contracts within the scope of PFRS 4; this is the so-called deferral approach.

The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

Overlay approach to be applied when PFRS is first applied. Deferral approach effective for annual periods beginning on or after January 1, 2018 and only available for three years after that date.

The management believes that the application of the said relevant amendments to PFRS has no material impact on its financial statements.

- **Transfers of Investment Property (Amendments to PAS 40)**

The amendments to PAS 40 Investment Property:

- Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or

BANGKO MABUHAY (A RURAL BANK), INC.
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ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.

- The list of examples of evidence in paragraph 57(a) – (d) is now presented as a non-exhaustive list of examples instead of the previous exhaustive list.

These amendments are applicable to annual reporting periods beginning on or after January 1, 2018.

The management believes that the application of the said relevant amendments to PFRS has material impact on its financial statements.

- **Annual Improvements to PFRS Standards 2014-2016 Cycle**

Makes amendments to the following standards:

- **PFRS 1.** Deletes the short-term exemptions in paragraphs E3–E7 of PFRS 1, because they have now served their intended purpose
- **PFRS 12.** Clarifies the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with PFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- **PAS 28.** Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition

The amendments to PFRS 1 and PAS 28 are effective for annual periods beginning on or after January 1, 2018, the amendment to PFRS 12 for annual periods beginning on or after January 1, 2017.

The management believes that the application of the said relevant amendments to PFRS has no material impact on its financial statements.

New and Revised Interpretations

- **PFRIC 22 Foreign Currency Transactions and Advance Consideration**

Addresses foreign currency transactions or parts of transactions where:

- there is consideration that is denominated or priced in a foreign currency;
- the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income;
- and the prepayment asset or deferred income liability is non-monetary.

The Interpretations Committee came to the following conclusion:

- The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.
- If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

This interpretation is applicable to annual reporting periods beginning on or after January 1, 2018.

The management believes that the application of the said relevant interpretations to PFRS has no material impact on its financial statements.

II. Standards, Amendments and Interpretations Issued But Not Yet Effective as of Reporting Period

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The following are new and revised standards, amendments to PFRS and interpretations which have been issued but not yet effective as of reporting period.

New and Revised Standards

- **PFRS 16 Leases**

Specifies how a PFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with PFRS 16's approach to lessor accounting substantially unchanged from its predecessor, PAS 17.

This standard is applicable to annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted if PFRS 15 Revenue from Contracts with Customers has also been applied.

The management believes that the application in the future of the said revisions to PFRS have no material impact on its financial statements.

- **PFRS 17 Insurance Contracts**

Requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. PFRS 17 supersedes PFRS 4 Insurance Contracts as of January 1, 2021.

This standard is applicable to annual reporting periods beginning on or after January 1, 2021. Earlier application is permitted if PFRS 15 Revenue from Contracts with Customers and PFRS 9 Financial Instruments have also been applied.

The management believes that the application in the future of the said revisions to PFRS have no material impact on its financial statements.

Amendments

- **Prepayment Features with Negative Compensation (Amendments to PFRS 9)**

Amends the existing requirements in PFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

These amendments are applicable to annual reporting periods beginning on or after January 1, 2019.

The management believes that the application of the said relevant amendments to PFRS has no material impact on its financial statements.

- **Long-term Interests in Associates and Joint Ventures (Amendments to PAS 28)**

Clarifies that an entity applies PFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

These amendments are applicable to annual reporting periods beginning on or after January 1, 2019.

The management believes that the application of the said relevant amendments to PFRS has no material impact on its financial statements.

- **Annual Improvements to PFRS Standards 2015-2017 Cycle**

Makes amendments to the following standards:

- **PFRS 3 and PFRS 11.** The amendments to PFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to PFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business
- **PAS 12** The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognized in profit or loss, regardless of how the tax arises
- **PAS 23.** The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings

These amendments are applicable to annual reporting periods beginning on or after January 1, 2019.

The management believes that the application in the future of the said relevant amendments to PFRS will have no material impact on its financial statements.

- **Plan Amendment, Curtailment or Settlement under PAS 19**

The amendments in *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)* are:

- If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.
- In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

The amendments apply to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019. Early application is permitted and should be disclosed.

The management believes that the application in the future of the said relevant amendments to PFRS will have no material impact on its financial statements.

- **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to PFRS 10 and PAS 28)**

Amends PFRS 10 Consolidated Financial Statements and PAS 28 Investments in Associates and Joint Ventures (2011) to clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows:

- require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in PFRS 3 Business Combinations)
- require the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognized only to the extent of the unrelated investors' interests in that associate or joint venture.

These requirements apply regardless of the legal form of the transaction, e.g. whether the sale or contribution of assets occurs by an investor transferring shares in a subsidiary that holds the assets (resulting in loss of control of the subsidiary), or by the direct sale of the assets themselves.

The amendments must applied prospectively. Early application is permitted and must be disclosed.

The management believes that the application in the future of the said relevant amendments to PFRS will have no material impact on its financial statements.

- **Amendments to References to the Conceptual Framework in PFRS Standards**

Together with the revised Conceptual Framework published in March 2018, the IASB also issued *Amendments to Reference to the Conceptual Framework in PFRS Standards*. Contains amendments to PFRS 2, PFRS 3, PFRS 6, PFRS 14, PAS 1, PAS 8, PAS 34, PFRIC 12, PFRIC 19, PFRIC 20, PFRIC 22, and PIC32. Not all amendments, however update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised *Conceptual Framework*. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework in 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised *Conceptual Framework*.

These amendments are applicable to annual reporting periods beginning on or after January 1, 2020.

The management believes that the application in the future of the said relevant amendments to PFRS will have no material impact on its financial statements.

- **Definition of a Business (Amendments to PFRS 3)**

The amendments in *Definition of a Business (Amendments to PFRS 3)* are changes to Appendix A *Defined terms*, the application guidance, and the illustrative examples of PFRS 3 only. They:

- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- add guidance and illustrative examples to help entities assess whether a substantive proves has been acquired;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- add an optional concentration test that permits a simplified assessments of whether as acquired set of activities and assets is not a business.

These amendments are applicable to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. Consequently, entities do not have to revisit such transactions that occurred in prior periods. Earlier application is permitted and must be disclosed.

The management believes that the application in the future of the said relevant amendments to PFRS will have no material impact on its financial statements.

- **Definition of Material (Amendments to PAS 1 and PAS 8)**

The amendments in *Definition of Material (Amendments to PAS 1 and PAS 8)* clarify the definition of 'material' and align the definition used in the Conceptual Framework and standards.

These amendments are applicable to annual reporting periods beginning on or after January 1, 2020. The amendments must be applied prospectively. Earlier application is permitted and must be disclosed.

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The management believes that the application in the future of the said relevant amendments to PFRS will have no material impact on its financial statements.

New or revised interpretations

- **PFRIC 23 Uncertainty over Income Tax Treatments**

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- Determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- Effect of changes in facts and circumstances

This interpretation is applicable to annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

The management believes that the application in the future of the said relevant interpretations to PFRS will have no material impact on its financial statements.

Summary of Significant Accounting Policies

The significant accounting policies and practices of the Bank are set forth to facilitate the understanding of the financial statements.

Financial Instruments

Initial Recognition and Subsequent Measurement

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

Financial Assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Bank's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Bank has applied the practical expedient, the Bank's initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Bank has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in section (e) Revenue from contracts with customers.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

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The Bank's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Bank commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortized cost (debt instruments) – This category is the most relevant to the Bank. The Bank measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- 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

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Bank's loans and receivable and investments-amortized cost are classified under this category.

Financial assets at fair value through OCI (debt instruments) – The Bank measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling
- 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

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

The Bank has no financial asset classified under this category.

Financial assets designated at fair value through OCI (equity instruments) – Upon initial recognition, the Bank can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

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The Bank has no financial asset under this category

Financial assets at fair value through profit or loss— include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets 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. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

The Bank has no financial assets under this category.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Bank's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank 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 rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Bank continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Impairment of financial assets

The Bank recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Bank expects to receive, discounted at an approximation of the original effective interest rate.

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The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Bank applies a simplified approach in calculating ECLs. Therefore, the Bank does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime of ECLs at each reporting date. The Bank has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Bank considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Bank may also consider a financial asset to be in default when internal or external information indicates that the Bank is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Bank. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Considering that the Bank is regulated by the Bangko Sentral ng Pilipinas (BSP) which requires a distinct provisioning as well as default provision pursuant to Circular 855 and 941, then in case of conflict between the standard (PFRS) and special law (which is enacted by the BSP such as MORB), then the latter will prevail.

Financial Liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Bank's financial liabilities include deposit liabilities, bills payable, accrued expenses and other financial liabilities.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss – include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Bank that are not designated as hedging instruments in hedge relationships as defined by PFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Bank has not designated any financial liability as at fair value through profit or loss.

The Bank has no financial liabilities under this category.

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Loans and borrowings – This is the category most relevant to the Bank. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

The Bank's financial liabilities include deposit liabilities, bills payable, accrued expenses and other financial liabilities.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Impairment of Non-Financial Assets

At each reporting date, the Company assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Company makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's (or cash-generating units) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs.

Where the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the asset (or cash generating unit) is considered impaired and is written down to its recoverable amount. 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 (or cash generating unit).

An impairment loss is charged to operations in the year in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of comprehensive income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Financial Assets

This category includes cash and cash equivalents, loans and receivables and financial asset at amortized cost.

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Cash and Cash Equivalents

This account includes cash on hand, checks and other cash items, due from BSP and due from other banks. Cash on hand represents undeposited cash collections and other cash items awaiting deposit and cash inside the Bank's vault and in the automated teller machines (ATMSs). Check and other cash items represents checks collected awaiting for deposit. Due from BSP represents demand deposit account maintained by the Bank with BSP which is non-interest bearing deposit. Due from other banks account represents savings, checking and time deposit by the Bank in various banks. These deposits earn interest at the respective other banks' deposit rates. These deposits are held at call with the other banks.

Loan Receivable

Loan receivable account includes loans extended to clients classified as agricultural loans, agrarian reform loans, commercial loans, industrial loans, salary loans, and other loans and discounts. These are recognized initially at fair value plus transaction costs that are directly attributable to the receivable. These are subsequently measured at amortized cost using effective interest method less provision for impairment.

Section X305.5 of MORB (2017) provides method of computing interest. Banks may only charge interest based on the outstanding balance of the loan at the beginning of an interest period. For a loan where principal is payable in installments, interest per installment period shall be calculated based on the outstanding balance of the loan at the beginning of each installment period.

A provision for impairment of receivables is established when there is objective evidence that the Bank will not be able to collect amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the 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 the statements of income within operating expenses. When a receivable remains uncollectible after the Bank has exerted all legal remedies, it is written-off against the allowance account for receivables. The Bank first assesses whether there is objective evidence of impairment that exists individually for receivables that are individually significant, and collectively for receivables that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed receivable, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses those for impairment. Receivables 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. Subsequent recoveries of amounts previously written-off are credited to recoveries from charged-off accounts income in the statements of income based on the result of management's update assessment, considering the available facts and changes in circumstances, including but not limited to results of recent discussions and arrangements entered into with customers as to the recoverability of receivables at the end of the reporting period.

This account includes sales contract receivables.

Sales Contract Receivables (SCR)

This refers to the amortized cost of assets acquired in settlement of loans through foreclosure or dation in payment and subsequently sold on installment basis where by the title to the said property is transferred to the buyers only upon full payment of the agreed selling price. Presented under Other Assets 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 of the date of sale.

As at December 31, 2018 and 2017, the Bank's sales contract receivables, net of allowances amounted to ₱34,865,759 and ₱38,865,759, respectively.

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Bank Premises, Furniture and Equipment

The cost of an item of Bank premises, furniture and equipment shall be recognized as an asset if, and only if: (a) it is probable that future economic benefits associated with the item will flow to the entity; and (b) the cost of the item can be measured reliably.

Bank premises, furniture and equipment are carried at acquisition cost less accumulated depreciation and amortization and impairment in value.

An item of Bank premises, furniture and equipment is initially recognized at cost. The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred.

When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and amortization and impairment losses are removed from the accounts and any resulting gain or loss is reflected in income for the period.

Land is stated at cost less any impairment in value while depreciable properties including buildings, leasehold improvements, and furniture, fixtures and equipment are stated at cost less accumulated depreciation and amortization, and any impairment in value.

Such cost includes the cost of replacing part of the property and equipment when that cost is incurred, if the recognition criteria are met but excludes repairs and maintenance costs.

Leasehold improvements are amortized over the term of the lease or the estimated useful lives of the improvements of five to ten years, whichever is shorter.

The depreciation and amortization method and useful life are reviewed periodically to ensure that the method and period of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

An item of Bank premises, furniture and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statements of comprehensive income in the year the asset is derecognized.

Investment Property (ROPA)

Investment property shall be recognized as an asset when and only when: (a) it is probable that the future economic benefits that are associated with the investment property will flow to the entity; and (b) the cost of the investment property can be measured reliably.

Investment property includes Real and Other Properties Acquired (ROPA) acquired by the Bank from defaulting borrowers in settlement of their loans and receivable through foreclosure or dacion en pago as payment and shall be booked under ROPA account as follows: a) on the date of the entry of judgment in case of judicial foreclosure b) on the date of notarization of the Sheriffs Certificate in case of extra-judicial foreclosure c) and the date of notarization of the Deed of Dacion in case of dation in payment (dacion en pago). ROPA acquired shall be booked initially at the carrying amount of the loan (i.e. outstanding loan balance adjusted for any unamortized premium or discount less allowance for credit losses which take into account the fair value of the collateral determined based on BSP provisioning requirement) plus booked accrued interest less allowance for credit losses plus transaction costs incurred upon acquisition (such as non-refundable capital gains tax and documentary stamp tax paid in connection with the foreclosure/purchase of the acquired real estate property). Investment properties except land are depreciated over a period of ten years.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement

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or disposal of an investment property are recognized in the statements of financial performance in 'Profit from assets sold' in the year of retirement or disposal. Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged to operations in the year in which the costs are incurred. Transfers are made to investment properties when, and only 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.

Subsequently, ROPA shall be accounted for as follows:

- (a) Land and buildings shall be accounted for using the cost model under PAS 40 "Investment Property";
- (b) Other non-financial assets shall be accounted for using the cost model under PAS 16 "Property Plant and Equipment";
- (c) Buildings and other non-financial assets shall be depreciated over a period not exceeding ten years and three years, respectively;
- (d) Land, buildings and other non-financial assets shall be subject to the impairment provisions of PAS 36 "Impairment";
- (e) Financial assets shall be initially booked and classified according to intention (i.e., Amortized cost, FVPL, FVOCI, Unquoted Debt Securities Classified as Loans or Loans and Receivable) and accounted for in accordance with the provisions of PFRS 9; and
- (f) ROPAs that comply with the provisions of PFRS 5 "Non-Current Assets Held for Sale" shall be reclassified and accounted for as such.

Financial institutions that accept non-cash payments for interest on their borrowers' loans shall book the acquired assets as ROPA. The amount to be booked as ROPA shall be the booked accrued interest less allowance for probable losses: Provided, That where the booked amount of ROPA exceeds the appraised value of the acquired property, an allowance for probable losses equivalent to the excess of the amount booked over the appraised value shall be set up: Provided, further, that if the carrying amount of ROPA exceeds ₱5 million, the appraisal of the foreclosed/purchased asset shall be conducted by an independent appraiser acceptable to the BSP. The carrying amount of ROPA shall be allocated in accordance with Item (c) and shall be subsequently accounted for in accordance with item (c) of this Section.

The building shall be depreciated over the remaining useful life, which shall not exceed twenty (20) years.

As at December 31, 2018 and 2017, the Bank's investment property, net of allowances amounted to ₱87,331,981 and ₱79,285,949, respectively.

Other Assets

The Bank's other assets include goodwill, other intangible assets, deposit with closed banks, sinking fund for medical benefits, deposit with Meralco, prepaid expenses, shortage, and miscellaneous assets.

Goodwill

Goodwill arises from the Bank's acquisition of another entire bank. The amount of goodwill is the cost of to purchase the business minus the fair market value of the tangible assets, the intangible assets that can be identified, and the liabilities obtained in the purchase.

Due From Closed Banks

This account refers to the uninsured deposit with closed banks which are under receivership of the PDIC.

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Other Intangible Assets

Refers to computer software licenses to enable the Bank to utilize information technology assets such as the core banking system, personal computers in its operation, etc.

Prepaid Expenses

Prepaid expenses refer to amounts paid by the Bank in advance for future expenses. These are stated at cost.

Financial Liabilities

This category includes deposit liabilities, bills payable, accrued expenses and other payables and other liabilities.

Deposit Liabilities

Deposit liabilities represents the Bank's time and savings deposit account from its various depositors which are interest-bearing that can be withdrawn through the issued order of withdrawal. Deposits are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. These are measured initially at fair values and subsequently recognized at amortized costs less settlement payments.

Bills Payable

This refers to the amortized cost of borrowings from other banks.

Accrued and Other Payables

This includes accounts payable, accrued expenses, due to the Treasurer of the Philippines, withholding taxes payable, SSS, Pag-ibig, Philhealth premium payables, CIS Bayad Center payable, and income tax payable.

Due to the Treasurer of the Philippines

This account represents dormant deposit liabilities which have been reported to the Treasurer of the Philippines pursuant to the provisions of the Unclaimed Balances Act (Act No. 3936, as amended) awaiting remittance under court order to the Treasurer of the Philippines. These are stated at cost.

Accounts Payable - Others

This account refers to the following: a) other obligations of the bank under open-account arrangements such as deposits made by loan applicants for various expenses in connection with pending loan applications; b) payments on loans pending liquidation; c) interest rebates on loan accounts which have not been claimed by clients; d) deposits in connection with the purchase/redemption of property acquired; e) proceeds of collections pending remittance to clients/payees; f) balances of current accounts closed due to improper handling; and g) indebtedness for purchases of office supplies, printed forms, furniture, fixtures and equipment.

Withholding Taxes Payable

These represent taxes withheld by the Bank from employees' salaries, payments to suppliers and provider of services subject to expanded creditable withholding taxes which are remitted 10 days following the end of the month. These are interest-bearing if not paid on time and is stated at cost.

SSS, Pag-ibig and Philhealth Premium Payable

These represent employer's and employees' share on social security and other contributions which are mandated by law. These are interest-bearing if not paid on time and is stated at cost.

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Income Tax Payable

This represents corporate income tax due for the period after deducting related applicable creditable withholding taxes and prepaid income taxes.

Other Taxes and Licenses Payable

These represent accrual of other taxes and licenses payable by the Bank. These are interest-bearing if not paid on time and is stated at cost.

Interest Bearing Loans and Borrowings

All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method.

Employee Benefits

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

(a) Short-term Benefits

The Bank recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period.

Short-term benefits given by the Bank to its employees include salaries and wages, social security contributions, short-term compensated absences, bonuses and other non-monetary benefits.

(b) Retirement Benefits

The Bank maintains a funded, non-contributory post-employment benefit plan that is being administered by an independent trustee bank. The Bank's management, in coordination with the trustee bank, acts in the best interest of the plan assets and is responsible for setting the investment policies. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60. Normal retirement benefit is equal to one (1) month's final salary for every year of service.

The bank has properly secured its tax exemption with the BIR. As per BIR certificate of tax exemption, it was stated therein that the Employee Retirement Plan, through its Trustee, shall file on or before April 15 of each year an annual information with the RDO.

On May 27, 2018, the Bank had secured a Certificate of Qualification on a reasonable employees' retirement benefit plan from the Bureau of Internal Revenue for the Bank would be entitled to tax incentives such as income of trust fund from its investments would be exempt from income tax and contributions of the Bank to the retirement fund would be deductible from gross income in computing corporate income tax.

The Bank availed an actuarial valuation with a cut-off of December 31, 2018. As a result of actuarial valuation dated March 7, 2019, valuation results showed that since the Bank's past service liability of ₱16,761,770 exceeded the fund balance of ₱14,924,931, there was an unfunded liability amounting to ₱1,836,839 as of December 31, 2018. It was then recommended by the Actuary that the current service cost amounting to ₱988,798 be contributed to the retirement fund beginning January 1, 2019. Total retirement fund balance in its Financial Statements of Trust Account with BDO as at December 31, 2018 amounted to ₱14,924,931. Retirement expense recognized during the year amounted to ₱1,424,866.58; this was recorded as retirement expense, and credited to accrued retirement payable.

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The Retirement Fund was maintained by their independent trustee bank, and the same was not reflected in the Bank's financial statements.

(c) *Termination Benefits*

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date or when an employee accepts voluntary redundancy in exchange for these benefits.

The Bank recognizes termination benefits when it is demonstrably committed to either: (a) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or (b) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the reporting date are discounted to present value.

(d) *Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the reporting date. These are included in other liabilities account at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement.

Equity

Ordinary shares are determined using the nominal value of shares that have been issued. Preferred shares, if any, are also being valued using the nominal value of shares that have been issued.

Additional paid-in capital, if any, includes any premiums received on the issuance of share capital. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital.

Retained earnings (deficit) include all current and prior period results of operations as disclosed in the statements of comprehensive income.

Earnings (Loss) per Share (EPS)

Basic earnings (loss) per share is computed by dividing net income attributable to common shareholders for the year by the weighted average number of common shares outstanding during the year after giving retroactive effect to stock dividends declared and stock rights exercised during the year, if any. The Bank does not have dilutive potential common shares.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and that revenue can be reliably measured. The following specific recognition criteria of income and expenses must also be met before revenue is recognized:

- (a) *Interest* – Interest income and expenses are recognized in the statements of financial performance for all instruments measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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BSP Circular 730 series of 2011 states that banks may only charge interest based on the outstanding balance of a loan at the beginning of an interest period. For a loan where principal is payable in installments, interest per installment period shall be calculated based on the outstanding balance of the loan at the beginning of each installment period. Towards this end, all loan-related documents shall show repayment schedules in a manner consistent with this provision. Marketing materials and presentations shall likewise be consistent with this provision.

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

- (b) *Service charges, fees and commissions* – Service charges, fees and commissions are generally recognized when the service has been provided. Loan syndication fees are recognized as revenue when the syndication has been completed and the Bank retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants.

Commission and fees arising from negotiating, or participating in the negotiation of a transaction for a third party - such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognized on the completion of the underlying transaction.

Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Asset management fees related to investment funds are recognized ratably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

- (c) *Profit from assets sold or exchanged* – Profits from assets sold or exchanged are 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 in the other income account in the statements of comprehensive income.
- (d) *Miscellaneous income* – Miscellaneous income are recognized when earned.

Expense Recognition

Expenses are recognized when it is probable that a decrease in economic benefit related to a decrease in an asset or increase in liability has occurred and the decrease in economic benefits can be measured reliably.

Revenues and expenses that related to the same transaction or other event are recognized simultaneously.

Costs and expenses are recognize in profit or loss upon utilization of the resources or services or at the date they incurred.

Leases

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

- a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
- b) A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
- c) There is a change in the determination of whether fulfilment is dependent on a specified asset; or
- d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

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Bank as Lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statements of financial performance on a straight-line basis over the lease term.

Related Party Transactions

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

Two or more parties are related parties when at any time during the financial period: (a) one party has direct or indirect control of the other party; or (b) the parties are subject to common control from the same source; or (c) one party has influence over the financial and operating policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or the parties, in entering a transaction, are subject to influence from the same sources to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Section X141 defines directors which shall include: (1) directors who are named as such in the articles of incorporation; (2) directors duly elected in subsequent meetings of the stockholders; and (3) those elected to fill vacancies in the board of directors. Related interests as defined under Sections 12 and 13 of R.A. No. 8791 shall mean individuals related to each other within the fourth degree of consanguinity or affinity, legitimate or common law, and two (2) or more corporations owned or controlled by a single individual or by the same family group or the same group of persons.

Also, Section X142 defines an officer which shall include the president, executive vice president, senior vice-president, vice president, general manager, treasurer, secretary, trust officer and others mentioned as officers of the bank, or those whose duties as such are defined in the by-laws, or are generally known to be the officers of the bank (or any of its branches and offices other than the head office).

On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding exposures to each of the bank's subsidiaries and affiliates shall not exceed 10% of bank's net worth, the unsecured portion of which shall not exceed 5% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20% of the net worth of the lending bank. BSP Circular No. 560 is effective February 15, 2007.

Banking transactions with related parties are executed substantially on the same terms, including mark-up rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than a normal risk.

Income Taxes

Current Taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxing authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted during the reporting period.

Deferred Taxes

Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits from the excess of

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minimum corporate income tax (MCIT) over the regular income tax, and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carry forward of unused tax credits from MCIT and unused NOLCO can be utilized.

Deferred income tax, however, is not recognized on temporary differences that arise 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, affects neither the accounting income nor taxable income or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates expected in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the statements of comprehensive income. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred taxes related to the same taxable entity and the same taxation authorities.

Documentary Stamp Tax

Documentary stamp taxes are imposed on the following:

- a. Bank checks, drafts, or certificate of deposit not bearing interest, and other instruments;
- b. Bonds, loan agreements, promissory notes, bills of exchange, drafts, instruments and securities issued by the Government or any of its instrumentalities, deposit substitute debt instruments, certificates of deposits bearing interest and other not payable on sight or demand;
- c. Acceptance of bills of exchange and letters of credit; and
- d. Bills of lading or receipt.

Gross Receipts Tax (GRT)

RA 7353 Section 15 states that all rural banks created and organized under this Act shall be exempt from the payment of all taxes, fees and charges of whatever nature and description, except the corporate income tax and local taxes, fees and charges for a period of five (5) years from the date of commencement of operations.

Provisions

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and these can be estimated reliably, even if the timing or amount of the outflow may still be uncertain.

A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts.

Provisions are measured at the estimated expenditure required to settle the present obligation based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset not exceeding the amount of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In addition, long-term provisions are discounted to their present values, where time value of money is material.

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

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In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements.

Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements.

Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

Prior Period Adjustments

Prior period adjustments cover those adjustments pertaining to the omissions and misstatements in the entity's financial statements for one or more periods arising from a failure to use or misuse of reliable information that were available when the financial statements for these periods were authorized for issue or could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

The bank shall correct material period errors retrospectively in the first set of financial statements authorized for issue after discovery by:

- a. Restating the comparative amounts for prior period presented in which the error occurred.
- b. Restating the opening balances of assets, liabilities and equity for the earliest prior period presented if the error or adjustment occurred before earliest period presented.

The correction of prior period error is excluded from profit or loss for the period in which the error is discovered but it is an adjustment of the beginning balance of retained earnings of the earliest period presented.

Events after End of Reporting Period

Events after the reporting period are those events, favorable and unfavorable, that occur between the end of the reporting period and the date when the financial statements are authorized for issue. Two types of events can be identified:

- a) those that provide evidence of conditions that existed at the end of the reporting period (*adjusting events after the reporting period*); and
- b) those that are indicative of conditions that arose after the reporting period (*non-adjusting events after the reporting period*).

Post year-end event that provides additional information about the Bank's position at each reporting date (adjusting events) are reflected in the financial statements. Post year-end adjustments that are not adjusting events are disclosed in the notes to financial statements.

Comparatives

Where necessary, certain accounts in prior years have been reclassified and comparative figures have been adjusted to conform to current year's financial statements presentation.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The Bank's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the financial statements and related notes. Judgments and estimates are continually

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evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances. Actual results may ultimately differ from these estimates.

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed in the succeeding pages.

(a) Impairment Losses on Financial Assets (Loans and Receivables and Financial Assets at Amortized Cost)

The Bank reviews its loan and receivables and financial assets portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the portfolio before the decrease can be identified with an individual item in that portfolio.

The evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditioned that correlate with defaults on assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Bank carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. Significant components of fair value measurement were determined using verifiable objective evidence such as foreign exchange rates, interest rates, volatility rates.

However, the amount of changes in fair value would differ if the Bank utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit and loss and equity.

Write-off of loans receivable for the years 2018 and 2017 amounted to nil ₱ 2,390,243, respectively. As at December 31, 2018 and 2017, the allowance for probable losses of the Bank amounted to ₱48,057,788 and ₱50,205,710, respectively. Moreover, loans receivable of the Bank is carried at ₱509,728,767 and ₱510,415,764 as at December 31, 2018 and 2017, respectively. (Note 6)

(c) Fair Value of Financial Assets and Liabilities

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities as at December 31, 2018 and 2017, as presented in the statements of financial position at their fair value:

As of December 31, 2018:

Financial Assets:	Carrying Value	Fair Value
Due from BSP	₱ 51,981,873	₱ 51,981,873
Due from other banks	657,086,589	657,086,589
Investments-amortized cost	437,549,348	437,549,348
Loans receivables – net	524,809,975	524,809,975
	₱ 1,671,427,785	₱ 1,671,427,785

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Financial Liabilities

Deposit Liabilities	₱	1,521,156,286	₱	1,521,156,286
Bills Payable		25,000,000		25,000,000
Accrued and other payables		21,195,051		21,195,051
Other liabilities		440,605		440,605
	₱	1,567,791,942	₱	1,567,791,942

As of December 31, 2017:

Financial Assets:		Carrying Value		Fair Value
Due from BSP	₱	46,228,845	₱	46,228,845
Due from other banks		545,093,724		545,093,724
Investments-amortized cost		373,493,929		373,493,929
Loans and Receivable		528,307,634		528,307,634
	₱	1,493,124,132	₱	1,493,124,132

Financial Liabilities

Deposit Liabilities	₱	1,360,678,227	₱	1,360,678,227
Bills Payable		20,000,000		20,000,000
Accrued and other payables		20,193,315		20,193,315
Other Financial Liabilities		534,074		534,074
	₱	1,401,408,616	₱	1,401,408,616

(d) *Useful Life of Bank Premises, Furniture and Equipment*

The Bank estimates the useful lives of bank premises, furniture and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of bank premises, furniture and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful lives of bank premises, furniture and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors and circumstances.

A reduction in the estimated useful lives of bank premises, furniture and equipment would increase recorded operating expenses and decrease non-current assets.

Depreciation is calculated on the straight-line method over the estimated useful life of the depreciable assets. Leasehold improvements are amortized over the shorter of the terms of the covering leases and the estimated useful lives of the improvements.

The range of estimated useful life of the Bank's property and equipment follow:

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	<u>Estimated Useful Life in Years</u>
Building	20 years
Furniture, fixtures and office equipment	2 – 5 years
Transportation equipment	5 – 8years

Leasehold improvements are amortized over the term of the lease or the estimated useful lives of the improvements of five to ten years, whichever is shorter.

The cost of licenses is amortized on a straight-line basis for a period ranging from two (20 to five (5) years.

As at December 31, 2018 and 2017, Bank premises, furniture and equipment net of accumulated depreciation amounted to ₱47,517,151 and ₱48,937,363, respectively (Note 8).

(e) Impairment of Non - Financial Assets

Except for intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indicators are present. The Bank's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.

Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are approximate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Critical Accounting Judgments

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

(a) Functional Currency

The Bank has determined that its functional currency is the Philippine Peso which is the currency of the primary environment in which the Bank operates.

(b) Distinction between Investment Properties and Owner-Managed Properties

The Bank determines whether a property qualifies as investment property. In making its judgment, the Bank considers whether the property generated cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the production and supply of goods and services or for administrative purposes.

If these portion can be sold separately (or leased out separately under finance lease), the bank also accounts for the portions separately. If the portion cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Bank considers each property separately in making its judgment.

(c) Classification of Acquired Properties and fair Value Determination of Non-current Assets Held for Sale and Investment Property

The Bank classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as Non-current Assets Held-for-sale if the Bank expects that the properties will be recovered through sale rather than

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use, as Investment Property if the Bank intends to hold the properties for capital appreciation or as Financial Assets in accordance with PAS 39.

At initial recognition, the Bank determines the fair value of acquired properties through internally and externally generated appraisal. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the property.

(d) Provisions and Contingents

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 2 and relevant disclosures are presented in Note 6.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

It must be recognized that banking is a business of taking risks in order to earn profit. Risk is the potential that events, expected or unanticipated, may have an adverse impact on bank's capital or earnings. Bank must evaluate, control, and manage risk according to its significance. The existence of risk is no necessarily a reason for concern, so long as the management exhibits the ability to effectively manage that level of risk.

Bangko Mabuhay, as a financial institution, is in the business of risk taking. Its activities expose the Bank to credit, liquidity and operational risks. Credit risk emanates from exposures to borrowing customers. Liquidity risk may arise from shortage in funding and/or lack of market for sale of its assets. Operational risk covers potential losses other than market and credit risk arising from failures of people, process, systems and information technology and external events.

The ability to management risks effectively is vital for the Bank to sustain its growth and continue to create value for its shareholders.

Risk Management

The Bank continually advances on its risk management techniques and integrate this into the overall strategic business objectives to support the growth objectives of the Bank.

To manage credit risk, the Bank has instituted improvements on its credit policies, which includes review and approval of large exposure and credit concentration within proper authority. The Bank also reviews plans and status on the resolution of problem loan accounts. The Executive/Credit Committee oversees that commensurate controls are in place in the credit process.

As for operational risk, information security policies were further strengthened, implemented, and disseminated across all units of the Bank.

Enterprise Risk Management Framework

The Bank adopts an Enterprise Risk Management Framework as its integrated approach to the identification, measurement, control and disclosure of risks, subject to prudent limits and stringent controls as established in its risk management framework and governance structure. The Bank has an integrated process of planning, organizing, leading, and controlling its activities in order to minimize the effects of risk on its capital and earnings. The Bank's Board of Directors (BOD) formulates the corporate risk policy sets risk tolerance and appetite and provide risk oversight function through the Risk Management Committee. The framework covers operational, liquidity, credit and other risks within the context of the supervisory risk guidelines of the BSP and aligned best practices on risk management.

Risks

a) Credit risks

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Credit risk refers to the potential loss of the Bank's earnings or capital arising from an obligor/s, customer/s or counterparty/s failure to perform and/or meet the terms or any contract with the Bank, either in full or partially as they fall due, deterioration in credit quality of a borrower or counterparty, and the reduced recovery from a credit facility in the event of default. This is inherent in the Bank's lending and investing, and is managed in accordance with the Bank's credit risk framework of risk identification, measurement, control and monitoring.

Credit risk is managed through a continuing review of credit policies, systems, and procedures. It starts with the definition of business goals and setting of risk policies by the BOD. Account officers and credit officers directly handle credit risk as guided by BOD-approved policies and limits.

On the transactional level, exposure to credit risk is managed through a credit review process wherein a regular analysis of the payment capacity of the borrowers and potential borrowers is performed. Exposure to credit risk is also managed in part by obtaining collateral and personal guarantees. The Bank Also adopts an internal credit risk rating system for the purpose of measuring credit risk and uses this information as a tool for business and financial decision-making.

Pursuant to regulatory requirements and best practices, the Bank also conducts sensitivity analysis and stress testing of the credit portfolio to assess sensitivity of the Bank's capital to specified credit risk scenarios.

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

	Gross Maximum Exposure	
	2018	2017
Due from BSP	P51,981,873	P46,228,845
Due from other banks	657,086,589	545,093,724
Financial Assets at amortized cost	437,549,348	373,493,929
Loans receivable - net	<u>524,809,975</u>	<u>528,307,634</u>
Total	<u>P1,671,427,785</u>	<u>P1,493,124,132</u>

(a) Cash and Cash Equivalents

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks. Included in the cash and cash equivalents with credit risk are Due from BSP and Due from Other Banks. Due from Other Banks are insured by the Philippine Deposit Insurance Corporation (PDIC) up to maximum coverage of P500,000 for every depositor per banking institution.

The balance of the Due from BSP account represents the aggregate balance of noninterest bearing deposit account in local currency maintained by the Bank with the BSP primarily to meet reserve requirements and to serve as a clearing account for interbank claims. Hence, no significant credit risk is anticipated on this account.

(b) Financial assets at amortized cost

These investments are mainly composed of government bonds whose credit risk is secured by the Philippine Government. Accordingly, all debt instruments held by the Bank are considered as either high grade or standard grade that is neither past due nor specifically impaired.

(c) Loans and receivable

The Bank regularly reviews and monitors defaults of borrowers identified either individually or by group, and incorporates this information into its credit risk evaluation. Where available at a reasonable cost, external credit ratings and/or reports on customers are obtained and used. In addition, for a significant proportion of loans, post-dated checks are received to mitigate credit risk.

The following table shows detailed analysis of the Bank's maximum exposure to credit risk on loans and other receivables as at December 31, 2018 and 2017:

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	2018	2017
Collectively impaired		
real estate, renting and construction	₱ 52,981,170	₱ 30,883,406
Services	40,056,479	14,973,146
Wholesale and retail	35,231,271	24,871,851
Consumption	3,894,497	4,522,236
Others	<u>44,193,599</u>	<u>46,282,364</u>
Gross amount	176,357,016	121,533,003
Allowance for impairment	<u>(62,824,507)</u>	<u>(65,555,177)</u>
Carrying value	113,532,509	55,977,826
Neither past due nor impaired carrying amount	<u>411,277,466</u>	<u>472,329,808</u>
Total carrying amount	₱ <u>524,809,975</u>	₱ <u>528,307,634</u>

(d) Due from BSP and other banks

The credit risk for due from BSP and other banks are considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

The Bank reviews the loan portfolio in line with the Bank's policy of not having significant unwarranted concentrations of exposure to individual counterparties, in accordance with the BSP's prohibition on maintaining a financial exposure to any single person or group of connected persons in excess of 25% of its net worth.

The table below shows the credit quality of the Bank's loans receivable for the years 2018 and 2017.

	2018	2017
Current	₱370,510,718	₱418,500,328
Past due	139,102,654	79,421,058
Items in litigation	8,036,746	21,358,850
Total	<u>₱517,650,118</u>	<u>₱ 519,280,236</u>

Past due loans and items in litigation increased by ₱46,359,492 from ₱100,779,908 in 2017 to ₱147,139,400 in 2018. Moreover, the Bank's past due and items in litigation ratio to total loan portfolio is 28.42%, increased by 46.42% as compared to 19.41% in 2017 (see Note 6).

On October 29, 2014, BSP issued Circular No. 855, Series of 2015, Section X303 stating that loans and other credit accommodations and usual guarantees by a bank to any other bank, whether locally or abroad, shall be subject to limits as prescribed by MORB provided that the lending bank shall exercise proper due diligence in selecting a depository bank and shall formulate appropriate policies to address the corresponding risks involved in the transactions.

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Computation of required single borrowers' limit (SBL) is shown below:

Tier 1 Capital	₱	
Paid up Capital		188,879,800
Additional paid-up capital		26,811,831
Unrestricted Retained Earnings		52,675,378
Undivided Profits		24,471,698
Tier 1 (Core) Capital	₱	292,838,707
Add: Tier 2		
General Loan Loss Provision		2,740,442
Bank Net Worth	₱	295,579,149
SBL rate per BSP		25%
Single Borrower's Limit	₱	73,894,787

The Bank has no loan releases which exceed the single borrowers' limit, hence the Bank is compliant with this requirement.

e) Market Risk

Market risk is the risk of loss to future earnings, fair values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates. The Bank's market risk is very minimal because the Bank's investments are placed in government securities.

f) Interest Rate Risk

The bank's loans earn fixed annual interest rates ranging from 6% to 28% for term loans and 70% per annum (p.a.) for microfinance loans, both in 2018 and 2017. The shortest term of loan is one (1) month while the longest term is ten (10) years. The Bank's interest rate is consistent with the market rate. The Bank's investments-amortized cost earn fixed interest rates ranging from 1% to 8%, both in 2018 and 2017.

The Bank's savings deposit liabilities include demand deposits, ATM savings deposit, and regular savings deposit that earn 0.10% p.a. in 2018 and 2017, respectively. Special savings deposits have interest rates ranging from 0.12% p.a. to 2.00% p.a. in 2018 and 2017. Annual interest rate of regular time deposit ranges from 0.12% p.a. to 2.20% p.a. in 2018 and 0.12% to 2.00% p.a. in 2017, while for long term non-negotiable time deposit earned fixed annual interest rates from 2% p.a. to 3.10% p.a. in 2018 and 2% p.a. to 3% p.a. in 2017.

In order to manage its interest rate risk, the Bank places its excess funds in high yield government securities and other short-term time deposits. The Bank has fixed interest rates and believes that interest rate risk is very minimal.

g) Liquidity Risk

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligations when they come due without incurring unacceptable losses or costs.

The Bank's Risk Management Committee is responsible for formulating the Bank's liquidity risk management policies. Liquidity management is among the most important activities conducted within the bank. The Bank manages its liquidity risk through analyzing net funding requirements under alternative scenarios, diversification of funding sources and contingency planning. The Bank utilizes a diverse range of sources of funds, although short-term deposits made with the Bank's network of domestic branches comprise the majority of such funding.

Liquidity risk is managed by the Bank through holding sufficient liquid assets and appropriate assessment to ensure short-term funding requirements are met and by ensuring the high collection performance at all times. Deposits with other banks are made on a short-term basis with almost all being available on demand or within one month. The Bank uses liquidity forecast models that estimate the Bank's cash flow need based on the Bank's actual contractual obligations and under normal circumstances and extraordinary circumstances. The following table shows an analysis of assets and liabilities analyzed according to whether they are to be recovered or settled within one year and beyond one year from statement of condition date:

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The table below summarizes the maturity profile of the Bank's gross total assets and liabilities as at December 31, 2018 and 2017.

December 31, 2018				
	One to three months	Three months to one year	More than one year	Total
Assets				
Cash and cash equivalents	₱ 33,106,565	₱ -	₱ -	₱ 33,106,565
Due from BSP	51,981,874	-	-	51,981,874
Due from other banks	632,086,589	20,000,000	5,000,000	657,086,589
Loans receivable	44,209,625	61,988,224	418,612,126	524,809,975
Investments - amortized cost	60,058,773	188,871,288	188,619,287	437,549,348
Bank premises, furniture and equipment - net	-	-	47,517,151	47,517,151
Investment property (ROPA)	-	-	87,331,981	87,331,981
Deferred tax assets	-	-	9,134,048	9,134,048
Other assets	-	-	48,479,647	48,479,647
Total assets	₱ 821,443,426	₱ 270,859,512	₱ 804,694,240	₱ 1,896,997,178
Liabilities				
Deposit liabilities	₱ 1,175,820,496	₱ 43,396,567	₱ 301,939,223	₱ 1,521,156,286
Bills payable	25,000,000.00	-	-	25,000,000
Accrued and other payables	24,069,984.29	-	-	24,069,984
Other liabilities	4,076,474	-	-	4,076,474
Total liabilities	₱ 1,228,966,954	₱ 43,396,567	₱ 301,939,223	₱ 1,574,302,744
Net liquidity gap	₱ (407,523,528)	₱ 227,462,945	₱ 502,755,017	₱ 322,694,433

December 31, 2017				
	One to three months	Three months to one year	More than one year	Total
Assets				
Cash and cash equivalents	₱ 24,422,366	₱ -	₱ -	₱ 24,422,366
Due from BSP	46,228,845	-	-	46,228,845
Due from other banks	535,093,724	-	10,000,000	545,093,724
Loans receivable	50,745,459	60,212,326	417,349,849	528,307,634
Investments - amortized cost	159,192,692	51,110,000	163,191,237	373,493,929
Bank premises, furniture and equipment - net	-	-	48,937,363	48,937,363
Investment property (ROPA)	-	-	79,285,949	79,285,949
Deferred tax assets	-	-	11,047,066	11,047,066
Other assets - net	29,748,201	-	20,240,491	49,988,692
Total assets	₱ 845,431,287	₱ 111,322,326	₱ 750,051,954	₱ 1,706,805,568
Liabilities				
Deposit liabilities	₱ 1,078,375,311	₱ 38,857,138	₱ 243,445,778	₱ 1,360,678,227
Bills payable	20,000,000	-	-	20,000,000
Accrued and other payables	22,447,150	-	-	22,447,150
Other liabilities	3,349,099	-	-	3,349,099
Total liabilities	₱ 1,124,171,560	₱ 38,857,138	₱ 243,445,778	₱ 1,406,474,476
Net liquidity gap	₱ (278,740,273)	₱ 72,465,188	₱ 506,606,176	₱ 300,331,091

The above contractual maturities reflect the gross cash flows at the end of the reporting period, except property and equipment and investment property (ROPA).

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The negative gap is due to the timing difference in the contractual maturities of assets and liabilities. To ensure that the Bank maintains a prudent and manageable level of cumulative negative gap, the Bank maintains a pool of highly liquid assets in form of due from other banks and government securities.

Additional measures to mitigate liquidity risks include reporting of funding concentration, short-term liquidity reporting, available funding sources, and liquid assets analysis.

h) Operational Risk

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

The Risk Management Committee assists management in meeting its responsibility to understand and manage operational risk exposures.

The Risk Management Committee applies a number of techniques to efficiently management operational risks. Among these are enumerated below:

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

i) Strategic Risk

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

j) Reputation Risk

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

Thus, the Bank adopted a reputation risk management framework to manage such risk.

k) Legal Risk and Regulatory Risk

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

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stringent legal documentation imposing certain requirements designed to ensure that transactions are properly authorized, and consulting internal and external legal counsels.

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

5. CASH AND CASH EQUIVALENTS

The account consists of the following:

	2018		2017	
Cash in vault	₱	23,823,424	₱	18,282,751
Caash in ATM		7,734,100		5,631,500
Checks and other cash items		1,549,041		508,115
Due from Bangko Sentral ng Pilipinas		51,981,874		46,228,845
Due from other banks		657,086,589		545,093,725
Total	₱	742,175,028	₱	615,744,936

Cash in vault refers to the total amount of cash in the bank’s vault under the custody of the cashiers and tellers. Cash in ATM refers to amount of cash in the automated teller machines as of end of reporting period. Checks and other cash items refer to the total amount of checks and other cash items received after the selected clearing cut-off time until the close of the year-end regular banking day. Cash and other cash items are included in the computation of cash and cash equivalents for cash flow statement purposes.

The “Due from BSP” account represents the demand deposit account (DDA) with BSP which the Bank is maintaining primarily to meet reserve requirements and to serve as a clearing account for interbank claims. Effective in 2012, BSP Circular No. 753 provides that the required reserves shall be kept in form of deposit placed in the Bank’s DDA with the BSP (see note 20). Due from BSP is a non-interest bearing deposit. Further, this account is included in the computation of cash and cash equivalents for cash flow statement purposes.

This account represents deposits with local banks. Due from other banks amount is included in the computation of cash and cash equivalents for cash flow statement purposes.

Annual interest rates on due from other banks range from 0% to 5.7% p.a. in 2018 and 0% to 5% p.a. in 2017. For the years ended, December 31, 2018 and 2017, the interest income earned on due from other banks amounted to ₱7,089,901 and ₱4,485,750, respectively, and were included as part of interest income in the statements of profit and loss.

As at December 31, 2018:			0 – 3 mos.	>3mos- 1yr.	>1yr.	Total
Type of Deposit						
Demand Deposit	₱	39,652,339			₱	39,652,339
Savings Deposit		313,714,106				313,714,106
Time Deposit		278,720,144	20,000,000	5,000,000		303,720,144
	₱	<u>632,086,589</u>	<u>20,000,000</u>	<u>5,000,000</u>	₱	<u>657,086,589</u>

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As at December 31, 2017:		<u>0 – 3 mos.</u>	<u>>3mos- 1yr.</u>	<u>>1yr.</u>	<u>Total</u>
Type of Deposit					
Demand Deposit	₱	31,091,346			₱ 31,091,346
Savings Deposit		267,081,187			267,081,187
Time Deposit		236,921,191	-	10,000,000	246,921,191
	₱	<u>535,093,724</u>	=	<u>10,000,000</u>	<u>545,093,724</u>

The breakdown as to type of deposit and maturities profile of due from other banks follows:

6. LOANS AND RECEIVABLES - NET

The account consists of the following:

	2018	2017
Receivables from customers	₱	₱
Loans and discounts	517,650,118	519,280,236
Unamortized discountss	(59,475)	(61,350)
Amortized cost	517,590,643	519,218,886
Other receivables		
Accrued interest receivable	5,907,011	3,465,242
Sales contract receivable	45,852,105	49,912,965
Accounts receivable	18,284,723	21,265,718
	70,043,839	74,643,925
Total loans and receivables	587,634,482	593,862,811
Less: Allowance for credit losses	62,824,507	65,555,177
Net	₱ 524,809,975	₱ 528,307,634

a) Loans and Discounts

Interest earned from loans and discounts for the years 2018 and 2017 amounted to ₱91,645,171 and ₱100,328,658, respectively, and were included as part of interest income in the statements of profit and loss. Loans and discounts bear annual interest rates ranging from 6% to 70 % per annum, in 2018 and 2017.

As of December 31, 2018 and 2017, loan receivables amounting ₱ 25 Million and ₱ 20 million are pledged as collateral to secure borrowings under rediscounting privileges (see Note 12).

Further, as at December 31, 2018 and 2017, housing loans amounting to ₱ 11,713,943 and ₱ 8,880,740, respectively, are secured by real estate mortgage and further guaranteed by the Home Guaranty Corporation.

The above total loans are further classified according to security as mandated by the Bangko Sentral ng Pilipinas (BSP) in compliance to the Manual Regulation of Bank (2016) Subsection X190.4 as follows:

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2018								
Classification	Current		Past due		Items in litigation		Total	Percentage
Secured	₱	317,690,708	₱	126,165,291	₱	7,043,021	₱ 450,899,020	87.11%
Unsecured		52,760,534		12,937,364		993,725	66,691,623	12.89%
Total	₱	370,451,242	₱	139,102,654	₱	8,036,746	₱ 517,590,643	100.00%
Percentage		71.57%		26.88%		1.55%		

Total secured loans are broken down as to type of collateral, as follows:

2018								
Secured	Current		Past due		Items in litigation		Total	Percentage
Real Estate Mortgage	₱	316,299,974	₱	123,404,764	₱	6,890,929	₱ 446,595,667	99.05%
Chattel Mortgage		934,209		2,760,527		152,092	3,846,828	0.85%
Others		456,525		-		-	456,525	0.10%
Total	₱	317,690,708	₱	126,165,291	₱	7,043,021	₱ 450,899,020	100.00%
Percentage		70.46%		27.98%		1.56%	100.00%	

As at December 31, 2018, secured and unsecured loans receivable amounted to ₱450,899,020 and ₱ 66,691,623, respectively.

2017								
Classification	Current		Past due		Items in litigation		Total	Percentage
Secured	₱	367,102,649	₱	68,101,879	₱	20,365,125	₱ 455,569,653	87.75%
Unsecured		51,336,329		11,319,179		993,725	63,649,233	12.25%
Total	₱	418,438,978	₱	79,421,058	₱	21,358,851	₱ 519,218,886	100.00%
Percentage		80.59%		15.30%		4.11%	100.00%	

Total secured loans are broken down as to type of collateral, as follows:

2017								
Secured	Current		Past due		Items in litigation		Total	Percentage
Real Estate Mortgage	₱	364,101,140	₱	66,461,636	₱	20,213,033	₱ 450,775,809	98.95%
Chattel Mortgage		2,484,717		1,640,243		152,092	4,277,052	0.94%
Others		516,792		-		-	516,792	0.11%
Total	₱	367,102,649	₱	68,101,879	₱	20,365,125	₱ 455,569,653	
Percentage		80.58%		14.95%		4.47%	100.00%	

As at December 31, 2017, secured and unsecured loans receivable amounted to ₱455,569,653 and ₱63,649,233, respectively.

Under BSP Regulations, as a general rule, loans are considered past due when any principal and/or interest or installment due, or portions thereof, are not paid at their contractual due date, in which case, the total outstanding balance thereof is considered as past due. However, the said Regulation allows the banks to provide a cure period policy on loan products other than

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microfinance of not more than thirty (30) days within which to allow the obligors or borrowers to catch up on their late payment without being considered as past due. For microfinance that features high frequency payments, the cure period is for seven (7) days. The Board of Directors approved the Bank's cure period policy relative to the determination of whether the pertinent loan account is past due.

The cure period policy of the Bank is based on verifiable collection experience and reasonable judgment that support tolerance of occasional payment delays; provided however, that the observance of a cure period policy shall not preclude the timely adverse classification of an account that has developed material credit weakness/es, and that banks shall regularly review the reasonableness of its cure period policy.

As at December 31 and 2017, 2018, allowance for credit losses on loans and discounts includes specific and general loan loss reserves which amounted to ₱45,317,346 and ₱2,740,442; and ₱ 47,587,452 and ₱ 2,618,259, respectively. The specific and general loan loss reserves, as discussed under Note 5.3.d, represent management estimates of probable losses on loans and discounts following the guidelines set forth by the BSP Circular No. 855.

Also we classified the account according to industry, as follows:

	2018		2017	
Real estate, renting & building	₱ 185,975,983	35.93%	₱ 176,931,182	34.08%
Wholesale & retail	129,702,283	25.06%	111,632,447	21.50%
Other community, social	101,112,703	19.54%	102,356,781	19.71%
Transportation, storage	29,944,746	5.79%	25,603,934	4.93%
Construction	24,758,876	4.78%	40,660,005	7.83%
Agri. Hunting & forestry	21,305,466	4.12%	24,914,772	4.80%
Household consumption	11,052,097	2.14%	12,966,523	2.50%
Hotel & restaurant	5,868,829	1.13%	2,415,787	0.47%
Health & social work	4,254,097	0.82%	4,535,924	0.87%
Education	3,615,563	0.70%	17,201,531	3.31%
	₱ 517,590,643	100.00%	₱ 519,218,886	100.00%

Concentration of credit as to industry/sector where concentration is said to exist when the total loan exposures to a particular industry/economic sector exceeds thirty (30%) of total loan portfolio in compliance to the MORB (2016) Subsection X190.4. As at December 31, 2018, the Bank's concentration on real estate, renting & building reached 35.93%.

In compliance with BSP Circular 855 and appendix 15 of MORB (2017), the loans were classified qualitatively and appraised as follows:

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2018							
	Current		Past due		Total	Percentage	
Unclassified loans	₱	370,451,242	₱	-	₱	370,451,242	71.57%
Especially mentioned		-		9,425,071		9,425,071	1.82%
Substandard (1)		-		90,942,530		90,942,530	17.57%
Substandard (2)		-		22,718,269		22,718,269	4.39%
Doubtful		-		6,000,933		6,000,933	1.16%
Loss (unsecured)		-		13,957,518		13,957,518	2.70%
Loss (secured)		-		4,095,079		4,095,079	0.79%
Total	₱	370,451,242	₱	147,139,400	₱	517,590,643	100.00%
Percentage		71.57%		28.43%		100.00%	

Based on the preceding loan classification, we computed the required provision for probable loan losses.

Our reconciliation showed an under provision of ₱964,071 on general loan loss provision and over provision of ₱8,287,541 on allowance for probable losses – specific. Reconciliations are as follows:

2018						
Classification		Amount	Rate		Required Provision	
General loan loss						
Unclassified		₱ 370,451,242	1%	₱	3,704,512	
Specific loan loss						
Especially mentioned (1)		1,621,839	2%		32,437	
Especially mentioned (2)		7,803,232	15%		1,170,485	
Substandard (1)		90,942,530	10%		9,094,253	
Substandard (2)		22,718,269	25%		5,679,567	
Doubtful		6,000,933	50%		3,000,466	
Loss		18,052,597	100%		18,052,597	
Total		₱ 517,590,643		₱	40,734,318	
Booked provision					45,317,346	
Specific loan loss provision					37,029,805	
Over (under) provision					8,287,541	
Booked provision					2,740,442	
General loan loss provision					3,704,512	
Over (under) provision					(964,071)	

Total loan releases for the years ended, December 31, 2018 and 2017, amounted to ₱477,778,385 and ₱493,693,811, respectively.

Additionally, movements in the allowance for probable loan loss account are presented as follows:

2018						
	General		Specific		Total	
Beginning balance	₱	2,618,259	₱	47,587,452	₱	50,205,710
Additional (reversed) provision		122,183		(2,270,106)		(2,147,922)
Ending balance	₱	2,740,442	₱	45,317,346	₱	48,057,788

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b) Sales Contract and Receivable (SCR)

Sales Contract and Receivable (SCR) represents the balance due from the buyer of investment properties on installment basis. At the time of sale of said acquired asset on installment, the Bank still retains the title of the sold property and will only be transferred to the buyer upon full payment of the agreed selling price. This account, gross of allowance, consists of as at December 31:

	<u>2018</u>	<u>2017</u>
Performing	₱ 20,978,320	₱ 33,944,201
Non-performing	<u>24,873,785</u>	<u>15,968,764</u>
Total	₱ <u>45,852,105</u>	₱ <u>49,912,965</u>

SCR is considered non-performing in case of non-payment of any amortization due. According to BSP Regulations, an SCR which has been classified “Substandard” and considered non-performing due to non-payment of any amortization due may only be upgraded/ restored to unclassified and/or performing status after a satisfactory track record of at least three (3) consecutive payments of the required amortization of principal and/or interest has been established. As at December 31, 2018 and 2017, the allowance for losses on sales contract receivable amounted to ₱ 10,986,345 and ₱ 11,398,756, respectively.

Sales contract receivable (SCR) bears annual interest rate of 20% per annum in the bank’s financial statements. Interest earned for the years 2018 and 2017, amounted to ₱ 6,657,624 and ₱ 6,546,937, respectively, and are included as part of interest income in the statement of profit and loss.

Maturity profile of the Bank’s SCR as at December 31, follows:

	<u>2018</u>	<u>2017</u>
Within one year	₱ 15,755,426	₱ 14,579,987
Beyond one year	<u>30,096,679</u>	<u>35,332,978</u>
	₱ <u>45,852,105</u>	₱ <u>49,912,965</u>

c) Accrued Interest Receivable

Accrued interest receivable, gross of allowance, consists of the following as at December 31:

	<u>2018</u>	<u>2017</u>
Due from other banks	₱ 1,245,068	₱ 454,299
HTM Investments	4,085,084	2,434,084
Loans and discounts	<u>576,859</u>	<u>576,859</u>
	₱ <u>5,907,011</u>	₱ <u>3,465,242</u>

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d) Accounts Receivables

Accounts Receivables, gross of allowance, consist of the following as at December 31:

	<u>2018</u>	<u>2017</u>
Receivable from BancNet – Acquirer transactions	₱4,960,200	₱6,717,700
Cash bond with CIS Bayad Center, Inc.	3,999,808	4,177,983
Advances to MB Phils Inc. for Core Banking System migration	1,505,062	1,621,218
Receivable -New Bay Phils., Inc.-pay-out remittances via TranFast	86,145	567,805
Receivable from borrowers for advanced insurance premium	978,599	833,046
Creditable Withholding Tax	947,243	330,675
Cash bond with BancNet	521,500	521,500
Cash bond with SSS	500,000	500,000
Receivable from certain RB Mendez employees	2,358,900	2,358,900
Receivable from USSC for pay-out remittances via Western Union	1,628,139	2,187,861
Other receivables	799,127	1,449,031
	<u>₱18,284,723</u>	<u>₱21,265,719</u>

e) Allowance for credit losses

As at December 31, allowance for credit losses consists of the following:

	<u>2018</u>	<u>2017</u>
Loans and discounts	₱ 48,057,788	₱ 50,205,710
Accrued interest receivable	576,859	576,858
Sales contract receivable	10,986,345	11,398,756
Accounts receivable	3,203,515	3,373,853
	<u>₱ 62,824,507</u>	<u>₱ 65,555,177</u>

Included in the allowance for losses is the 100% provision for losses on receivables from separated RB Mendez employees and accrued interest receivable acquired from the Purchase of Assets and Assumption of Liabilities of the RB Mendez and Consolidation with RB Teresa, respectively.

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7. INVESTMENTS – AMORTIZED COST

This account consists of government securities purchased from commercial banks, quoted in an active market and stated at amortized cost. Discount and premium recognized are amortized based on effective interest method. The balance of this account is composed of the following:

December 31, 2018

	Retail TB	TB	NFA Bonds	Ten-Year Agri Bonds	Unamortized Premium/(Discount)	Amortized Cost
Acquired from						
UCPB	₱ -	144,000,000	-	-	(3,964,990)	₱ 140,035,010
Metrobank	71,500,000	112,000,000	-	-	(3,224,983)	180,275,017
Landbank	-	-	-	100,483,379	(6,706,520)	93,776,859
Eastwest	1,000,000	-	-	-	-	1,000,000
Allied	10,462,462	-	-	-	-	10,462,462
PVB	10,000,000	-	-	-	-	10,000,000
Security	2,000,000	-	-	-	-	2,000,000
Total	₱ 94,962,462	256,000,000	-	100,483,379	(13,896,493)	₱ 437,549,348

December 31, 2017

	Retail TB	TB	NFA Bonds	Ten-Year Agri Bonds	Unamortized Premium/(Discount)	Amortized Cost
Acquired from						
UCPB	₱ -	-	106,000,000	-	-	₱ 106,000,000
Metrobank	66,500,000	84,110,000	-	-	(1,304,587)	149,305,413
Landbank	-	-	-	81,991,700	(7,458,338)	74,533,362
Eastwest	1,000,000	-	20,000,000	-	192,692	21,192,692
Allied	10,462,462	-	-	-	-	10,462,462
PVB	10,000,000	-	-	-	-	10,000,000
Security	2,000,000	-	-	-	-	2,000,000
Total	₱ 89,962,462	84,110,000	126,000,000	81,991,700	(8,570,233)	₱ 373,493,929

Annual interest rates on these financial assets range from 0.05% to 8 % p.a. in 2018 and 2017. Interest earned for the years ended December 31, 2018 and 2017 amounted to ₱ 14,373,502 and ₱ 9,071,598, respectively, and were included as part of interest income in the statements of profit and loss.

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Maturity profile of HTM investments follows:

December 31, 2018						
	Retail TB	TB	NFA Bonds	Ten-Year Agri Bonds	Unamortized Premium/(Discount)	Amortized Cost
Within One Year	₱ -	256,000,000	-	-	(7,069,939)	- 248,930,061
Beyond One Year	94,962,462	-	-	100,483,379	(6,826,554)	188,619,287
Total	₱ 94,962,462	256,000,000	-	100,483,379	(13,896,493)	- 437,549,348

December 31, 2017						
	Retail TB	TB	NFA Bonds	Ten-Year Agri Bonds	Unamortized Premium/(Discount)	Amortized Cost
Within One Year	₱ -	84,110,000	126,000,000	-	-	210,110,000
Beyond One Year	89,962,462	-	-	81,991,700	(8,570,233)	163,383,929
Total	₱ 89,962,462	84,110,000	126,000,000	81,991,700	(8,570,233)	- 373,493,929

8. PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - NET

The composition of and movements for the years ended, December 31, 2018 and 2017 in this account follow:

	<u>Land</u>	<u>Building</u>	<u>Lease- hold Improve- ment</u>	<u>Furniture Fixtures & Equipment</u>	<u>Total</u>
For the Year 2018:					
Cost					
Balance as at Jan. 1, 2018	P 11,298,088	P 59,838,234	P 1,068,744	P 48,905,387	P 121,110,453
Additions	-	520,375	-	3,963,408	4,483,783
Disposal/Adjustment	-	(375)	(389,472)	(482,545)	(872,392)
Balance as at Dec.31,2018	<u>11,298,088</u>	<u>60,358,234</u>	<u>679,272</u>	<u>52,386,250</u>	<u>124,721,844</u>
Accumulated Depreciation					
Balance as at Jan. 1,2018	-	32,579,521	564,609	39,028,960	72,173,090
Depreciation Expense (see Note 27)	-	2,442,536	76,577	3,384,882	5,903,995
Disposal/Adjustment	-	(375)	(389,472)	(482,545)	(872,392)
Balance as at Dec.31,2018	-	<u>35,021,682</u>	<u>251,714</u>	<u>41,932,297</u>	<u>77,204,693</u>
Carrying Amount	P <u>11,298,088</u>	P <u>25,336,552</u>	P <u>427,558</u>	P <u>10,453,953</u>	P <u>47,517,151</u>

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		<u>Land</u>		<u>Building</u>		<u>Lease- hold Improve- ment</u>		<u>Furniture Fixtures & Equipment</u>		<u>Total</u>
For the Year 2017:										
Cost										
Balance as at Jan. 1, 2017	P	11,298,088	P	59,688,234	P	514,615	P	45,870,168	P	117,371,105
Additions		-		150,000		554,129		3,976,561		4,680,690
Disposal		-		-		-		(941,342)		(941,342)
Balance as at Dec.31,2017		<u>11,298,088</u>		<u>59,838,234</u>		<u>1,068,744</u>		<u>48,905,387</u>		<u>121,110,453</u>
Accumulated Depreciation										
Balance as at Jan. 1,2017		-		30,155,360		222,788		36,630,493		67,008,641
Depreciation Expense (see Note 27)		-		2,424,161		341,821		3,339,809		6,105,791
Disposal		-		-		-		(941,342)		(941,342)
Balance as at Dec.31,2017		-		<u>32,579,521</u>		<u>564,609</u>		<u>39,028,960</u>		<u>72,173,090</u>
Carrying Amount	P	<u>11,298,088</u>	P	<u>27,258,713</u>	P	<u>504,135</u>	P	<u>9,876,427</u>	P	<u>48,937,363</u>

Gain on disposal of property and equipment amounted to nil in 2018 and ₱ 2,443 in 2017, and were included as part of gain on assets sold/exchanged in the statements of profit and loss.

Under Section 109 of the MORB (2017), investments in fixed assets should not exceed 50% of the Bank's net worth. As at December 31, 2018 and 2017, the Bank has satisfactorily complied with this requirement.

The Bank disposed some of its properties during the year. Depreciation for the year ending December 31,2018 and 2017 amounted to ₱5,903,99 and ₱ 6,105,791, respectively.

9. INVESTMENT PROPERTIES (ROPA) – NET

Investment properties include real and other properties acquired by the bank in settlement of loans through foreclosure or dation in payment and/or for other reasons, whose carrying amount will be recovered principally through a sale transaction. Direct expenses incurred from these properties amounted to ₱ 970,284 in 2018 and ₱ 918,792 in 2017 are reported under Litigation expenses (see Note 19) as part of Other Administrative Expenses in the statements of profit and loss.

The cost, accumulated depreciation, impairment and the resultant carrying values of investment properties are shown below:

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	Land	Building	Others Properties	Total
As of December 31, 2018				
Cost	₱ 92,197,389	₱ 37,771,339	₱ 180,000	₱ 130,148,728
Accumulated depreciation	-	(16,297,093)	-	(16,297,093)
Allowance for impairment	(24,283,099)	(2,056,555)	(180,000)	(26,519,654)
Net Carrying Value	₱ 67,914,290	₱ 19,417,691	₱ -	₱ 87,331,981

	Land	Building	Others Properties	Total
As of December 31, 2017				
Cost	₱ 82,608,742	₱ 35,989,727	₱ 180,000	₱ 118,778,469
Accumulated depreciation	-	(13,968,473)	-	(13,968,473)
Allowance for impairment	(23,287,492)	(2,056,555)	(180,000)	(25,524,047)
Net Carrying Value	₱ 59,321,250	₱ 19,964,699	₱ -	₱ 79,285,949

Aging of Investment properties (at net carrying amount), follows:

As at December 31, 2018:

	≤ 3 years	>3 years but ≤ 5 years	> 5 years but ≤ 10 years	> 10 years	Total
Land	₱ 14,310,886	8,467,702	23,527,904	21,607,799	₱ 67,914,291
Buildings	14,344,636	1,992,800	3,080,249	5	19,417,690
Total	₱ 28,655,522	10,460,502	26,608,153	21,607,784	₱ 87,331,981

As at December 31, 2017:

	≤ 3 years	>3 years but ≤ 5 years	> 5 years but ≤ 10 years	> 10 years	Total
Land	₱ 9,087,314	20,808,442	10,013,826	19,411,668	₱ 59,321,250
Buildings	12,987,080	3,443,560	3,534,054	5	19,964,699
Total	₱ 22,074,394	24,252,002	13,547,880	19,411,673	₱ 79,285,949

Gain on sale of investment properties amounted to ₱ 26,359,098 and ₱ 26,719,401 in 2018 and 2017, respectively.

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10. OTHER ASSETS – NET

The account consists of the following:

	2018	2017
Due from closed bank/in liquidation 1/	₱ 5,750,000	₱ 5,750,000
Other intangible assets - net 2/	3,005,382	3,039,229
Sinking fund	294,941	269,274
Prepaid expenses	1,184,622	1,417,266
Deposit with Meralco	571,339	571,339
Shortage	48,570	103,780
Miscellaneous assets	390,320	370,823
Goodwill 3/	13,128,747	12,252,898
Total	24,373,921	23,774,609
Less:		
Allowance for probable losses - closed bank	5,750,000	5,750,000
Other assets - net	₱ 18,623,921	₱ 18,024,609

^{1/}**Due From Closed Banks**

This account refers to the uninsured deposit with closed banks which are under receivership of the PDIC. As at December 31, 2018 and 2017, the Bank has provided 100% allowance for losses on due from closed banks.

^{2/}**Other Intangible Assets - Net**

Other Intangible assets refer to computer license software licenses to enable the Bank to utilize information technology assets such as the core banking system, personal computers in its operation, etc. The cost of the licenses is amortized on a straight-line basis for a period ranging from two (2) to five (5) years. Amortization expense on computer software licenses amounted to ₱ 872,639 in 2018 and ₱681,426 in 2017. These are included as part of depreciation/amortization expenses in the statements of profit and loss.

The cost, accumulated amortization and net carrying value as at December 31, 2018 and 2017, follow:

	2018	2017
Cost		
Balance as at January 1	₱ 7,987,593	₱ 6,692,343
Addition during the year	838,792	1,295,250
Balance as at December 31	<u>8,826,385</u>	<u>7,987,593</u>
Accumulated Depreciation		
Balance as at January	4,948,364	4,266,938

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Amortization Expense (See Note 26)	872,639	681,426
Balance as at December 31	<u>5,821,003</u>	<u>4,948,364</u>
Carrying Amount	₱ <u>3,005,382</u>	₱ <u>3,039,229</u>

^{4/} **Goodwill**

Goodwill arose from the acquisition in 2016 via the purchase of all assets and assumption of all liabilities, to wit:

	<u>2018</u>	<u>2017</u>
Rural Bank of Mendez, Inc. (RB Mendez)	₱ <u>13,128,747</u>	₱ <u>12,252,898</u>

The movements of this account are as follows:

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	₱ 12,252,898	₱ 12,508,898
Add (Deduct) : Regulatory relief on penalty previously charged against RB Mendez credited back to Bank's DDA by BSP		(256,000)
Claims paid to former stockholder of RB Mendez	875,849	-
Balance at end of year	₱ <u>13,128,747</u>	<u>12,252,898</u>

The Bank acquired the foregoing smaller bank with the objective availing the branch incentives from the BSP and its expected future economic benefits and synergies that will result from incorporating the operations of acquired rural bank with that of the Bank. Accordingly, the Bank acquired the said rural bank at a premium resulting in the recognition of goodwill. Goodwill is tested for impairment annually. In 2018 and 2017, using interest rates of 5% and 4.7%, respectively, management estimates the expected cash flows from each branch where the goodwill arises from and the Bank assessed that the carrying amount of the goodwill is recoverable. Accordingly, no impairment loss is required to be recognized in the statements of profit or loss in both years.

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11. DEPOSIT LIABILITIES

This account consists of the following:

	2018	2017
Demand deposits	₱ 230,442,276	₱ 197,112,693
Savings deposits	988,774,787	873,681,039
Time deposits	301,939,223	289,884,495
Total	₱ 1,521,156,286	₱ 1,360,678,227

The maturity profile of this account is presented below:

	2018	2017
Short term (one year or less)	₱ 1,219,217,063	₱ 1,070,793,732
Medium term (1 year to 5 years)	140,548,760	145,786,371
Long term (beyond 5 years)	161,390,463	144,098,124
Total	₱ 1,521,156,286	₱ 1,360,678,227

Here under is the breakdown of deposit liabilities by size:

	2018	2017
500,000 and below	₱ 747,920,742	₱ 697,465,902
More than 500,000	773,235,544	663,212,325
Total	₱ 1,521,156,286	₱ 1,360,678,227

Savings deposit and demand deposit bear interest rates at 0.10% p.a. in 2018 and 2017. Time deposit interest rates ranged from 0.12% p.a. to 3.1% p.a. in 2018 and 0.12% to 3%, in 2017. Interest expense on deposit liabilities in 2018 and 2017 amounted to ₱ 10,351,047 and ₱10,650,504, respectively, and were included as part of interest expense in the statements of profit and loss.

Under existing BSP regulations, deposit liabilities of the Bank are subject to statutory/legal reserve requirement at 5% of demand deposit and 3% of savings and time deposit liabilities. On April 6, 2012, the BSP issued an amendment to the existing provisions as to the eligibility of deposit accounts with BSP as forms of reserve requirement. As indicated in the amendment, cash and other cash items are no longer considered as eligible reserves. The Bank's available reserves as of December 31, 2018 and 2017 amount to ₱ 51,981,873 and ₱ 46,228,845 as at December 31, 2018 and 2017, respectively. (see Note 5) and is in compliance with these regulations as shown below:

	2018	2017
Reserve Requirements		
A. Total Available Reserves, Due from BSP	₱ 51,981,873	₱ 46,228,845
B. Required Reserve, Legal Reserves (5% & 3% x deposit liabilities)		
1. Demand deposits (5% x Demand Deposits)	11,522,114	9,855,635
2. Savings and other deposits (3% x Savings & Other Deposits)	38,721,420	34,906,966
Excess	₱ 1,738,339	₱ 1,466,244

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12. BILLS PAYABLE

This account represents borrowings with Land Bank of the Philippines under rediscounting privileges. The said borrowing is denominated in Philippine pesos with annual interest rates of 6% and 5%, in 2018 and 2017, respectively.

Total interest expense on bills payable incurred amounted to ₱ 54,514 in 2018 and ₱33,333 in 2017, and were included as part of interest expense in the statements of profit and loss. Bills payable is collateralized by certain loans from customers (see Note 6).

Maturity profile of bills payable as at December 31, 2018 and 2017, is both within one year. Total bills payable as at December 31, 2018 and 2017 amounted to ₱25,000,000 and ₱20,000,000, respectively.

13. ACCRUED AND OTHER PAYABLES

This account consists of

	2018	2017
Accounts payable	₱ 14,416,439	₱ 12,296,390
Accrued profit sharing benefit payable	6,778,612	7,896,925
Withholding taxes payable	567,337	162,804
Post-employment benefit obligation	1,424,867	1,311,824
Premiums payable to SSS, Philhealth & HDMF	382,622	346,161
Other liabilities	500,107	433,046
	₱ 24,069,984	₱ 22,447,150

Accounts payable includes mainly of amounts which the Bank owes to its suppliers, service providers, bills payment collections and advance payments received from its customers.

Accrued profit sharing benefit payable represents total amount due to directors, key management personnel, and regular full-time employees for profit sharing in accordance with Bank's by-laws (See Notes 18 and 19).

14. OTHER LIABILITIES

This account consists of the following:

	2018	2017
Due to Treasurer of the Philippines	₱ 86,402	₱ 86,402
Accrued interest expense payable	440,605	537,074
Income tax payable	901,550	1,743,447
Other taxes and licenses payable	2,647,917	982,176
Total	₱ 4,076,474	₱ 3,349,099

15. SHARE CAPITAL

Capital Stock

Capital stock as of December 31, 2018 and 2017 consists of:

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	No. of Shares	Amount
Preferred stock - P100 par value		
Authorized - 100,000 shares non voting		
Issued and outstanding	-	₱ -
Common stock - P100 par value		
Authorized - 1,900,000 shares with voting rights		
Issued and outstanding	1,888,798	₱ 188,879,800

Preferred stock shall be issued only to PDIC on account of the financial assistance available under the Strengthening Program for Rural Banks (SPRB) in view of the consolidation of RB Tanza and RB Teresa. Preferred shares are entitled to dividend rate equal to prevailing 5-year FXTN rate, on gross basis, on the date of PDIC's subscription to the Preferred shares (PS), payable annually to PDIC. Such rate shall be based on PDST-R2 set the previous business day. The PS is redeemable and convertible to common shares starting at the end of the 5th year but not later than the 10th year from issuance of PS. Furthermore, PDIC may exercise put option on the PS. As of December 31, 2018 and 2017, the Bank did not avail the financial assistance under the SPRB, hence, no preferred stock was subscribed and outstanding.

Pursuant to the Articles and Plan of Consolidation, the common shares aggregating to 1,888,798 shares, which were issued to the stockholders of RB Tanza and RB Teresa by new consolidated corporation, were valued at net assets in the balance sheets of RB Tanza and RB Teresa as of September 30, 2013 equivalent to P 188,879,800.

Additional Paid-in Capital

Pursuant to the Articles and Plan of Consolidation, the excess of consolidated net worth as of March 31, 2015, over the value of issued shares from cut-off date as at September 30, 2013, was treated as additional paid in capital. The additional paid-in capital was arrived at based on audited financial statements of constituent banks as of March 31, 2015, as follows:

	RB Teresa		RB Tanza		Consolidated Bank	
	{a}		{b}		{c}	
Total Assets	₱ 68,295,336	₱	1,224,384,098	₱	1,292,679,434	
Total Liabilities	64,836,512		1,012,151,291		1,076,987,803	
Net Assets	3,458,824		212,232,807		215,691,631	
Less: Common Stock Issued					188,879,800	
Additional Paid in Capital					26,811,831	

Treasury Shares

As agreed between RB Tanza and RB Teresa that the latter's stockholders would sell out, the Bank requested BSP for the authority to repurchase 93,330 common shares issued to former RB Teresa stockholders for ₱ 25 Million. The Monetary Board approved the said request in its Resolution No. 976 dated June 2, 2016, subject to the condition, among others, that the Bank shall have sufficient unrestricted retained earnings in its books, as verified by the BSP, to cover the shares to be purchased in compliance with Section 41 of Batas Pambansa Blg. 68 (the Corporation Code of the Philippines).

In February 2017, the BSP granted the Bank to proceed with the repurchase of common shares of stock as the Bank's unrestricted retained earnings amounted to ₱ 44.037 Million, which was more than the purchase price of ₱ 25 Million.

On March 7, 2017, the Bank repurchased 93,330 of its issued common shares from the former stockholders of RB Teresa for ₱ 25 Million as treasury shares. The said treasury shares were disposed or sold to the remaining stockholders on 30 August 2017 at par or a total of ₱ 9.333 Million. In accordance with the Philippine Accounting Standards (PAS) 32 paragraph no. 33, the excess of cost of the treasury shares over its selling price amounting to ₱ 15,667,000 was charged against retained earnings.

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Qualifying capital

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

The regulatory qualifying capital of the Bank consists of Tier 1 capital, which is the sum of Core Tier 1 capital and allowable amount of Hybrid Tier 1 capital. Core Tier 1 capital consists of paid-up common stock, paid-up perpetual and non-cumulative preferred stock, surplus including current year profit, surplus reserves less required deductions such as unsecured credit accommodations to DOSRI, deferred income tax, and goodwill while Hybrid Tier 1 capital includes perpetual preferred stock and perpetual unsecured subordinated debt.

The other component of regulatory capital is Tier 2 (supplementary) capital, which includes unsecured subordinated debt and general loan loss provision.

In addition, Risk-weighted assets is the aggregate value of assets weighted by credit risk, market risk and operational risk, based on BSP prescribed formula provided under its circulars.

The capital adequacy ratio(CAR) is computed below:

A. Total Qualifying Capital (amounts in millions)	Amount
Tier 1:	
Paid-up capital	₱ 188,879,800
Additional paid up capital	26,811,831
Surplus	52,675,378
Undivided profits	24,471,698
Subtotal	292,838,707
Deductions to Tier 1 capital	
Deferred tax assets	(9,134,048)
Goodwill, net of allowance	(13,128,747)
Tier 2:	
Add: General loan loss provision	2,740,442
Total qualifying capital	₱ 273,316,355

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B.1. Credit risk-weighted assets (amounts in millions)	Book Value	Risk Rate	Amount
Cash on hand	₱ 31,557,524	0%	₱ -
Due from BSP	51,981,874	0%	-
Investments - Amortized cost	437,549,348	0%	-
Loans to hold out deposits	427,044	0%	-
REM loans guaranteed by HGC	10,617,270	0%	-
COCI	1,549,041	20%	309,808
Loans to individual for housing purpose, secured, not classified as non-performing	35,029,538	50%	17,514,769
NPL to individual for housing purpose	6,155,714	100%	6,155,714
Other assets *	1,137,886,242	100%	1,137,886,242
NPL except to individual for housing loan, secured	47,533,522	150%	71,300,283
ROPA	87,331,981	150%	130,997,971
Total credit risk-weighted assets			₱ 1,364,164,788
*Other assets:			
Total assets			1,867,141,452
General loan loss provision			2,740,442
Goodwill			(13,128,747)
Deferred tax assets			(9,134,048)
Items mentioned in risk-weighted assets subject to its equivalent risk rate			(709,732,857)
Net other assets			1,137,886,242
B.2 Operational risk-weighted assets (amounts in millions)			
			Amount
Gross income:			
2017		₱	96.422
2016			129.836
2015			134.708
Total			360.966
Divided by			3
Average gross income			120.322
Multiplied by capital factor			12%
Capital charge			14.439
Multiplied by adjusted capital charge factor			125%
Adjusted capital charge			18.048
Multiplier			10
Total operational risk-weighted assets			180.483
B.1 Credit risk-weighted assets			1,364,164,788
B.2 Operational risk-weighted assets			180,483,000
Total risk weighted assets			1,544,647,788
Qualifying capital/Risk - weighted assets		273,316,355	
Risk - Based Capital Adequacy Ratio		1,544,647,788	
		17.69%	

The 10% risk-based capital adequacy ratio required by BSP under MORB (2017) Section 127 was satisfactorily complied by the Bank having a ratio of 17.69% as at December 31, 2018.

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16. INTEREST INCOME

This account consists of the following:

	2018	2017
Interest Income on loans and receivables:		
Agricultural	₱ 2,766,512	₱ 3,630,315
Microfinance	31,959,687	30,265,822
SME	44,279,147	42,361,554
Private Corporation	1,689,071	8,743,880
Individual - Housing Purpose	6,911,785	4,416,731
Individual - Consumption Purpose	1,569,618	1,904,076
Individual - Other	2,469,351	9,006,280
Sub-total	<u>91,645,171</u>	<u>100,328,658</u>
Sales Contract Receivable	6,657,624	6,546,937
Total Income Subject to Regular Income Tax	<u>98,302,795</u>	<u>106,875,595</u>
Interest Income Subject to Final Tax		
Due from Other Banks	7,089,901	4,485,750
Investments - Amortized Cost	14,373,502	9,071,598
	<u>21,463,403</u>	<u>13,557,348</u>
Total	<u>₱ 119,766,198</u>	<u>₱ 120,432,943</u>

The above interest income was computed using effective interest method as prescribed by BSP and Philippine Accounting Standards. Interest rate on the loans and sales contract receivables varies based on the classification of the loans.

17. INTEREST EXPENSE

This account consists of interest expense on deposits of the following:

	2018	2017
Savings deposits	₱ 3,189,236	₱ 3,285,806
Time deposits	2,311,049	3,104,752
Demand deposits	158,633	239,052
Interest expense subject to withholding tax	5,658,918	6,629,610
Interest expense on tax exempt time deposit	4,692,128	4,020,894
Interest expense on bills payable	54,514	33,333
Total	<u>₱ 10,405,560</u>	<u>₱ 10,683,837</u>

18. DIRECT COSTS

	2018	2017
Interest expense (Note 18)	₱ 10,405,560	₱ 10,683,837
Salaries and wages 1/	56,753,162	53,511,182
Total	<u>₱ 67,158,722</u>	<u>₱ 64,195,019</u>

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1/ a. Salaries and Other Employee Benefits Expense

	<u>2018</u>	<u>2017</u>
Salaries and wages	₱ 31,391,086	₱ 28,920,176
Profit sharing - employees (See Note 13)	7,886,122	8,648,745
13 th month pay	2,507,480	2,410,163
Social security expense	2,686,843	2,443,627
Provision for Retirement Fund	1,424,867	1,311,824
Medical, hospitalization & health plan	866,717	836,266
Other fringe benefits	9,990,047	8,940,381
Total	₱ <u>56,753,162</u>	₱ <u>53,511,182</u>

b. Post-employment Benefit

a. Characteristics of the Defined Benefit Plan

The Bank maintains a funded, non-contributory post-employment benefit plan that is being administered by an independent trustee bank. The Bank's Management, in coordination the trustee bank, acts in the best interest of the plan assets and is responsible for setting the investment policies. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60. Normal retirement benefit is equal to one (1) month's final salary for every year of service.

b. Explanation of Amounts Presented in the Financial Statements

Actuarial valuation of the Bank's retirement fund is made every three years to determine the current service cost and past service liability of the Bank. The last actuarial valuation report obtained from an independent actuary was as of December 31, 2018.

Total benefits paid out from plan assets amounted to ₱ 590,508 in 2018 and ₱ 1,143,628 in 2017.

The composition of the fair value of the fund at the end of reporting period by category and risk characteristics is shown below.

	<u>2018</u>	<u>2017</u>
Deposit in banks	₱ 1,189,879	₱ 14,968
Investments	13,642,335	13,972,583
Other receivables	107,367	643,127
Accrued payables	(14,650)	(13,779)
	₱ <u>14,924,931</u>	₱ <u>14,616,899</u>

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

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	₱ 14,616,899	₱ 14,284,552
Contributions to the Plan	1,311,824	552,404
Realized and unrealized earnings on plan assets	(413,284)	923,571
Benefits paid	(590,508)	(1,143,628)
	₱ <u>14,924,931</u>	₱ <u>14,616,899</u>

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The fair values of the investments are determined based on quoted market prices in active markets. Plan assets do not comprise any of the Bank’s own financial instruments or any of its assets occupied and/or used in its operations.

Current service costs amounting to ₱ 1,424,867 in 2018 and ₱ 1,311,824 in 2017 are presented as part of Compensation and Fringe Benefits in the statements of profit or loss.

In determining the amounts of the defined post-employment obligation, the following significant actuarial assumptions were used as of December 31, 2018:

Discount rate – 7.51% (based on the PHP BVAL Reference rates for Government Securities as of December 28, 2018, with term consistent with the obligations of the plan)

Salary increase rate – 3% per annum

Employee turnover rates – based on the following attained ages:

Attained age	rate
17-24 -	5%
25-29 -	3%
30-49 -	1%
50-59 -	0%

Assumptions regarding future mortality experience are based on published mortality and disability tables. The valuation was done using the applicable PHP BVAL reference rates for Government Securities. As at December 31, 2018, the unfunded liability amounted as follows:

Present Value of Accrued Retirement Benefits (using projected salaries)	₱ 16,761,770
Fair Value of Plan Assets	14,924,931
Unfunded Past Service Liability (UPSL)	₱ <u>1,836,839</u>

Assuming the UPSL will be amortized over the average future working lifetime of all employees (30 years), the annual amortization will be ₱ 170,037. Based on the funding valuation as of December 31, 2018, the expected contributions for the period January 1, 2019 to December 31, 2019 will be ₱1,540,175 (or 4.82% of annual payroll).

c. Risk Associated with the Retirement Plan

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

i. Investment and Interest Risks

The present value of the Defined Benefit Obligation (DBO) is calculated using a discount rate determined by reference to the applicable PHP BVAL reference rates for government securities. Generally, a decrease in the interest rate of reference government securities will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan’s investments in debt securities and if the return on plan assets falls below this rate, it will create a deficit in the plan. Currently, the plan has relatively balanced investment in cash and cash equivalents and debt securities. Due to the long-term nature of the plan obligation, a level of continuing debt investments is an appropriate element of the Bank’s long-term strategy to manage the plan efficiently.

ii. Longevity and Salary Risks

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

d. Other Information

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

i. Sensitivity Analysis

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

	Impact on Post-employment Benefit Obligation	
	Increase in Assumption	Decrease in Assumption
For Discount rate:	D + 0.5%=8.01%	D - 0.5%=7.01%
Present Value of Accrued Retirement Benefits (using projected salaries)	₱ 16,628,105	₱ 16,915,054
Increase / (Decrease) by:	(133,665)	153,284
For Salary rate:	S + 1%=4%	S - 1%=2%
Present Value of Accrued Retirement Benefits (using projected salaries)	₱ 17,096,027	₱ 16,507,085
Increase / (Decrease) by:	334,257	(254,685)

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the DBO as it is likely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the DBO has been calculated using the projected unit credit method at the end of reporting period, which is the same as that applied in calculating DBO recognized in the statements of financial position.

ii. Asset-liability Marketing Strategies

To efficiently manage the retirement plan, the Bank through its Retirement Plan Committee, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long term- investments are in line with the obligations under the retirement plan. This strategy aims to match the plan assets to the retirement obligations by investing in long term fixed interest securities (i.e. government bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency. The Bank actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall levels of assets.

A large portion of the plan assets as of December 31, 2018 and 2017 consists of government securities. The Bank believes that government securities offer the best returns over the long term with an acceptable level of risk.

iii. Hereunder is the list of projected benefit payments as of December 31, 2018 (based on normal retirement at age 60 only):

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<u>Date of Retirement</u>	<u>No. of Retirees</u>	<u>Total Benefits</u>
1 year and less	1	₱ 3,034,088
More than 1 year to 5 years	3	5,943,894
More than 5 years to 10 years	5	5,325,836
More than 10 years to 15 years	6	4,441,748
More than 15 years to 20 years	8	7,272,393
More than 20 years	161	182,506,905

The weighted average duration of defined benefit obligation as of December 31, 2018 is 23 years.

19. ADMINISTRATIVE AND OPERATING EXPENSES

The account consists of the following

	2018	2017
TAXES AND LICENSES (Note 22)	₱ 14,327,687	₱ 13,160,030
PROFIT SHARING - BOARD & EXECUTIVE COMMITTEE	11,037,738	10,810,932
DEPRECIATION / AMORTIZATION	10,196,863	10,068,062
SECURITY AND JANITORIAL	7,448,404	7,565,348
PROV. FOR CR. LOSSES ON LOANS :	5,057,920	6,997,910
INSURANCE	3,993,767	3,702,232
POWER, LIGHT & WATER	3,313,444	3,070,427
POSTAGE & TELEPHONE	3,193,478	3,008,347
FUEL & LUBRICANTS	2,415,257	2,046,014
STATIONERY & SUPPLIES	2,395,300	2,363,142
REPAIRS AND MAINTENANCE	2,136,468	2,024,951
DIRECTORS' FEES	2,136,205	2,064,000
REPRESENTATION & ENT.	1,651,530	1,442,059
ADVERTISING & PUBLICITY	1,309,542	1,836,266
LITIGATION/ASSET ACQUIRED EXP.	970,284	918,792
RENT (Note 23)	912,735	761,806
IMPAIRMENT LOSS	671,826	863,370
INFORMATION TECHNOLOGY	600,596	431,657
MANAGEMENT & PROF. FEES	400,503	404,054
MEMBERSHIP FEES & DUES	316,559	328,165
TRAVELLING	284,872	272,121
SUPERVISION FEES	258,711	238,688
DONATIONS & CHARITABLE CONT.	193,240	240,438
FINES, PENALTIES & OTHER CHARGES	240,860	161,012
PERIODICALS & MAGAZINES	30,594	58,362
FEES AND COMMISSION	29,084	237,111
MISCELLANEOUS EXPENSES	1,444,959	1,678,165
	₱ 76,968,424	₱ 76,753,465

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20. OTHER INCOME

The account consists of the following:

	2018		2017
Gain/loss on sale of real property	₱ 26,359,098	₱	26,721,844
Fees and commission income 1/	22,155,589		21,467,782
Miscellaneous income 2/	4,892,532		3,491,006
Recovery on charged of accounts	38,161		34,054
Total	₱ 53,445,380	₱	51,714,687

1/Service Charges, Fees and Commissions

	<u>2018</u>		<u>2017</u>
Bank Commission on loans	₱ 14,106,520	₱	14,360,583
Commission on insurance premiums	4,640,640		4,125,718
Charges on demand deposit	679,430		750,349
Service fees – bills payment services (Bayad Center)	1,070,419		847,501
Fees on remittance services	302,537		347,522
ATM transaction fees	743,527		634,069
Inspection fees	397,750		323,422
Other retail banking fees	214,765		78,618
Total	₱ <u>22,155,588</u>	₱	<u>21,467,782</u>

2/ Miscellaneous Income

	<u>2018</u>		<u>2017</u>
Rental Income	₱ 1,091,769	₱	864,458
Penalty on Loans	3,799,704		2,479,285
Dormant Charges	-		142,731
Others	1,059		4,532
	₱ <u>4,892,532</u>	₱	<u>3,491,006</u>

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21. TAXATION

Provision for Income Taxes (Income Tax Benefit)

The components of the provisions for (benefit from) from income tax are as follows

	2018	2017
Currently payable	₱ 6,130,110	₱ 8,276,550
Deferred	(1,517,377)	(1,382,300)
	₱ 4,612,733	₱ 6,894,250

The reconciliation of the provision for (benefit from) income tax computed at the statutory tax rate to the provision for (benefit from) income tax shown in the statements of operations follows

REGULAR CORPORATE INCOME TAX (RCIT) at 30%

	2018	2017
Net income before tax	₱ 29,084,432	₱ 31,199,146
Add(deduct) reconciling items:		
Income already subjected to tax		
Interest - Due from banks and HTM investments	(21,463,403)	(13,557,330)
Non-deductible expenses		
Provision for probable losses	5,729,746	-
Write off accounts	-	(2,390,243)
Limit on interest expense	7,082,923	12,336,927
Taxable income	<u>20,433,699</u>	<u>27,588,499</u>
Multiple by RCIT rate	<u>30%</u>	<u>30%</u>
Provision for income tax - current	₱ 6,130,110	₱ 8,276,550

Under the Tax Code, the Bank may be subject to Minimum Corporate Income Tax (MCIT) computed at 2% of gross income, as defined under the tax regulations, or to Regular Corporate Income Tax (RCIT) computed at 30% of income after allowable deductions, whichever is higher. The Bank was subject to the RCIT for the years ended, December 31, 2018 and 2017.

The deferred tax asset movements during the years ended December 31, 2018 and 2017 is shown below:

	2018	2017
Balance as at January 1	₱ 11,047,066	₱ 9,664,766
Tax effect of temporary difference – provision for credit losses	1,517,376	1,382,300
Reversal of Deferred Tax Asset during the year	<u>(3,430,394)</u>	<u>-</u>
Balance as at December 31	₱ 9,134,048	₱ 11,047,066

For the years ended December 31, 2018 and 2017, the Bank opted to claim itemized deductions in computing its income tax.

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22. ADDITIONAL DISCLOSURES in COMPLIANCE with BIR RR NO. 15-2010

In compliance with BIR Revenue Regulations No. 15-2010 (amending certain provisions of Sec. 2 of RR No. 21-2002), which requires addition to the disclosures mandated under the Philippine Financial Reporting Standard, and such other standards and convention, the Notes to Financial Statements shall include information on withholding taxes, taxes and licenses, documentary stamp tax and final taxes paid or accrued during the taxable year. The amount of taxes remitted and paid by the Bank during the year consists of the following:

- a) Amount of taxes withheld on compensation and paid during the year amounted to ₱1,599,891
- b) Amount of expanded withholding taxes paid during the year amounted to ₱1,063,876
- c) Amount of final withholding taxes paid on interest expense during the year amounted to ₱1,062,339.
- d) Taxes and licenses account consists of the following:

	2018	2017
Gross receipts tax	₱ 10,102,718	₱ 9,403,470
Documentary stamp tax	2,517,070	1,968,149
Business/Mayor's permit and other local taxes	1,506,821	1,593,503
Real property tax	195,078	188,908
Annual BIR registration	6,000	6,000
Total	₱ 14,327,687	₱ 13,160,030

23. LEASES

The Bank leases certain premises occupied by its Branch Offices for period ranging from one (1) to seven (7) years, renewable upon mutual agreement between the Bank and the lessors. The rent expense amounting to ₱912,735 and ₱761,806 in 2018 and 2017, respectively, are included as part of Operating Expenses in the Statements of Comprehensive Income.

As of December 31, 2018 and 2017, future minimum rental payments by lease contracts are as follows:

	<u>2018</u>	<u>2017</u>
Within 1 year	₱ 954,615	₱ 912,240
More than 1 year within 5 years	1,746,307	1,663,156
More than 5 years	<u>281,414</u>	<u>750,440</u>
	₱ <u>2,982,336</u>	₱ <u>3,325,836</u>

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24. SELECTED FINANCIAL PERFORMANCE INDICATORS

a. The following are some of the financial performance indicators of the Bank:

	<u>2018</u>	<u>2017</u>	Increase (Decrease)	Percentage
Total revenues	₱ 173,211,578	₱ 172,147,630	₱ 1,063,949	0.62%
Total expenses	(144,127,147)	(140,948,483)	(3,178,663)	2.26%
Income tax benefits (expenses)	<u>(4,612,733)</u>	<u>(6,894,250)</u>	<u>2,281,516</u>	<u>0.00%</u>
Net income for the year	<u>24,471,699</u>	<u>24,304,895</u>	<u>166,802</u>	<u>2.87%</u>
Net income per share	<u>₱ 12.96</u>	<u>₱ 12.87</u>	<u>₱ 0.09</u>	<u>0.69%</u>
Working capital	<u>₱ 181,776,878</u>	<u>₱ 157,961,097</u>	<u>₱ 23,815,782</u>	<u>15.08%</u>
Shareholders' equity				
Paid up capital	₱ 188,879,800	₱ 188,879,800	₱ -	0.00%
Retained earnings	<u>103,958,907</u>	<u>79,487,209</u>	<u>24,471,698</u>	<u>31%</u>
Total	<u>₱ 292,838,707</u>	<u>₱ 268,367,009</u>	<u>₱ 24,471,698</u>	<u>31%</u>
Shareholders' Equity Ratio	<u>₱ 0.1568</u>	<u>₱ 0.1602</u>	<u>₱ (0.0034)</u>	<u>-2.12%</u>
Amount of shareholders' equity per peso of total liabilities	<u>₱ 0.1860</u>	<u>₱ 0.1908</u>	<u>₱ (0.0048)</u>	<u>-2.51%</u>

	<u>2018</u>	<u>2017</u>	Increase (Decrease)	Percentage
Current Ratio	1.11	1.02	0.09	8.43%
Acid Test Ratio	0.81	0.98	(0.17)	-17.32%
Return on Average Equity	0.087	0.092	(0.005)	-5.43%
Return on Average Assets	0.014	0.015	(0.001)	-7.14%
Net Interest Margin	7.53%	8.43%	(0.9%)	-10.68%
Book Value Per Share	₱ 155.04	₱ 142.08		

b. Secured Assets and Liabilities Pledged as Security

As of December 31, 2018 and 2017, bills payable are the only secured liabilities (see Note 6).

	<u>2018</u>	<u>2017</u>
Total assets pledged as security	₱ 25,000,000	₱ 20,000,000
Total liabilities pledged as security	Nil	Nil

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25. RELATED PARTY TRANSACTIONS

As at December 31, 2018 and 2017, the Bank has an outstanding loan granted to its Directors, Officers, Stockholders and Related Interest (DOSRI).

In compliance with BSP Regulations, the Bank discloses loan transactions with its accessories, affiliates and with certain directors, officers, stockholders and related interests (DOSRI). The General Banking Act provides that in aggregate, loans to DOSRI should not exceed the Bank's total equity or 15% of the Bank's total loan portfolio, whichever is lower. In addition, the amount of individual loans to DOSRI, of which 70% must be secured, and should not exceed the amount of their deposit and the book value of their shares of stock in the Bank.

Relative to DOSRI loans, the following additional information is presented:

	<u>2018</u>	<u>2017</u>
Secured DOSRI loans	₱ 29,481	₱ 77,880
Unsecured DOSRI loans	-	-
Total outstanding DOSRI loans	₱ <u>29,481</u>	₱ <u>77,880</u>
Past Due DOSRI Loans	₱ -	₱ -
% to total DOSRI loans to loan portfolio	0.006%	0.01%
% of Unsecured DOSRI Loans to Total DOSRI Loans	-	-
% of Past due DOSRI loans to Total DOSRI Loans	-	-

Hereunder, is the summary of compliance with DOSRI loan ceiling regulations:

As of December 31, 2018:

	Outstanding Balance	Ceiling	Excess over Ceiling	Remarks
Aggregate Ceiling				
DOSRI Loans	₱ 29,481	77,638,596	-	Complied
Unsecured DOSRI Loans	-	8,844	-	Complied
Individual				
DOSRI Loans	29,481	5,493,786	-	Complied
Unsecured DOSRI Loans	-	8,844	-	Complied

As of December 31, 2017:

	Outstanding Balance	Ceiling	Excess over Ceiling	Remarks
Aggregate Ceiling				
DOSRI Loans	₱ 77,880	77,882,833	-	Complied
Unsecured DOSRI Loans	-	23,364	-	Complied
Individual				

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DOSRI Loans	77,880	5,026,825	-	Complied
Unsecured DOSRI Loans	-	23,364	-	Complied

In 2016, the aggregate and individual unsecured DOSRI loans, and the individual DOSRI loans exceeded the regulatory ceiling as the result of the consolidation of RB Tanza and RB Teresa. As a remedy, the Bank requested the BSP for the authority to repurchase the 93,330 common shares issued to former stockholders of RB Teresa for ₱ 25 Million from which the proceeds thereof would be used to settle the said DOSRI Loans. In February 2017, the BSP granted the Bank to proceed with the repurchase transaction, and on March 7, 2017, the Bank repurchased 93,330 of its issued common shares as treasury shares (see Note 15).

Hence, as of December 31, 2018 and 2017, the Bank is in compliance with the BSP regulations on aggregate, individual and unsecured ceilings for DOSRI loans.

Key management and others compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The Bank considers officers, with rank of assistant vice president and up to constitute key management personnel for purpose of PAS 24, Related Party Disclosures. The compensation of key management personnel, directors and executive credit committee members is included in the Salaries and other employee benefits in Note 18, and Administrative and Operating Expenses in Note 19 and broken down in 2018 and 2017, as follows:

		<u>2018</u>			<u>2017</u>		
		<u>Key Management</u>	<u>Directors & Executive Committee</u>	<u>Total</u>	<u>Key Management</u>	<u>Directors & Executive Committee</u>	<u>Total</u>
Salaries and wages	₱	2,610,454		₱2,610,454	₱ 2,540,428	-	₱2,540,428
Other benefits		648,354		648,354	617,438	-	617,438
Directors fees			2,136,205	2,136,205	-	2,064,000	2,064,000
Profit sharing		2,094,830	11,037,738	13,132,568	2,698,889	10,810,932	13,509,821
	₱	<u>5,353,638</u>	<u>13,173,943</u>	<u>₱18,527,581</u>	<u>₱ 5,856,755</u>	<u>12,874,932</u>	<u>₱18,731,687</u>

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26. EARNINGS AND BOOK VALUE PER SHARE

Earnings and book value per share were computed as follows:

Earnings per share	2018	2017
Net income	₱ 24,471,698	₱ 24,304,896
Divided by shares issued and outstanding	1,888,798	1,888,798
Earnings per share	₱ 12.96	₱ 12.87

Book value per share	2018	2017
Share capital	₱ 188,879,800	₱ 188,879,800
Additional paid-up capital	26,811,831	26,811,831
Surplus	77,147,076	52,675,378
Total	292,838,707	268,367,009
Divided by: No. of shares outstanding	1,888,798	1,888,798
Book value per share	₱ 155.04	₱ 142.08

27. ADDITIONAL DISCLOSURES in COMPLIANCE with BIR RR NO. 19-2011

In compliance with the requirements set forth by BIR Revenue Regulation No. 19-2011 dated December 9, 2011, in addition to the disclosures mandated under PFRS and such other standards and/or conventions as may heretofore be adopted, hereunder are the information on sales, cost of sales, non-operating and other taxable income, and itemized deductions (if optional standard deduction was not availed) during the taxable year.

	Taxable
REVENUES	
Sales of Services (Interest/discount earned)	₱ 98,302,795
COST OF SERVICES	
Direct Charges - Salaries, Wages and Benefits	₱ 56,753,162
Direct Charges - Outside Services	3,088,102
Direct Charges - Others	3,322,637
	₱ 63,163,901
OTHER TAXABLE INCOME	
Miscellaneous Income	₱ 3,800,764
Income from sale of ROPA and Other Properties	26,359,098
Others	23,285,518
	₱ 53,445,380

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ITEMIZED DEDUCTIONS	EXEMPT		SPECIAL RATE		TAXABLE
					REGULAR RATE
Advertising and pomotion	₱	-	₱	-	₱ 1,309,542
Charitable contributions		-		-	193,240
Communication, light and water		-		-	6,506,922
Director's fee		-		-	2,136,205
Depreciation		-		-	10,196,863
Fuel and oil		-		-	2,415,257
Insurance		-		-	1,164,376
Janitorial and messengerial services		-		-	1,793,049
Management and consultancy fee		-		-	400,503
Miscellaneous		-		-	1,186,409
Office supplies		-		-	2,425,893
Rental		-		-	912,735
Repair and maintenance - (material/supplies)		-		-	2,136,468
Representation and entertainment		-		-	1,651,530
Security services		-		-	5,655,355
Training and seminar		-		-	528,492
Taxes and licenses		-		-	14,327,687
Transaportation and travel		-		-	284,872
Others		-		-	
Profit Sharing - Board & Executive Committe		-		-	11,037,738
Membership fees and dues		-		-	316,559
Information technology expense		-		-	600,596
Litigation and asset acquired expense		-		-	970,284
	₱	-	₱	-	₱ 68,150,575

28. SUPPLEMENTAL INFORMATION REQUIRED BY SEC

In compliance with SEC Bulletin No. 16 on January 24, 2013, a separate sheet attachment is provided containing the lists of standards and interpretations under the PFRS which the Bank had adopted, not adopted or not applicable as set forth in the aforementioned bulletin.

29. SUPPLEMENTAL INFORMATION REQUIRED BY BSP

In compliance with MORB Section X190.1 (2008 – X166.1) Financial Audit and BSP Circular No. 540, as amended issued on August 09, 2006, separate sheet attachments are provided containing the reports submitted to BSP which are composed of the following: (1) a certification by the external auditor on the: (a) dates of start and termination of audit; (b) date of submission of the financial audit report and certification under oath stating that no material weakness or breach in internal control and risk management systems was noted in the course of the audit of the bank to the board of directors or country head; and (c) the absence of any direct or indirect financial interest and other circumstances that may impair the independence of the external auditor; (2) Reconciliation Statement between the AFS and the balance sheet and income statement for bank proper (regular and FCDU) and trust department submitted to the Bangko Sentral including copies of adjusting entries on the reconciling items; and (3) other information that may be required by the Bangko Sentral.

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30. RECLASSIFICATION OF ACCOUNTS

Where necessary, certain figures have been adjusted to conform with the year's financial statement presentation. The following was classified from other assets to cash and cash equivalents.

<u>Previous Presentation</u>	<u>Current Presentation</u>	<u>Amount</u>
Cash and other cash items	Cash and cash equivalents	₱34,422,366
Due from BSP	Cash and cash equivalents	₱46,228,845
Due from other banks	Cash and cash equivalents	₱545,093,724
Held to maturity	Investments-amortized cost	₱373,493,929
Goodwill	Other assets	₱12,252,898
Other financial liabilities	Other liabilities	₱3,349,099
Accrued expenses and other liabilities	Accrued and other liabilities	₱22,447,150

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31. Reconciliation Statement

The reconciliation statement between the Balance Sheet and Income Statement (submitted to BSP) and the Audited Financial Statements as of December 31, 2018 is presented below, pursuant to Subsection X190.1 (2008-X166.1) of the MORB:

(In Thousands of Pesos)

	FRP	Audited Financial Statements	Variance Discrepancy	Reason for Discrepancy
Cash and cash equivalents	742,175	742,175	-	
Loans and Receivables – Net	469,533	524,810	(55,277)	(See explanation item 1 below)
Investments – amortized cost	437,549	437,549	-	
Bank premises, furniture, fixtures and equipment-net	47,517	47,517	-	
Investment property (ROPA)	87,332	87,332	-	
Deferred Tax Asset	9,134	9,134	-	
Other Assets – Net	73,901	18,624	55,277	
TOTAL ASSETS	1,867,141	1,867,141	-	
LIABILITIES AND EQUITY				
Deposit Liabilities	1,521,156	1,521,156	-	
Bills Payable	25,000	25,000	-	
Accrued and other payables	24,070	24,070	-	
Accrued Expenses and Other Liabilities	4,076	4,076	-	
TOTAL LIABILITIES	1,574,302	1,574,302	-	
SHAREHOLDERS' EQUITY				
Share capital	215,692	215,692	-	
Retained Earnings	77,147	77,147	-	
TOTAL EQUITY	292,839	292,839	-	
TOTAL LIABILITIES AND EQUITY	1,867,141	1,867,141	-	
Income Statement Reconciliation				
	FRP	Audited Financial Statements	Variance Discrepancy	Reason for Discrepancy
Total Income	173,211	173,211	-	
Total Expenses	144,127	144,127	-	
Net Income Before Income Tax	29,084	29,084	-	

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Explanation (figures in Thousands of Pesos):

Item 1:

Under the financial reporting package of the BSP, sales contract receivable, accrued interest income, and accounts receivables are presented as separate line item from the loans and other receivables in the balance sheet. However, the said accounts are included as part of loans and receivables in the audit report.

Accounting Entries:

	Debit	Credit
Loans and Receivables	55,277	
Other Assets		
SCR – net		34,866
Accrued Interest Receivable- net		5,330
Accounts Receivable - net		15,081

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II. Compliance with Appendix 63c of the MORB – Disclosure in the Annual Reports and Published Statement of Condition

A. Capital Structure and Capital Adequacy

		2018 (in P Millions)	2017 (in P Millions)
1	Tier 1 capital		
	Paid up common stock	188.880	188.880
	Additional paid in capital	26.812	26.812
	Retained earnings	52.675	28.370
	Undivided Profits	24.472	24.305
	Total Tier 1 Capital	292.839	268.367
2	Tier 2 Capital		
	General Loan Loss Provision	2.740	2.618
3	Deductions from Tier 1 and Tier 2 Capital		
	Unsecured DOSRI	-	-
	Deferred tax asset	9.134	11.047
	Goodwill	13.129	12.253
	Total Deductions	22.263	23.300
4	Total Qualifying Capital	273.316	247.685
5	Capital Requirement for Credit Risk	1,364.165	1,246.223
6	Capital Requirement for Market Risk	-	-
7	Capital Requirement for Operational Risk	180.483	169.694
8	Total Capital Adequacy Ratio	17.69	17.49
	Tier 1 Capital Adequacy Ratio	17.52	17.31