

BANGKO MABUHAY (A RURAL BANK), INC.
ANNUAL REPORT 2019

BANGKO MABUHAY (A RURAL BANK), INC.
ANNUAL REPORT & INDEPENDENT AUDITOR'S REPORT
As of December 31, 2019

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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) and the Philippine Deposit Insurance Corporation (PDIC) 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. under the Strengthening Program for Rural Banks (SPRB). 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.

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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:

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

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2. Financial Summary/ Financial Highlights

	2019	2018	Increase (Decrease)	%
Profitability				
Interest Income	₱ 142,010,418	₱ 119,766,198	₱ 22,244,220	19%
Interest Expense	10,882,073	10,405,560	476,513	5%
Net Interest Income	131,128,345	109,360,638	21,767,707	20%
Non-interest income	48,175,734	53,445,380	(5,269,646)	-10%
Operating Expenses	147,197,360	133,721,566	13,475,794	10%
Net Income after Tax	28,004,221	24,471,698	3,532,523	14%
Selected Balance Sheet Data				
Liquid Assets	1,396,131,119	1,179,724,376	216,406,743	18%
Gross Loans	496,129,916	517,590,643	(21,460,727)	-4%
Total Assets	2,073,177,825	1,867,141,452	206,036,373	11%
Total Deposits	1,712,458,117	1,521,156,286	191,301,831	13%
Total Stockholders' Equity	322,842,928	292,838,708	30,004,220	10%
Selected Financial Ratios				
Return on Assets	1.42%	1.38%		
Return on Equity	9.13%	8.72%		
Past Due Ratio	22.83%	28.42%		
Minimum Liquidity Ratio	96.20%	74.74%		
Capital Adequacy Ratio	17.79%	17.67%		
Head Count				
Officers	21	19		
Rank and file	170	165		
Total	191	184		

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% to P 2.073 Billion, while deposits increased by 13% to P1.712 Billion. Stockholders' Equity grew by 10% to P 323 Million. On the other hand, loan portfolio dropped 4% to P496 Million. Past Due ratio stood at 22.83% in 2019 and 28.42% in 2018, still higher than industry average level of 13.47% as at December 31, 2019 (source: BSP website).

Net interest income increased by 19% to P 142 Million, while non-interest income decreased by 10% to P 48 Million. Operating expenses increased 10% to P 147 Million. Nonetheless, net income after tax increased by 14% to P 28 Million.

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

In September, 2019, the Bank had completed the migration of its core banking system from decentralized to centralized system. The said migration from the old core banking system to MB Phil Express-O started at Head Office in 2017. The MBPHIL EXPRESS – O is designed to:

- Centrally manage all banking operations at the Head Office of the bank for speedy and efficient processing of banking transactions.
- Manage the integrity of banking documents in one central location.
- Empower banks to design revenue generating products according to its business requirements.
- Comply with the BSP, PDIC and AMLC regulations

Through the migration from decentralized to centralized bank operating systems, Management expects to meet the growing needs of the bank in providing the most efficient and effective service to its clients as the result of the Bank's expansion of operation through consolidation with and/or acquisition of other rural banks.

In August, 2019, the Bank installed an automated teller machine (ATM) at its Mendez Branch which brought the number of onsite ATM units operating by year-end to four (4).

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 completed bank-wide in the second 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 its policy to promote the establishment of a safe, efficient, and reliable retail payment system in the Philippines, the Bangko Sentral adopted in 2017, the National Retail Payment System (NRPS) Framework consistent with Bangko Sentral regulations on risk management in light of the complex interplay of different types of risk arising from the rapid evolution of retail payment activities of

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Bangko Sentral supervised financial institutions (BSFIs). This framework required the BSFIs to ensure that retail payment systems they participate in demonstrate sound risk management, effective and efficient interoperability. Furthermore, the BSFIs are expected to comply with BSP rules and regulations, particularly on information technology, consumer protection, and anti-money laundering/counter financing of terrorism (AML/CFT).

In 2017, Bangko Mabuhay joined the Philippine Payments Management, Inc. (PPMI), the payment system management body of the National Retail Payment Systems (NRPS) Framework, as a member Bank. This is to enable the Bank to provide electronic financial and payment services (EFPS) that allow consumers to carry out or initiate payments electronically through participation in an Automated Clearing House (ACH).

In December, 2019, the Bank participated the InstaPay ACH, as a receiver of funds only, where BancNet, Inc. is the presently designated Clearing Switch Operator. Within one year from the launching of InstaPay receive funds only, the Bank will implement InstaPay sending service via electronic channel within the one-year period in compliance with the regulatory expectation that this Bank shall make InstaPay facility available in the Bank's electronic channel via mobile application, thru an outsource provider, to enable its customers to initiate a fund transfer transaction.

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.

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.

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- 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.

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iv. Interest Rate Risk in Banking Books (IRRBB). The Bank considers the overall impact of the bank's interest rate sensitive assets, liabilities and off-balance sheet exposures over short-, medium- and long-term time horizons on their earnings and economic value in order to manage current and prospective risk to earnings and capital arising from adverse movements in interest rates that affect the Bank's banking book position.

The Bank captures all material sources of IRRBB and assesses the effect of interest rate changes on earnings and/or economic value. The measurement of IRRBB is based on outcomes arising from an appropriate range of interest rate shocks and stress scenarios. Towards this end, Bank measures and assesses the impact of a 100-, 200- and 300- basis point or 1%, 2%, and 3%, respectively, movement in interest rates to the Bank's net interest income on a monthly basis

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

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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;

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- 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.

e. Board composition

Name of Director	Type of directorship	No. of years served as director	Number shares held	Percentage of ownership
1. Emmanuel P. Santos	Chairman	7	295,552	15.65%
2. Edwin S. Fojas	Executive	33	103,414	5.48%
3. Raymundo A. Del Rosario	Non-executive	29	157,630	8.35%
4. Joselito C. Fojas	Non-executive	6	7,497	0.40%
5. Elena J. Malabanan	Non-executive	32	158,597	8.40%
6. Misael P. Santos	Non-executive	3	20,755	1.10%
7. Purificacion N. Garcia	Non-executive	29	44,494	2.36%
8. Cynia J. Fojas	Non-executive	29	60,544	3.21%
9. Maria Criselda M. Fojas	Non-executive	6	9,535	0.50%
10. Maria Elisa P. Fojas	Non-executive	7	800	0.04%
11. Roberto U. Teo	Non-executive - Independent	3	1	-

f. Board qualification

Name of Director, Nationality and Age	Relevant Qualifications/ experience
1. Emmanuel P. Santos (Filipino, 58 years old)	<p>Dr. Emmanuel P. Santos was appointed Chairman of the Board on February 10, 2018 and last re-appointed as Chairman and member of the Executive Credit Committee on February 9, 2019. He was elected as Director on February 21, 2015.</p> <p>His trainings include Corporate Governance and Risk Management for Rural Bank Directors conducted by the Rural Bankers Research and Development Foundation Inc. (RBRDFI) in 2012; Anti-Money Laundering in-house training conducted by the Bank's Compliance Officer in 2015, and Corporate Governance for Rural Bank Directors conducted by RBRDFI in 2018.</p> <p>Mr. Santos studied Bachelor of Science in Psychology and Medicine in University of Sto.Tomas.</p>

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<p>2. Edwin S. Fojas (Filipino, 68 years old)</p>	<p>Mr. Edwin S. Fojas was appointed President and General Manager in 1985 and last re-appointed on February 9, 2019. He was last re-appointed as Chairman in 2017. Currently, he is the Chairman of the Executive Credit Committee.</p> <p>A career banker for more than 30 years, Mr. Fojas started his banking career in a Commercial Bank, where he gained experience and knowledge, prior to his on-boarding with this Bank.</p> <p>He completed trainings in Corporate Governance Course conducted by the De La Salle University in 2002; Microfinance Modular Training conducted by the Rural Bankers Association of the Philippines (RBAP) – Microenterprise Access to Banking Services (MABS) in 2002; Acquired Asset Management and Bank Security sponsored by the Confederation of Southern Tagalog Rural Bankers (CSTRB) in 2003 and 2004, respectively; Anti Money Laundering in-house training conducted by the Compliance Officer in 2015; and Corporate Governance for Rural Bank Directors and Officers conducted by the RBRDFI in 2018.</p> <p>Mr. Fojas graduated from De La Salle University with a degree of Bachelor of Science in Commerce and completed post graduate studies of Masters in Business Management at the Asian Institute of Management.</p>
<p>3. Raymundo A. Del Rosario (Filipino, 70 years old)</p>	<p>Mr. Raymundo A. Del Rosario was elected as member of the Board of Directors in 1991 and last elected as Director and appointed as Vice President and member of the Executive Credit Committee on February 9, 2019.</p> <p>Mr. Del Rosario is currently incumbent Vice Mayor of the Municipality of Tanza, Cavite. Aside of his more than 25 years experience as director of the bank, Mr. Del Rosario had been engaged in construction, real estate, gasoline service station business.</p> <p>His trainings included Corporate Governance conducted by De La Salle University in 2002 and Anti-Money Laundering in-house training conducted by the Compliance Officer in 2015.</p> <p>Mr. Del Rosario studied Bachelor of Science in Commerce at the Far Eastern University.</p>
<p>4. Joselito C. Fojas (Filipino, 68 years old)</p>	<p>Mr. Joselito C. Fojas was elected as member of the Board of Directors in 2013 and was last elected as Director and appointed as Treasurer, member of the Executive Credit Committee, Corporate Governance Committee and Audit Committee on February 9, 2019.</p> <p>He is currently a Director and Treasurer of Soleil Capitale Philippines, Inc., a subsidiary of Soleil Chartered Bank with head office in New York, USA and engaged in financial packaging and in the issuance of financial instruments. He is also a member of the Board of Directors of Green House Techno Development</p>

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	<p>Corp., member of the Board of Trustees of the Institute of Reproductive Health, a foundation engaged primarily in the propagation of natural family planning methods, a partner of the Source Organic Market, a company engaged in marketing and distribution of organic produce, and a partner of First Option Realty, a company engaged in real estate marketing and brokering.</p> <p>He completed trainings in Corporate Governance conducted by the RBRDFI in 2013 and Anti-money Laundering in-house training conducted by the Compliance Officer in 2015.</p> <p>Mr. Fojas took up Bachelor of Science in Industrial Engineering in the University of the Philippines and finished post graduate Masters in Business Management at the Asian Institute of Management.</p>
5. Elena J. Malabanan (Filipino, 81 years old)	<p>Dr. Elena J. Malabanan was elected as member of the Board of Directors in 1988 and was last elected as Director and was appointed as Chairperson of the Risk Management Committee on February 9, 2019.</p> <p>Dr. Malabanan has served as member of the Board of Directors for more than 30 years. Her trainings included Corporate Governance in 2002, Best Practices in Crafting a Customized Risk Management Manual in 2012, and Anti-Money Laundering in-house training in 2015.</p> <p>She studied Bachelor of Science in Medicine in University of Sto. Tomas.</p>
6. Misael P. Santos (Filipino, 49 years old)	<p>Dr. Misael P. Santos was elected as member of the Board of Directors on February 18, 2017 and was last re-elected as Director and was appointed as member of the Risk Management Committee on February 9, 2019.</p> <p>His training includes corporate governance for rural bank directors conducted by the RBRDFI in 2017.</p> <p>He graduated from the De La Salle University with degrees in Bachelor of Science in Biology and Medicine.</p>
7. Purificacion N. Garcia (Filipino, 82 years old)	<p>Ms. Purificacion N. Garcia was elected as member of the Board of Directors in 1993 and was last re-elected as Director on February 9, 2019.</p> <p>Ms. Garcia has served as Director of the Bank for more than 25 years. Her training includes corporate governance conducted by the De La Salle University in 2002 and Anti-Money Laundering in-house training conducted by the Compliance Officer in 2015.</p> <p>She graduated from National Teachers College with a degree in Bachelor of Science in Education.</p>
8. Cynia J. Fojas	<p>Dr. Cynia J. Fojas was elected as member of the Board of</p>

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<p>(Filipino, 78 years old)</p>	<p>Directors in 1992 and was last elected as Director and was appointed as member of the Risk Management Committee on February 9, 2019.</p> <p>Dr. Fojas has served as member of the Board of Directors for more than 27 years. Her trainings included Corporate Governance in 2002, Best Practices in Crafting a Customized Risk Management Manual in 2012, and Anti-Money Laundering in-house training in 2015.</p> <p>She studied Bachelor of Science in Medicine in University of Sto. Tomas.</p>
<p>9. Maria Criselda M. Fojas (Filipino, 31 years old)</p>	<p>Ms. Maria Criselda M. Fojas was elected as member of the Board of Directors on February 16, 2013 and was last re-elected as Director on February 9, 2019.</p> <p>She is currently a member of the Audit Committee and Corporate Governance Committee. Her trainings include Corporate Governance and risk management for rural bank directors conducted by the RBRDFI in 2010 and Anti-Money Laundering in-house training conducted by the Compliance Officer in 2015.</p> <p>Ms. Fojas graduated from De La Salle University with a degree in Political Science. She also completed her Bachelor of Laws in Arellano University.</p>
<p>10. Maria Elisa P. Fojas Filipino, 58 years old)</p>	<p>Ms. Maria Elisa P. Fojas was elected as member of the Board of Directors in 2004 and was last re-elected as Director on February 9, 2019.</p> <p>Her training includes corporate governance conducted by the De La Salle University in 2002 and Anti-Money Laundering in-house training conducted by the Compliance Officer in 2015.</p>
<p>11. Roberto U. Teo (Filipino, 69 years old)</p>	<p>Mr. Roberto U. Teo was appointed independent director to the Board on February 18, 2017 and was last re-appointed as independent director on February 9, 2019.</p> <p>Currently, Mr. Teo is also a member of the Board of Directors of LBP Leasing and Finance Corporation, a fully owned subsidiary of the Land Bank of the Philippines, Chairman of the Board of Mt Apo Travel and Tours Inc. (since 2013), President and director of GT Philippines Inc. (since 2013).</p> <p>He also held directorship at the Tourism Infrastructure and Enterprise Zone Authority (2014-2018), and served as Assistant City Administration for Operation of Davao City.</p> <p>His trainings include corporate governance for rural bank directors in 2017, public corporate governance for board of directors of GOCCs in 2014, comprehensive real estate seminar and review in 2011, franchising seminar in 2009, tourism congress pre-planning workshop in 2010, executive director series in 2006.</p>

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	Mr. Teo is a graduate of the Asian Institute of Management with a Master in Business Management Degree in 1971. He completed his Bachelor of Science in Chemical Engineering from De La Salle University.
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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 -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	-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	-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 9, 2019. The term of the directors is for one (1) year. The Board met 24 times in 2019. Hereunder is the report of Directors' attendance at board and committee meetings during the election year up to December 31, 2019, including the number of board and committee meetings and percentage attended by each director.

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Name of Directors	Board		Audit Committee		Corporate Governance Committee		Risk Management Committee		Executive/Credit Committee	
	No.	%	No.	%	No.	%	No.	%	No.	%
Emmanuel P. Santos	24	100%							34	89%
Edwin S. Fojas	22	92%							34	89%
Raymundo A. Del Rosario	23	96%							25	66%
Joselito C. Fojas	24	100%	4	100%	4	100%	12	100%	37	97%
Elena J. Malabanan	24	100%								
Misael P. Santos	24	100%								
Purificacion N. Garcia	24	100%								
Maria Elisa P. Fojas	20	83%								
Cynia J. Fojas	24	100%								
Maria Criselda M. Fojas	23	96%	4	100%	4	100%	12	100%		
Roberto U. Teo	23	96%	4	100%	4	100%	12	100%		
Total of Meetings Held During the Year	24		4		12		12		38	

i. List of executive officers/senior management

Name of Officer, Nationality and Age	Position	Relevant qualifications/ experience
Edwin S. Fojas (Filipino, 68 years old)	President & General Manager	Mr. Fojas graduated from De La Salle University with a degree of Bachelor of Science in Commerce and completed post graduate studies of Masters in Business Management at the Asian Institute of Management. He has more than 30 years of banking experience. Also, he completed trainings in Corporate Governance Course conducted by the De La Salle University in 2002; Microfinance Modular Training conducted by the Rural Bankers Association of the Philippines (RBAP) – Microenterprise Access to Banking Services (MABS) in 2002; Acquired Asset Management and Bank Security sponsored by the Confederation of Southern Tagalog Rural Bankers (CSTRB) in 2003 and 2004, respectively; Anti Money Laundering in-house training conducted by the Compliance Officer in 2015; and Corporate Governance for Rural Bank Directors and Officers conducted by the RBRDFI in 2018.
Imelda D. Montenegro (Filipino, 56 years old)	Assistant General Manager/C omptroller	Ms. Montenegro has a Bachelor of Science in Commerce major in Accounting at the St. Paul's College. She has more than 30 years of banking experience in accounting, lending, branch operations.

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		Her trainings include corporate housekeeping, best practices in credit, microfinance, market and credit risk management and treasury/comptrollership management.
Basil A. Perea (Filipino, 57 years old)	Compliance Officer	Mr. Perea is a graduate of BSC – Accounting from De La Salle University. He has 25 years of banking experience. He attended training for compliance officers, AMLA update seminar, enterprise-wide risk management, PFRS updates, and corporate governance.

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

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governance seminar conducted by BSP accredited training providers, prior to, or at least immediately after, assumption of office. The Compliance Officer conducts an in-house training of the Directors and Senior Management in the matter of risk management, updates on Anti-Money Laundering regulations and other relevant laws, rules and regulations.

The Bank's Human Resources Department (HRD) has implemented an annual program continuing education for rank and file, supervisors and middle management, and senior management with a combination of in-house and external training based on the training needs and results of performance evaluation.

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:

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- 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 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.

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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, 2019 and 2018, 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;

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- 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; 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. Ma. Criselda M. Fojas	Chief Legal Officer
4. Basil A. Perea	Compliance Officer
5. Airene G. Punzalan	Cashier
6. Marites T. Luis	Accounting Manager
7. Marites L. Monzon	Loans Manager
8. Jasmin A. Riemedio	Credit Risk Manager
9. Ma. Concepcion P. Perea	Collection Manager
10. Jonathan I. Montesines	IT Manager
11. Marilyn P. Alcasid	Microfinance Manager

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12. Eileen P. Dones	Internal Audit Manager
13. Angelina B. Gabriel	Customer Service Manager
14. Julie Ann G. Jordan	Branch Manager - Mamburao
15. Agnes A. Vargas	Branch Manager - Molino
16. Myra P. Arcena	Branch Manager - Naic
17. Cezarina E. Morales	Branch Manager - Indang
18. Joel Trapago	Branch Manager – Teresa
19. Joseph C. Dampitan	Branch Manager – Tanay
20. Ruel B. Andaya	Branch Manager – Mendez
21. Roman S. Braga	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	8.66%	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
Myrna S. Fojas	Filipino	4.98%	Voting
Heirs of Raul J. Fojas	Spanish	4.79%	Voting
Jovencio S. Fojas, Jr.	Filipino	4.69%	Voting
Macario S. Fojas	Filipino	4.69%	Voting
Leticia P. Santos	Filipino	4.25%	Voting
Cynia J. Fojas	Filipino	3.21%	Voting
Heirs of Romeo O. Ner	Filipino	2.80%	Voting
Sergio J. Fojas	Filipino	2.75%	Voting
Purificacion N. Garcia	Filipino	2.36%	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, housing, corporate loans
Remittance	Western Union, TransFast, G-Cash Remit, BDO Remit
Bills Payment	
Others	Utility bills, etc. (Bayad Center) SSS collecting and paying (pension) agent

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d. Bank website and social media accounts

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

Facebook account is at : @Bangko Mabuhay – A Rural Bank, Inc.

Instagram account is at: @bangkomabuhayofficial

e. List of banking units as of December 31, 2019:

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 Branch	Bgy. Luksuhin Ibaba, 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.

A. Soriano St. (Hi-way), Bgy. Daang Amaya III, Tanza, Cavite

AUDITED FINANCIAL STATEMENTS

December 31, 2019

DAROYA & CO.

Certified Public Accountants

*4th Floor Benning Square Building, Arellano St., Dagupan City, Pangasinan
Tel Nos. (075) 522-7098/ 522-4333*

BANGKO MABUHAY (A RURAL BANK), INC.
ANNUAL REPORT 2019



Statement of Management's Responsibility for Financial Statements

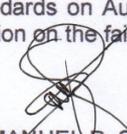
The management of Bangko Mabuhay (A Rural Bank), Inc. is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2019 and 2018 in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

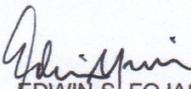
The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

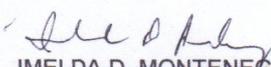
Daroya & Co. and Velasco, Punzalan & Co., CPAs, the independent auditors appointed by the stockholders for the years ended, December 31, 2019 and 2018, respectively, have audited the financial statements of the company in accordance with the Philippine Standards on Auditing, and in their reports to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.



EMMANUEL P. SANTOS
Chairman



EDWIN S. FOJAS
President & General Manager



IMELDA D. MONTENEGRO
Chief Financial Officer & Assistant General Manager

Signed this 28th day of May, 2020.

HEAD OFFICE
A. Soriano Highway, Tanza, Cavite 4108
Tel. Nos. (046) 489 – 2001 to 05; (046) 489 – 2010 to 13; (046) 885 – 1935; (02) 529 – 8995 • Fax (046) 437 – 8141
Email Address: infobm@bangkomabuhay.com
www.bangkomabuhay.com

BANGKO MABUHAY (A RURAL BANK), INC.
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DAROYA & CO.
Certified Public Accountants

4th Floor, Benning Square Building
Arellano, Dagupan City, Pangasinan
Tel. Nos. 522-7098 / 522-4333

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
BANGKO MABUHAY (A RURAL BANK), INC.
A. Soriano Street (Hi-way), Daang Amaya, Tanza Cavite

Opinion

We have audited the financial statements of BANGKO MABUHAY (A RURAL BANK), INC., which comprise the statement of financial position as at December 31, 2019, and the statement of comprehensive income, statements of change in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Other Information

The Board of Directors is responsible for the other information. The other information comprises the 'Comparison of Audited Financial Statements and Submitted Consolidated Statement of Financial Position and Income', 'Adjusting Journal Entries' and 'Certificate Authorizing Registration'.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

BANGKO MABUHAY (A RURAL BANK), INC.
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DAROYA & CO.
Certified Public Accountants

4th Floor, Benning Square Building
Arellano, Dagupan City, Pangasinan
Tel. Nos. 522-7098 / 522-4333

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Report on the Supplementary Information Required Under RR 15-2010

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes and alike in the Notes to Financial Statements is presented for purposes of filing with the Bureau of Internal Revenue and is not required part of the basic financial statements. Such information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BANGKO MABUHAY (A RURAL BANK), INC.
ANNUAL REPORT 2019

DAROYA & CO.
Certified Public Accountants

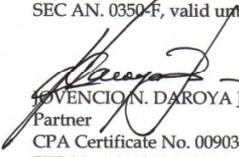
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Other Matters

We were not engaged to audit, review, or apply any procedures to the 2018 financial statements of the Bank other than with respect to the adjustments, and accordingly, we do not express an opinion or any other form of assurance on the 2018 financial statements as a whole.

The financial statements of the Bank for the year ended 31 December 2018 were audited by another auditor who expressed an unqualified opinion on those statements on 15 April 2019.

DAROYA & CO.
BOA AN 221, valid until September 05, 2020
SEC AN. 0350-F, valid until December 6, 2020


EVENCIO N. DAROYA JR.
Partner
CPA Certificate No. 0090369, valid until April 10, 2023
PTR No. 1210331 (2020) Dagupan City
TIN 161-520-408
BIR AN. 010046780012109, valid until November 25, 2022

Dagupan City, Pangasinan
May 18, 2020

BANGKO MABUHAY (A RURAL BANK), INC.
ANNUAL REPORT 2019

BANGKO MABUHAY (RURAL BANK), INC.
A. Soriano St. (Hi-way), Bgy. Daang Amaya III, Tanza, Cavite

STATEMENT OF FINANCIAL POSITION
As of December 31 ,2019 and 2018
(Amounts in Philippine Pesos)

	Notes	2019	2018
ASSETS			
Cash and cash equivalents	2,5	₱ 24,003,809	₱ 33,106,565
Due from Bangko Sentral ng Pilipinas	2,6	51,784,358	51,981,874
Due from Other Banks	2,7	820,385,387	657,086,589
Held-to-Maturity Financial Assets	2,8	499,957,564	437,549,348
Loans and Receivables - net	2,9	485,908,112	509,728,767
Bank premises, furniture, fixtures and equipment-net	2,10	44,900,208	47,517,151
Investment properties - net	2,11	98,684,899	87,331,981
Other Assets - net	2,12	47,553,487	42,839,177
TOTAL ASSETS		₱ 2,073,177,824	₱ 1,867,141,452
LIABILITIES AND EQUITY			
LIABILITIES			
Deposit Liabilities	2,13	₱ 1,712,458,117	₱ 1,521,156,286
Bills Payable	2,14	10,000,000	25,000,000
Accrued and Other Payables	2,15	29,657,262	27,244,908
Income Tax Payable	2,16	219,516	901,550
Total liabilities		1,752,334,895	1,574,302,744
EQUITY			
Paid-in Capital	2,17	188,879,800	188,879,800
Additional Paid-in Capital	2,17	26,811,831	26,811,831
Retained Earnings	2,17	105,151,298	77,147,077
Total Equity		320,842,929	292,838,708
TOTAL LIABILITIES AND EQUITY		₱ 2,073,177,824	₱ 1,867,141,452

See Accompanying Notes to the Financial Statements

BANGKO MABUHAY (A RURAL BANK), INC.
ANNUAL REPORT 2019

BANGKO MABUHAY (RURAL BANK), INC.

A. Soriano St. (Hi-way), Bgy. Daang Amaya III, Tanza, Cavite

STATEMENT OF INCOME

For the years ended, December 31, 2019 and 2018
(Amounts in Philippine Pesos)

	Notes	2019	2018
INTEREST INCOME	18		
Loans and receivables		₱ 108,448,022	₱ 98,302,795
Held-to-maturity investments		21,255,084	14,373,502
Deposit with banks		12,307,312	7,089,901
Total		142,010,418	119,766,198
INTEREST EXPENSE	19		
Deposit liabilities		10,846,129	10,351,046
Bills Payable		35,944	54,514
Total		10,882,073	10,405,560
NET INTEREST INCOME		131,128,345	109,360,638
OTHER INCOME	20		
Service charges and commissions		21,674,833	22,155,589
Gain from sale of non-financial assets		22,210,593	26,359,098
Miscellaneous income		4,156,738	4,892,532
Recovery on charge-off assets		133,569	38,161
Total		48,175,733	53,445,380
TOTAL OPERATING INCOME		179,304,078	162,806,018
OPERATING EXPENSES	21		
Salaries and other benefits		73,212,754	69,927,105
Taxes and licenses		16,579,792	14,327,687
Fees and commission expense		17,900	29,085
Other administrative expense		38,546,180	33,511,100
Depreciation/amortization		11,316,709	10,196,863
Provision for credit losses		7,524,025	5,057,920
Provision for impairment losses		-	671,826
Total		147,197,360	133,721,586
INCOME BEFORE TAX		32,106,718	29,084,432
PROVISION FOR INCOME TAX	16 & 22	4,102,497	4,612,733
NET INCOME		₱ 28,004,221	₱ 24,471,699

See Accompanying Notes to the Financial Statements

BANGKO MABUHAY (A RURAL BANK), INC.
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BANGKO MABUHAY (RURAL BANK), INC.
A. Soriano St. (Hi-way), Bgy. Daang Amaya III, Tanza, Cavite

STATEMENT OF CHANGES IN EQUITY
For the years ended, December 31, 2019 and 2018
(Amounts in Philippine Pesos)

	<u>Paid-in Capital</u>		<u>Additional</u> <u>Paid-in Capital</u>	<u>Retained Earnings (R.E.)</u>		<u>Total</u> <u>Equity</u>
	<u>Common Stock</u>			<u>Free</u>	<u>Undivided Profits</u>	
Balance as at 31 December, 2017	₱ 188,879,800	₱ 26,811,831	₱ 52,675,378	₱ -	₱ 268,367,009	
Net Profit for the year 2018				24,471,699	24,471,699	
Closing Undivided profits to R.E.-Free			24,471,699	(24,471,699)	-	
Balance as at 31 December, 2018	₱ 188,879,800	₱ 26,811,831	₱ 77,147,077	₱ -	₱ 292,838,708	
Net Profit for the year 2019				28,004,221	28,004,221	
Closing Undivided profits to R.E.-Free			28,004,221	(28,004,221)	-	
Balance as at 31 December, 2019	₱ 188,879,800	₱ 26,811,831	₱ 105,151,298	₱ -	₱ 320,842,929	

See Accompanying Notes to the Financial Statements

BANGKO MABUHAY (A RURAL BANK), INC.
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STATEMENT OF CASH FLOWS

For the years ended, December 31, 2019 and 2018
(Amounts in Philippine Pesos)

	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before Tax		₱ 32,106,718	₱ 29,084,432
Adjustments to reconcile net income to net cash provided by (Used in) operating activities			
Depreciation/ amortization expense	21.3	11,316,709	10,196,863
Provision for credit losses	21	7,524,025	5,057,920
Provision for impairment loss		-	671,826
Gain on sale of non-financial assets	11	(22,210,593)	(26,359,098)
Changes in operating assets and liabilities			
Decrease (Increase) in:			
Loans and receivables	9	17,973,232	(1,560,261)
Other Assets	12	(7,458,722)	(1,471,983)
Increase (decrease) in:			
Deposit liabilities	13	191,301,831	160,478,059
Other liabilities	15	2,412,354	2,350,209
Income tax payable	16	(682,034)	(841,897)
Cash generated from operations		232,283,520	177,606,070
Income taxes paid	22	(4,102,497)	(6,129,780)
Cash provided by operating activities		228,181,023	171,476,290
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from (payment of)			
Held-to-maturity investments	9	(62,408,216)	(64,055,419)
Acquisition of investment properties (ROPA)	11	(30,995,319)	(19,437,125)
Acquisition of bank premises, furniture and equipment	10	(4,531,054)	(4,483,783)
Proceeds from sale of investment properties	11	38,752,093	37,930,130
Cash used in investing activities		(59,182,496)	(50,046,197)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net Borrowings/(payment) of bills payable	12	(15,000,000)	5,000,000
Cash provided by (used in) financing activities		(15,000,000)	5,000,000
NET INCREASE IN CASH AND CASH EQUIVALENTS		153,998,527	126,430,093
CASH AND CASH EQUIVALENTS AT START OF YEAR			
Cash and cash equivalents	5	33,106,565	24,422,366
Due from Bangko Sentral ng Pilipinas	6	51,981,874	46,228,845
Due from other banks	7	657,086,589	545,093,725
		742,175,028	615,744,936
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and cash equivalents	5	24,003,809	33,106,565
Due from Bangko Sentral ng Pilipinas	6	51,784,358	51,981,874
Due from other banks	7	830,385,387	657,086,589
		₱ 896,173,555	₱ 742,175,028

See Accompanying Notes to the Financial Statements

BANGKO MABUHAY (A RURAL BANK), INC.
ANNUAL REPORT 2019

BANGKO MABUHAY (RURAL BANK), INC.

A. Soriano St. (Hi-way), Bgy. Daang Amaya III, Tanza, Cavite

NOTES TO THE FINANCIAL STATEMENTS

For the years ended, December 31, 2019 and 2018
(Amounts in Philippine Pesos)

Note 1 – Company Information

Bangko Mabuhay (A Rural Bank), Inc. was incorporated in the Philippines on January 21, 2015 through 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) pursuant to Republic Act (RA) No. 7353 and the Monetary Board Resolution No. 1541 dated September 19, 2013. The consolidated bank was incorporated and registered with Securities and Exchange Commission (SEC) under Registration Number CS201500594. On March 23, 2015, the BSP granted the Bank the Certificate of Authority to engage in the business of rural banking which commenced the operation on April 1, 2015.

The Bank's Head Office is located at A. Soriano Highway, Bgy. Daang Amaya III, Tanza Cavite. The Bank operates in the Philippines, particularly in the Provinces of Cavite, Rizal and Occidental Mindoro and, as of December 31, 2019 and 2018, it has 8 branches and 3 branch-lite units. A branch-lite unit 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 record its transactions in the books of the head office or the branch to which these units are annexed. The branches' and branch-lite units' addresses as of reporting dates are as follows:

Name of Branch/ Branch-lite Unit	Address
Molino Branch	Bangko Mabuhay Building, Zapote-Paliparan Road, Bgy. Molino III, Bacoor City, Cavite
Indang Branch	Bangko Mabuhay Building, De Ocampo St., Poblacion, Indang, Cavite
Naic Branch	Bangko Mabuhay Building, P. Poblete St., corner Balong Pari St., Poblacion, Naic, Cavite
Mamburao Branch	San Jose St., Bgy. Poblacion 7, Mamburao, Occidental Mindoro
Teresa Branch	No. 56 Pres. M.L. Quezon St., Poblacion, Teresa, Rizal
Tanay Branch	Near Tanay Public Market, Sitio Pasipit, Bgy. Plaza Aldea, Tanay, Rizal
Mendez Branch	No. 145 J. P. Rizal St., Poblacion, Mendez, Cavite
Alfonso Branch	Bgy. Lukshin-Ibaba, Alfonso, Cavite
Dasmariñas Branch-lite	Camerino Avenue corner San Juan St., Bgy. Zone 1, Dasmariñas City, Cavite
Manggahan Branch-lite	No. 36 Greps Building, C.M. Delos Reyes St., Bgy. Manggahan, Gen. Trias City, Cavite
Silang Branch-lite	Josephine Village, Bgy. Lucshin, Silang, Cavite

The Bank files, pays and remits its tax obligations to Bureau of Internal Revenue District Office No. 54B situated at Kawit, West Cavite under TIN 008-937-347-000.

BANGKO MABUHAY (A RURAL BANK), INC.
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The Board of Directors (BOD) of the Bank has reviewed and approved the release of accompanying financial statements for the year ended December 31, 2019 (including comparative figures for December 31, 2018) on May 16, 2020.

Note 2 – Significant Accounting Policies

A summary of significant accounting policies and practices of the Bank are set forth to facilitate the understanding of data presented in the financial statements.

Basis of Preparation

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

The accompanying 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

Currency Presentation

Unless otherwise stated, all amounts are expressed in Philippine Pesos (Php), the domestic currency. All financial information presented in Philippine Peso has been rounded-off to the nearest peso.

Presentation of Financial Statements

The statements of financial position of the Bank are presented in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 4.3.

Income and expenses are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, due from BSP and other banks that are highly liquid, readily convertible to known amounts of cash with original maturities of three months or less from dates of placements and which are subject to insignificant risk of changes in value. Due from BSP includes statutory reserves required by the BSP which the Bank considers as cash and cash equivalents as withdrawals can be made to meet the Bank's cash requirements as allowed by the BSP.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amended standards, which became effective as of January 1, 2019. Except as otherwise indicated, these changes in the accounting policies did not have any significant impact on the financial position or performance of the Bank:

New and amended Standards

- i. Amendments to PFRS 2. Share-based Payment, Classification and Measurement of Share-based Payment.
- ii. Amendments to PFRS 4. Insurance Contracts, Applying PFRS 9. Financial Instruments, with PFRS 4, Insurance Contracts.

BANGKO MABUHAY (A RURAL BANK), INC.
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- iii. PFRS 15, *Revenue from Contracts with Customers*, PAS 18, *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. In addition, guidance on interest and dividend income have been moved from PAS 18 to PFRS 9 without significant changes to the requirements. The adoption of PFRS 15 has no significant impact to the Bank, since its revenue, primarily interest income from loans and receivables, are outside the scope of such standard.
- iv. Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration*.

Annual Improvements to PFRSs (2014 – 2017 Cycle)

- i. Amendments to PAS 28, *Investments in Associates and Joint Ventures, Measuring an Associate or Joint Venture at Fair Value* (Part of Annual Improvements to PFRSs, 2014 – 2016 Cycle).
- ii. Amendments to PAS 40, *Investment Property, Transfers of Investment Property*
- iii. *PAS 12 (Amendments), Income taxes – Tax Consequences of Dividends*. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.
- iv. *PAS 23 (Amendments), Borrowing costs – Eligibility for Capitalization*. The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.

Standard that has been adopted and that is deemed to have significant impact on the financial statements or performance of the Bank is described below:

i. *PFRS 9 (2014), Financial Instruments*

The Bank adopted the final version of PFRS 9 effective January 1, 2018. As a result, the Bank changed to the following accounting policies beginning 2018.

a. Classification and Measurement

The 2009 version of PFRS 9 in December 2010 specified how an entity should classify and measure its financial assets. It required all financial assets to be classified in their entirety on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortized cost or fair value. The final version of PFRS 9 introduced a new fair value through other comprehensive income (FVTOCI) classification for debt instruments where the objective of the business model is both to collect contractual cash flows and to realize fair value changes.

b. Impairment

The Bank may record expected credit losses (ECL) for all loans and other debt financial assets not classified as fair value through profit or loss (FVTP)L. ECL represents credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The objective is to record lifetime losses on all financial instruments which have experienced a significant increase in credit risk (SICR) since their initial recognition. As a result, allowance for ECLs is measured at amounts equal to either:

- i. 12-month ECL; or

BANGKO MABUHAY (A RURAL BANK), INC.
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- ii. Lifetime ECL, for those financial instruments which have experienced an SICR since initial recognition.

The 12-month ECL is a portion of lifetime ECL that results from default events on a financial instrument that are possible within 12 months after the statement of financial position date.

For non-credit impaired financial instruments

1. Stage 1 is comprised of all non-impaired financial assets which have not experienced an SICR since initial recognition or is considered of low credit risk as of the reporting date. The Bank recognizes a 12-month ECL for Stage 1 financial instruments.
2. Stage 2 is comprised of all non-impaired financial assets which have experienced an SICR since initial recognition. The Bank recognizes a lifetime ECL for Stage 2 financial instruments.

For credit impaired financial instruments

1. Stage 3 is comprised of all financial assets that have objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The Bank recognizes a lifetime ECL for impaired financial instruments.

However, in line with the PFRS 9 requirement on the adoption of the expected credit loss (ECL) in recognizing impairment, the Bank shall be allowed to adopt the existing guidelines in Appendix 18 of the Manual of Regulations for Banks (MORB) in setting up allowance for credit losses as amended by Circular No. 1011 series of 2018.

- c. Hedge accounting

The new hedge accounting model under PFRS 9 aims to simplify hedge accounting, align the accounting for hedge relationships more closely with an entity's risk management activities and permit hedge accounting to be applied more broadly to a greater variety of hedging instruments and risks eligible for hedge accounting. Adoption of these amendments did not have an impact on the Bank's financial statements as it does not apply hedge accounting.

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

For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right of use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method.

However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit). For lessors, lease accounting is similar to PAS 17's. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17's. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

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iii. *IFRIC 23, Uncertain over Income Tax Treatments* (effective from January 1, 2019).

The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Bank to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Bank has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above.

Fair Value Measurement

For measurement and disclosure purposes, the Bank determines the fair value of an asset or liability at initial measurement or at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: a.) in the principal market for the asset or liability, or b.) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. If the asset or liability measured at fair value has a bid and ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value, regardless of where the input is categorized within the fair value hierarchy.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The carrying amounts of the financial assets and liabilities as at December 31 for both years approximate their fair values based on the bank's fair value hierarchy.

Classification and measurement of financial assets

For purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a nonderivative and meets the definition of 'equity' for the issuer (under PAS 32, Financial Instruments: Presentation). All other non-derivative financial instruments are 'debt instruments'. Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, FVTOCI, and FVTPL. The classification depends on the financial asset's contractual cash flow characteristics and the Bank's business model for managing them. In order for a financial asset to be classified and measured at amortized cost or FVTOCI, 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. 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.

Business model test

The Bank determines its business model at the level that best reflects how it manages Banks of financial assets to achieve its business objective. The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- a. How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's key management personnel;
- b. The risks that affect the performance of the business model and the financial assets held within that business model and, in particular, the way those risks are managed;
- c. How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- d. The expected frequency, value and timing of sales are also important aspects of the Bank's assessment. The business model assessment is based on reasonably expected scenarios without taking 'worst case' or stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Solely Payments of Principal and Interest (SPPI) test

As a second step of its classification process, the Bank assesses the contractual terms of financial instruments to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount). The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk.

To make the SPPI assessment, the Bank applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set. In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are SPPI on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Financial Assets at Amortized Cost

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

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1. The asset is held within a business model with the objective to hold assets in order to collect contractual cash flows; and
2. The contractual terms of the instrument give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for credit losses, with the interest calculated recognized as 'Interest income' in the statement of income. Gains and losses are recognized in the statement of income when the financial assets are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such assets are recognized in the statement of income under 'Provision for credit and impairment losses - net'. The effects of restatement on foreign currency-denominated financial assets at amortized cost are recognized in the statement of income.

The Bank classified 'Cash and other cash items', 'Due from BSP', 'Due from other banks', 'Loans and receivables', 'Investment securities at amortized cost', if any, and certain financial assets, if any, under 'Other assets' as financial assets at amortized cost. This will also include, as prescribed by BSP Circular 1011, Held-to-Maturity Financial Assets.

Reclassification of financial assets

The Bank can reclassify financial assets if the objective of its business model for managing those financial assets changes. The Bank is required to reclassify as follows:

1. From amortized cost or FVTOCI to FVTPL, if the objective of the business model changes so that the amortized cost or FVTOCI criteria are no longer met;
2. From FVTPL to amortized cost or FVTOCI, if the objective of the business model changes so that the amortized cost or FVTOCI criteria start to be met and the characteristics of the instrument's contractual cash flows are SPPI; and
3. From amortized cost to FVTOCI if the business model changes so that the objective becomes both to collect contractual cash flows and to sell or from FVTOCI to amortized cost if the business model becomes solely for the collection of contractual cash flows.

Reclassification of financial assets designated as at FVTPL or equity financial assets at FVTOCI at initial recognition is not permitted. A change in the objective of the Bank's business model must be effected before the reclassification date. The reclassification date is the beginning of the next reporting period following the change in the business model.

Classification and Measurement of Financial Liabilities

Financial liabilities are classified, at initial recognition, either as financial liabilities at FVTPL or other financial liabilities at amortized cost.

Financial liabilities at amortized cost

These liabilities are classified as such when the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

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These financial liabilities are measured initially at fair value, net of directly attributable transaction costs. After initial measurement, these liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate (EIR).

This accounting policy relates to the statement of financial position captions 'Deposit liabilities', 'Bills payable', 'Outstanding acceptances', 'Manager's checks', and certain financial liabilities under 'Accrued interest, taxes and other expenses' and 'Other liabilities' which are not designated at FVTPL.

Cash and Cash Equivalents

Cash includes cash on hand and in vault and checks and other cash items. Cash equivalents include highly liquid investments, if any, that are readily convertible to known amounts of cash with maturities of three months or less from the date of acquisition and that are subject to an insignificant risk of change in value.

Due from BangkoSentral ng Pilipinas

This account represents deposit of the bank to the BangkoSentral ng Pilipinas as part of its legal reserve requirement to secure its deposit liabilities.

Due from Other Banks

This account represents deposits with other banking institutions earning variable interest rates prevailing at market.

Held-to-Maturity (HTM) Financial Assets

This refers to debt securities, quoted in an active market with fixed or determinable payments and fixed maturity that a bank has the positive intention and ability to hold to maturity other than:

- (a) those that meet the definition of Financial Assets Designated at Fair Value Through Profit or Loss; or
- (b) those that the financial institution designates as Available for Sale Securities (AFS).

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading.

Loans and receivables shall be measured at amortized cost using the effective interest method. Loans and receivables are stated at the outstanding balance reduced by allowance for credit losses and impairment losses.

Interest on non-supervised loans collected in advance (Unearned Income) is amortized to income over the term of the loans. Interest income on past due loans arising from discount amortization (and not from the contractual interest of the accounts) shall be accrued as provided in PAS 39. Interest on charges on supervised credits are recognized as income upon collection. Such assets are carried at cost or amortized cost using the effective interest method. Gains and losses are recognized in the statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Specific and general loan loss provision were determined and set-up after conducting a loans and other assets review classification, through aging, analysis and other criteria and after considering the guidelines in the classification of loans and the provisioning requirements for classified and unclassified loan accounts. After classifying loans as either current, past due or items in litigation, the same are qualitatively appraised and categorized. Loans and other credit accommodations shall be grouped into the following classification:

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- 1) Pass. These are loans and other credit accommodations that do not have a greater-than normal credit risk. The borrower has the apparent ability and willingness to satisfy obligations in full and therefore no loss in ultimate collection is anticipated.
- 2) Especially Mentioned (EM). These are loans and other credit accommodations that have potential weaknesses that deserve management’s close attention. If left uncorrected, these weaknesses may affect the repayment of the loan.
- 3) Substandard. These are loans and other credit accommodations that have well-defined weaknesses that may jeopardize repayment/liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower.
- 4) Doubtful. These are loans and other credit accommodations that exhibit more severe weaknesses than those classified as “Substandard”, whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable, however the exact amount remains undeterminable as yet. Classification as “Loss” is deferred because of specific pending factors which strengthen the assets.
- 5) Loss. These are loans and other credit accommodations which are considered uncollectible or worthless and of such little value that their continuance as bankable assets are not warranted although the loans may have some recovery or salvage value. This shall be viewed as a transitional category for loans and other credit accommodations which have been identified as requiring write-off during the current reporting period even though partial recovery may be obtained in the future.

Credit exposures shall be classified into three stages using the following time horizons in measuring ECL:

Stage of Credit Impairment	Characteristics	Time Horizon in measuring ECL
Stage 1	Credit exposures that are considered "performing" and with no significant increase in credit risk since initial recognition or with low credit risk	Twelve (12) months
Stage 2	Credit exposures that are considered "under-performing" or not yet non-performing but with significant increase in credit risk since initial recognition	Lifetime
Stage 3	Credit exposures with objective evidence of impairment, thus, considered as "non-performing"	Lifetime

Following the "Basic Guidelines in Setting Up of Allowance for Credit Loss", as a general rule, Especially Mentioned and Substandard - Underperforming [e.g., substandard accounts that are unpaid or with missed payment of less than ninety (90) days) shall be considered as Stage 2 accounts, while Substandard Non-performing, Doubtful, and Loss accounts shall be considered as Stage 3 accounts.

The loan loss estimation of the bank is subject to the following guidelines:

1. Individually Assessed Credit Exposure: *(include investments in debt securities measured at fair value through other comprehensive income and amortized cost, loan commitments, sales contract receivables, accounts receivables, accrued interest receivables, and advances).*

- A. Loans and other credit exposures with unpaid principal and/or interest shall be classified and provided with allowance for credit losses (ACL) based on the number of days of missed payments as follows:

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For unsecured loans and other credit exposures			
No. of days unpaid/with missed payment	Classification	Minimum Allowance for Credit Losses (ACL)	Stage
31-90 days	Substandard (underperforming)	10%	2
91-120 days	Substandard (non-performing)	25%	3
121-180 days	Doubtful	50%	3
181 days and over	Loss	100%	5
For secured loans and other credit exposures			
No. of days unpaid/with missed payment	Classification	Minimum ECL	Stage
31-90 days*	Substandard (underperforming)	10%	2
91-180 days*	Substandard (non-performing)	10%	3
181-365 days	Substandard (non-performing)	25%	3
Over a year – 5 years	Doubtful	50%	3
Over 5 years	Loss	100%	3
* When there is imminent possibility of foreclosure and expectation of loss, ACL shall be increased to 25%			

Provided, that where the quality of physical collaterals or financial guarantees securing the loans and advances are determined to be insufficient, weak or without recoverable values, such loans and advances shall be treated as if these are unsecured.

- B. Loans and other credit exposures that exhibit the characteristics for classified accounts described under Section 143 of MORB shall be provided with ACL as follows:

Classification	Minimum ACL	Stage
Especially Mentioned	5%	2
Substandard-secured	10%	2 or 3*
Substandard-unsecured	25%	2 or 3*
Doubtful	50%	3
Loss	100%	3
* The stage depends on whether the accounts are classified as non-performing (Stage 3) or underperforming (Stage 2)		

2. Collectively Assessed Loans and Other Credit Exposures. *(include microfinance loans, micro enterprises and small business loans and consumer loans such as salary loans, credit card receivables, auto loans, housing loans and other consumption loans, and other loan types which fall below the FI's materiality threshold for individual assessment.)*

For unsecured loans and other credit exposures			
No. of days unpaid/with missed payment*	Classification	Minimum ECL	Stage
1 - 30 days	Especially Mentioned	2%	2

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31 - 60 days /1st restructuring	Substandard	25%	2 or 3 x
61 - 90 days	Doubtful	50%	3 #
91 days and over/ 2nd restructuring	Loss	100%	3
* Portfolio at risk (PAR) for microfinance loans			
x The stage depends on whether the accounts are classified as non-performing (Stage 3) or underperforming (Stage 2).			
# Section 304 (MORB) provides that doubtful accounts are considered as non-performing hence, shall be classified under Stage 3 notwithstanding the number of missed amortizations.			

For secured loans and other credit exposures				
No. of days unpaid/with missed payment*	Classification	ACL %		Stage
		Other Types of Collateral	Secured by Real Estate	
31 - 90 days	Substandard (underperforming)	10%	10%	2
91 - 120 days	Substandard (non-performing)	25%	15%	3
121- 360 days	Doubtful	50%	25%	3
361 days - 5 years	Loss	100%	50%	3
Over 5 years	Loss	100%	100%	3

General and Specific Provisions for Loan Accounts

1. The Bank shall treat Stage 1 provisions for loan accounts as General Provision (GP), while Stages 2 and 3 provisions shall be treated as Specific Provisions (SP).
2. The Bank shall set up general loan loss provision (GLLP) equivalent to one percent (1%) of all outstanding Stage 1 on-balance sheet loans, except for accounts considered as credit risk-free under existing regulations. The Banks is not required to provide a one percent (1%) GP on other credit exposures covered by PFRS 9 such as off-balance sheet accounts and investments.
3. Allowance for credit losses for Stages 1, 2, and 3 accounts shall be recognized in profit or loss statement. In cases when the computed allowance for credit losses on Stage 1 accounts is less than the 1 percent GP required, the deficiency shall be recognized by appropriating the Retained Earnings account (Bank shall use Retained Earnings Reserve - others as temporary account of Retained Earnings- General Provision). GP recognized in profit or loss as allowance for credit losses for Stage 1 accounts and the amount appropriated in RE shall be considered as Tier 2 capital subject to the limit provided under the Capital Adequacy Ratio (CAR) framework.

Sales Contract Receivables

This refers to the amortized cost of assets acquired in settlement of loans through foreclosure or dation in payment and subsequently sold on installment basis whereby the title to the said property is transferred to the buyers only upon full payment of the agreed selling price. This shall be recorded initially at the present value of the installment receivable discounted at the imputed rate of interest. Discount shall be accreted over the life of the SCR by crediting

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interest income using the effective interest method. Any difference between the present value of the SCR and the derecognized assets shall be recognized in profit or loss at the date of sale in accordance with the provisions of PAS 18. This account is presented as part of "Loans and Receivable" account.

Unamortized interest and discounts

Interest and charges on non-supervised loans collected in advance is amortized to income over the term of the loans. Normally, the account is presented as contra-account of loans and receivables.

Bank premises, furniture, fixtures and equipment

Properties and equipment are initially measured at cost less any subsequent accumulated depreciation and amortization. The cost of an asset consists of its purchase price and costs directly attributable to bringing the asset to its working condition for its intended use.

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

Major spare parts and stand-by equipment qualify as properties and equipment when the bank expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of properties and equipment, they are accounted for as properties and equipment.

Estimated future dismantlement costs of items of properties and equipment arising from legal or constructive obligations are recognized as part of properties and equipment and are measured at present value at the time when the obligation was incurred.

Depreciation is computed on the straight-line method with estimated useful lives of the assets as follows:

<u>Classification</u>	<u>Estimated Useful life</u>
Bank premises- buildings and improvements	20 years
Office equipment	2 - 5 years
Furniture and fixtures	2 - 5 years
Transportation equipment	5 - 8 years
Information and technology equipment	2 -5 years
Leasehold improvements	Lease term but not to exceed 5 years

Stand-by equipment is depreciated from the date it is made available for use over the shorter of the life of the stand-by equipment or the life of the asset the stand-by equipment is part of while major spare parts are depreciated over the period starting when it is brought into service, continuing over the lesser of its useful life and the remaining expected useful life of the asset to which it relates. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use. Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

Investment Properties

Real and other properties acquired (ROPA) in settlement of loans through foreclosure or dation in payment shall be booked initially at the carrying amount of the loan plus booked accrued interest less allowance for probable 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): 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

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the carrying amount of ROPA exceeds P5 million, the appraisal of the foreclosed/ purchased asset shall be conducted by an independent appraiser acceptable to the BSP.

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 gain or loss on the retirement or disposal of an investment property is recognized in the statement of income in the year of retirement or disposal. Expenditures incurred after its acquisition such as repairs and maintenance cost are normally charged to operations in the year in which the costs are incurred. The buildings classified as investment properties are depreciated over the remaining useful life which shall not exceed ten (10) years.

Other Assets

Other assets are recognized at cost. The account includes prepaid expenses, deferred income taxes, and other resources. Unused supplies, if any, are measured initially at cost. Subsequent measurement of unused supplies is at cost less impairment loss, if any. Intangible assets, at cost less amortization and impairment loss, also included.

Financial Liabilities

Financial liabilities include Deposit Liabilities, other non-interest bearing borrowings and advances from affiliates if any. Financial liabilities are recognized when the bank becomes a party to the contractual provisions of the instrument.

Deposit Liabilities

Deposits are measured at cost, which is a reflection of their fair values.

Bills payable

This refers to the amortized cost of obligations to the Land Bank of the Philippines or the amortized cost of borrowings from other banks and non-bank financial institutions with quasi-banking authority, other than those payable on call/demand.

Other Liabilities

Other liabilities are recognized upon incurrence of transaction/s wherein the Bank has an obligation to settle the same in the future. The account includes accrued interest expense, accrued taxes and other expenses and other payables.

Paid-in Capital / Share Capital

Share capital is determined using the nominal value of shares that have been issued and fully paid. The costs of acquiring bank's own shares are shown as a deduction from equity attributable to the bank's equity holders until the shares are cancelled or reissued. When such shares are subsequently sold or reissued, any consideration received, net of directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the bank's equity holders.

Retained Earnings

Retained earnings include all current and prior period results as disclosed in the statement of income.

Revenue Recognition

Revenue is recognized to the extent that is probable that the economic benefits will flow to the bank and revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable and

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represents amounts receivable for goods or services provided in the normal course of business. The following specific criteria must also be met before revenue is recognized:

- Interest Income is recognized as the interest accrues (taking into account the effective yield on the asset).
- Service charges and commissions are recognized on an accrual basis, when the service has been provided, unless collectibility is in doubt.
- Gain on sale of acquired assets is recognized if transactions indicate that the full ownership is transferred to the acquiree.
- Miscellaneous income comprise of processing fees, banking fees and insurance. These are recognized on an accrual basis when the service has been provided, unless collectibility is in doubt.

Retirement Benefits

The Bank operates a defined benefit retirement plan and a defined contribution plan, which require contributions to be made to a separately administered fund.

Defined benefit retirement plan

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the reporting date reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling (if any). The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

1. Service cost;
2. Net interest on the net defined benefit liability or asset;
3. Remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expenses in the statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on retirement liability) are recognized immediately in other comprehensive income (OCI) in the period in which they arise. Remeasurements are not reclassified to the statement of income in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Bank, nor can they be paid directly to the Bank. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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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. 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).

The Plan utilizes actuarial assumptions by using factors, such as; employee turn-over rates, future mortality rates and discount rate based on reference rate being used by the government, among others. The fund is managed by the trust department of a universal bank. Additional funding is done on an annual basis. As of December 31, 2019 and 2018, the fair value of the plan assets are P17.29 Million and P14.92 Million, respectively.

Current service costs amounting to ₱1,540,175 in 2019 and ₱1,424,867 in 2018 are presented as contribution to retirement fund expense under salaries and other benefits in the statements of income (see Note 21.1)

Movements in the fair value of plan assets for the years 2019 and 2018 are presented below.

	2019	2018
Balance at beginning of year	₱ 14,924,931	₱ 14,616,899
Contributions to the Plan	1,424,867	1,311,824
Realized and unrealized earnings on plan assets	1,226,846	(413,284)
Benefits paid	(284,742)	(590,508)
Total	₱ 17,291,902	₱ 14,924,931

Employee leave entitlement

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period. For leave entitlements expected to be settled for more than twelve months after the reporting date, the estimated liability is actuarially determined and reported under 'Other Liabilities' in the statement of financial position. Currently the Bank requires all employees to avail forced leaves before the end of the reporting date.

Related Parties

Parties are considered related if one party has control, joint control, significant influence over the other party in making financial and operating decisions. The key management personnel of the bank and post-employment benefit plans for the benefit of bank's employees are also considered to be related parties.

Basic Earnings per Share and Book Value Per Share

Basic earnings per share is calculated by dividing the net income for the year attributable to the common shareholders by the weighted average number of common shares outstanding during the year, after considering the retroactive effect of stock dividend declaration, if any. Book value per share is computed by dividing total equity less any preferred shares over outstanding common shares at reporting date.

Taxation

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 tax authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as at the balance sheet date.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally

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recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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 the term of the renewal or extension was initially included in the lease term;
- c. There is a change in the determination of whether fulfillment is dependent on a specified asset; or
- d. There is a substantial change to the asset.

Provisions

Provisions are recognized when an obligation (legal or constructive) is incurred as a result of a past event and when it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as an 'Interest expense' in the statement of income.

Contingent Assets and Contingent Liabilities

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

Events After the Reporting Period

The bank identifies subsequent events as events that occurred after the balance sheet date but before the date when the financial statements were authorized for issue. Any subsequent events that provide additional information about the bank's financial position at the balance sheet date is reflected in the financial statements. Events that are not adjusting events are disclosed in the notes to the financial statements when material.

Note 3 – Management Accounting Judgment and Estimates

The preparation of the Bank's financial statements in accordance with PFRS requires the management to make judgments and estimates that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and contingent liabilities at reporting date. Future events may occur which will cause the judgments used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

In the application of the bank's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not easily apparent from other source. The estimates and associated assumption are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

a. Business model test

The Bank manages its financial assets based on business models that maintain adequate level of financial assets to match expected cash outflows and maintain adequate level of high quality liquid assets while maintaining a strategic portfolio of financial assets for trading activities. The Bank's business model can be to hold financial assets to collect contractual cash flows even when sales of certain financial assets occur. PFRS 9, however, emphasizes that if more than an infrequent number of sales are made out of a portfolio of financial assets carried at amortized cost and those sales are more than insignificant in value (either individually or in aggregate), the entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Bank considers the circumstances surrounding the disposal as well as the requirements of BSP Circular No. 1011 setting forth guidelines on the adoption of PFRS 9.

b. Cash flow characteristics test

In determining the classification of financial assets under PFRS 9, the Bank assesses whether the contractual terms of these financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flow.

c. Determination of significant influence over another entity

The determination of significant influence over another entity, other than the rebuttable presumption of ownership over twenty percent (20%), requires significant judgment. In making judgment, the Bank evaluates existence of the following:

1. representation on the Board of Directors (BOD) or equivalent governing body of the investee;
2. participation in policy-making processes, including participation in decisions about dividends or other distributions;
3. material transactions between the entity and its investee;
4. interchange of managerial personnel; or
5. provision of essential technical information.

Estimating useful lives of properties and equipment

The useful lives of properties and equipment are estimated based on the period over which the assets are expected to be available for use. The estimated useful lives of properties 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 bank's assets. In addition, the estimation of the useful lives of property, plant and equipment is based on bank's collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property, plant and equipment would increase the recognized operating expenses and decrease non-current assets.

Impairment on financial assets

The bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the bank to reduce any differences between loss estimates and actual loss experience.

Impairment on non-financial assets

The bank is required to perform an impairment review when certain impairment indicators are present. Purchase accounting requires extensive use of accounting estimates and judgment to allocate the purchase price to the fair market values of the assets.

Determining the fair value of non-financial assets, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the bank to make estimates and assumptions that can materially affect the financial statements. Future events could cause the bank to conclude that properties and equipment, investments and intangible assets associated with an acquired business is impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations.

Estimating allowances for credit losses

The Company estimates the allowance for credit losses related to its receivables based on assessment of specific accounts where the Company has information that certain customers are unable to meet their financial obligations. In these cases judgment used was based on the best available facts and circumstances including but not limited to, the length of relationship with the customer and the customer's current credit status based on third party credit reports and known market factors.

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The Company follows the BSP-prescribed guidelines in computing the specific and general loan loss provisions. These specific reserves are re-evaluated and adjusted as additional information received impacts the amounts estimated.

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

Revenue and expense recognition

The bank's revenue recognition policies require the use of estimates and assumptions that may affect the reported amounts of revenues and receivables. Differences between the amounts initially recognized and actual settlements are taken up in the accounts upon reconciliation. However, there is no assurance that such use of estimates may not result to material adjustments in future periods.

Expenses are recognized in the statement of income upon utilization of the service or in the date they are incurred. Finance costs, if any, are reported on an accrual basis.

Note 4 - Financial Risk Management

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, and financial risk. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risks are credit risk, liquidity risk, market risk and other operational risks. Market risk includes currency risk, interest rate and other price risk. The bank is exposed to financial risk through its financial assets and financial liabilities. The most important components of this financial risks are credit risk, liquidity risk and market risk.

4.1 Credit Risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and receivables. There is also credit risk in off-balance sheet financial instruments, such as loan commitments and guarantees.

Credit risk measurement

Credit risk is the possibility of losses associated with changes in the credit profile of borrowers or counterparties. These losses, associated with changes in portfolio value, could arise due to default or due to deterioration in credit quality.

- Default risk: obligor fails to service debt obligations
- Recovery risk: recovery post default is uncertain

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- Spread risk: credit quality of obligor changes leading to a fall in the value of the loan
- Concentration risk: over exposure to an individual obligor, group or industry
- Correlation risk: concentration based on common risk factors between different borrowers, industries or sectors which may lead to simultaneous default limits, diversification strategy, and its risk-based pricing of loans and receivables based on its credit risk appetite and the size of its capital.

The Bank has adopted the standardized measurement of credit risk. In this regard, the tasks under the credit risk unit are as under, among others:

- Segmentation of the credit portfolio (in terms of risk but not size);
- Model Requirements (for risk assessments);
- Data requirements;
- Credit risk reporting requirements for regulatory / control and decision-making purposes at various levels;
- Policy requirements for credit risk (credit process & practices, monitoring & portfolio management etc.);
- Align risk strategy & business strategy.

Risk limit control and mitigation policies

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by industry sector are set out in the credit policy. Exposure to credit risk is also 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 where appropriate.

Impairment and provisioning policies

The Bank has adopted a Credit Impairment and Income Recognition Policy, whereby the impairment and provisioning policies are defined. The Bank assesses at each balance sheet date whether there is objective evidence that loans and receivables are impaired. The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower’s competitive position; and
- Deterioration in the value of collateral.

Maximum exposure to credit risk before collateral held

	2019	2018
Loans and receivables	₱485,908,112	₱509,728,767
Loan Commitments - Unused Credit Lines	5,394,890	9,816,976

The above table represents a worst-case scenario of credit risk exposure to the Bank at December 31 without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet. As shown above, the total maximum exposure is derived from loans and receivables and loan commitments.

Contingencies and Commitments

Contingencies and commitments arising from off-balance sheet items include direct credit substitutes (e.g., unused credit line, export LCs confirmed, underwritten accounts unsold), transaction-related contingencies (e.g., performance bonds, bid bonds, standby LCs), short-term self-liquidating trade-related contingencies arising from the movement of goods (e.g., sight/usance domestic LCs, sight/usance import LCs), sale and repurchase agreements not recognized in the balance sheet; interest and foreign exchange rate related items; and other commitments.

As of December 31, no amount of contingencies from off-balance sheet items exist except for the unused credit lines stated above. Furthermore, there are no implied obligations considered as contingent liabilities present, except otherwise stated in the succeeding notes to financial statements, if any.

4.2 Market Risks

Market risk is the risk of loss resulting from adverse movements in the value of financial instruments. It encompasses exposure to interest rates, foreign exchange rates, equity prices and commodity prices. Sound market risk management practices include the measurement and monitoring of market risk as well as the communication and enforcement of risk limits throughout the Bank's trading businesses.

Foreign Exchange Risk Management

Foreign exchange risk is the risk that the Bank's earnings and economic value will be adversely affected with the movements in the foreign exchange rate, though it may sometimes have an insignificant effect. The Bank is exposed to this risk since interest rate risks arises when the total present value of assets in a particular currency does not equal the present value of liabilities in that currency.

The Bank monitors its foreign exchange risk exposure based on BSP's rate publications.

Interest Rate Risk Management

Interest rate risk results from mismatches between asset and liability positions which are subject to unfavourable movements in interest rates with potentially adverse impact on margins, net interest income and economic value of a bank's assets, liabilities and shareholders' value. Interest rate risk may be measured using methods which include sensitivity analysis and simulation modelling. The Bank has its Interest Rate Risk Policy in which risks limits are laid down.

4.3 Liquidity Risk Management

Liquidity risk is defined within the Bank's policy framework as 'the risk that, at any time, the Bank does not have sufficient realizable financial assets to meet its financial obligations as they fall due'.

The liquidity policy of the Bank is to ensure that it:

- can meet its financial obligations as they fall due in the normal course of business; and
- maintains an adequate stock of highly liquid assets to enable it to meet unexpected funding needs at short notice.

The Bank's liquidity policy requires establishment and maintenance of three lines of defense:

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- Cash flow management where the Bank creates a continuously maturing stream of assets and liabilities;
- Maintenance of a liquid assets portfolio; and
- Maintenance of a diversified liability base.

The following tables present the Bank's assets and liabilities, as of December 31, 2019 and 2018, analyzed according to when they are expected to be recovered or settled within one year and beyond year:

December 31, 2019				
	Total	Within 1 year	1 - 5 years	5 years over
Assets				
Cash and cash equivalents	₱ 24,003,809	₱ 24,003,809	₱ -	
Due from BSP	51,784,358	51,784,358	-	
Due from other banks	820,385,387	815,385,387	5,000,000	
Loans and receivables - net	444,447,381	64,699,194	333,407,529	46,340,658
Accrued interest receivable	8,113,065	8,113,065		
Sales Contract Receivable	33,347,666	2,468,506	28,051,643	2,827,517
Held-to-maturity investments	499,957,564	270,869,328	101,337,952	127,750,284
Bank Premises, FFE	44,900,208	-		44,900,208
Investment Properties	98,684,899			98,684,899
Other assets	47,553,487	-		47,553,487
Total	₱ 2,073,177,824	₱ 1,237,323,647	₱ 467,797,124	₱ 368,057,053
Liabilities & Equity				
Deposit liabilities	₱ 1,712,458,117	₱ 1,477,363,853	₱ 235,094,264	
Bills payable	10,000,000	10,000,000	-	
Other liabilities	29,657,262	29,657,262		
Income tax payable	219,516	219,516.00		
Total	₱ 1,752,334,895	₱ 1,517,240,631	₱ 235,094,264	₱ -

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December 31, 2018				
	Total	Within 1 year	1 - 5 years	5 years over
Assets				
Cash and cash equivalents	₱ 33,106,565	₱ 33,106,565	₱ -	
Due from BSP	51,981,874	51,981,874	-	
Due from other banks	657,086,589	652,086,589		5,000,000
Loans and receivables - net	469,532,855	74,563,916	333,479,217	61,489,722
Accrued interest receivable	5,330,153	5,330,153		
Sales Contract Receivable	34,865,759	2,408,972	24,867,445	7,589,342
Held-to-maturity investments	437,549,348	248,925,227	80,413,867	108,210,254
Bank Premises, FFE	47,517,151	-		47,517,151
Investment Properties	87,331,981			87,331,981
Other assets	42,839,177	-		42,839,177
Total	₱ 1,867,141,452	₱ 1,068,403,296	₱ 438,760,529	₱ 359,977,627
Liabilities & Equity				
Deposit liabilities	₱ 1,521,156,286	₱ 1,265,963,630	₱ 255,192,656	
Bills payable	10,000,000	10,000,000	-	
Other liabilities	27,244,908	27,244,908		
Income tax payable	901,550	901,550.00		
Total	₱ 1,559,302,744	₱ 1,304,110,088	₱ 255,192,656	₱ -

BSP regulations require the Bank to promote short term resilience to liquidity shocks by maintaining a stock of liquid assets proportionate to its on- and off-balance sheet liabilities. Under said regulations, prudential minimum liquidity ratio (MLR) is at twenty percent (20%), where the MLR is expressed as a percentage of the Bank's eligible liquid assets to its qualifying liabilities. The Bank's liquid assets consist of: cash on hand; reserves in the BSP; debt securities guaranteed by the Philippine National Government; and deposits in other banks; while qualifying liabilities: consist of total liabilities; and irrevocable obligations under off-balance sheet items such as committed credit lines. As of December 31, 2019 and 2018, the Bank is compliant with MLR regulations with ratios of 96.20% and 74.37%, respectively.

4.4 Operational Risk Management

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;

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- 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.

a. 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.

b. 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.

c. Legal Risk and Regulatory Risk Management

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 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 identified 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.

The operations of the Bank are also subject to the regulatory requirements of SEC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions.

The bank is subject to the inherent risk that the application of prescribed standards may conflict or differ from the application of regulations as prescribed from other regulatory bodies resulting to disparity of financial reports. Hence, there is a need to reconcile the disparity in a systematic and clear manner. The BOD ensures that management are updated in relation to pronouncements made by concerned regulatory bodies.

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However, in cases where there are differences between BSP regulations and PFRS/PAS as when more than one (1) option are allowed or certain maximum or minimum limits are prescribed by the PFRS/PAS, the option or limit prescribed by BSP regulations shall be adopted by the bank.

4.5 Anti-Money Laundering Controls

The Anti-Money Laundering Act (AMLA) or RA No. 9160 was enacted in September 2001 and was amended by RA Nos. 9194, 10167, 10365 and 10927 in 2003, 2012, 2013 and 2017, respectively. Furthermore, terrorist financing was criminalized in RA No. 10168. Under the AMLA, as amended, in order to prevent money laundering and financing activities, the Bank is required to (1) identify its customers, (2) report covered transactions and suspicious transactions to the Anti-Money Laundering Council (AMLC) and (3) retain customer identification records and transactional documents for a specified period.

On January 27, 2011, the BSP Circular No. 706 was implemented superseding all policies on AMLA. The Circular requires the Bank to adopt a comprehensive and risk-based Money Laundering and Terrorist Financing Program (MTPP) designed according to the Bank's corporate structure and risk profile. Further amendments to the regulations on Anti-Money Laundering (AML) and Combating Financing of Terrorism (CFT) were promulgated thru BSP Circular Nos. 950 and 1022 in March, 2017 and November, 2018, respectively.

The Board approved the MTPP setting forth Bank's AML/CFT policies and procedures. Under the MTPP, each business unit is required to verify the true identity of a customer based on official or other reliable identification documents or records before an account may be opened. Furthermore, the Bank is required to risk profile its customers to low, normal or high with corresponding due diligence of reduced, average or enhanced. Decisions to enter into business relationship with a high-risk customer require senior management approval.

Under the reporting requirement, the Bank submits Covered Transaction Reports (CTRs) to the Anti-Money Laundering Council (AMLC) involving single transaction in cash or other equivalent monetary instruments in excess of P0.5 Million within one banking day. The Bank also submits Suspicious Transaction Reports (STRs) to the AMLC in the event that circumstances exist and there are reasonable grounds to believe that the transaction is suspicious. As for record keeping requirements, the Bank safe keeps, as long as the account exists, all the Know-Your-Customer (KYC) documents involving clients, including documents that establish and record the true and full identity of its clients. Likewise, transactional documents must be maintained and stored for five years from the date of the transaction. In cases involving closed accounts, the KYC documents must be kept for five years after their closure. On the other hand, all records of accounts with court cases must be kept until there is a final resolution.

The Bank's Compliance Officer monitors AMLA compliance and conducts regular compliance testing of business units and regularly reports to the Corporate Governance Committee and Board of Directors results of monitoring of AMLA compliance.

4.6 Capital Risk Management and Regulatory Capital

The Bank adopted the capital management policy in order to maintain a strong capital base aimed to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and advantages and security afforded by a sound capital position.

The Bank's lead regulator, the BSP, sets and monitors capital requirements for the Bank. In implementing capital requirements, the BSP mandates the Bank to maintain a prescribed risk-based capital adequacy ratio of qualifying capital to risk weighted assets. The Bank, being a stand-alone rural bank, is required under BSP regulations to comply with qualifying capital account of the Bank should not be less than an amount equal to 10% of its risk weighted assets.

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The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio consists of Tier 1 (core) capital and Tier 2 (supplementary) capital elements, net of the required deductions from capital.

The Bank's Tier 1 (core) capital is the sum of:

- a. Paid-up capital;
- b. Retained earnings – free;
- c. Undivided profits;

Less:

- i., Deferred tax asset; and
- ii. Goodwill

The Bank's Tier 2 capital consists of general loan loss provision, limited to 1% of gross risk assets, and any amount in excess thereof shall be deducted from the total risk weighted assets in computing the denominator of the risk-based capital ratio.

Risk weighted assets is the sum of the Bank's credit risk weighted assets and operational risk weighted assets.

Capital adequacy and the use of regulatory capital are monitored monthly the Bank's management, employing techniques based on the guidelines developed by BSP as implemented by the Bank. The required information is submitted to BSP and filed by Bank on a quarterly basis.

The following are the risk-based capital adequacy ratios and Net Tier 1 capital ratios of the Bank as of December 31, 2019 and 2018:

	2019	2018
Net Tier 1 Capital	P 302,632,853	P 270,575,913
Net Tier 2 Capital	3,048,739	2,740,442
Total Qualifying Capital	<u>305,681,592</u>	<u>273,316,355</u>
Risk Weighted Assets		
Credit Risk Weighted Assets	1,517,847,013	1,366,128,183
Operational Risk Weighted Assets	200,476,364	180,482,995
Total Risk Weighted Assets	<u>P 1,718,323,377</u>	<u>P 1,546,611,178</u>
Capital Adequacy Ratios:		
Total Qualifying Capital expressed as percentage of total risk-weighted assets	17.79%	17.67%
Net Tier 1 capital expressed as percentage of total risk -weighted assets	17.61%	17.49%

The amount of retained earning funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments.

As of December 31,2019 and 2018, the Bank has satisfactorily complied with the regulatory capital adequacy ratio.

Furthermore, rural banks, with head office in first class municipality and have at least ten (10) branches, are required under BSP regulations to comply with the minimum capital requirement of P 30 Million. The Bank has complied with the minimum capital requirement at the end of each reporting period.

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Note 5 – Cash and Cash Equivalents

The account consists of the following:

	2019		2018	
Cash on hand and in vault	₱	12,310,827	₱	23,823,424
Cash in ATM		11,291,000		7,734,100
Checks and other cash items		401,982		1,549,041
Total	₱	24,003,809	₱	33,106,565

Cash on hand and in vault includes USD denominated bills amounting to \$5,676 with equivalent peso value of P 288,023 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. Checks and other cash items are included in the computation of cash and cash equivalents for cash flow statement purposes.

Note 6 – Due from Bangko Sentral ng Pilipinas (BSP)

The balances of Due from BSP as of December 31, follow:

	2019		2018	
Due from BSP	₱	51,484,358	₱	51,981,874

'Due from BSP' account represents the aggregate balance of noninterest-bearing peso demand deposit account with the BSP which the Bank maintains primarily to meet reserve requirements.

Under existing BSP regulations, deposit liabilities of the Bank are subject to statutory/legal reserve requirement effective November 1, 2019 at 3% of demand, savings and time deposits, and in 2018, the required reserve rates are at 5% of demand deposit and 3% of savings and time deposit liabilities. The table below shows to total required reserves as at December 31, in which the bank is in compliance with the statutory/legal reserve requirements:

	Rate	2019		2018	
Demand Deposit	3% / 5%	11,339,837		11,522,114	
Savings Deposit	3%	31,651,124		29,663,244	
Time Deposit	3%	8,382,783		9,058,177	
Total Required Reserves		₱	51,373,744	₱	50,243,535

Note 7 – Due From Other Banks

The balance of this account represents deposits with the following:

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	2019	2018
Private Banks		
Commercial Banks	646,528,063	380,018,352
Rural and Thrift Banks	21,607,173	120,618,965
Government Banks		
Land Bank of the Philippines	152,250,151	156,449,272
Total	₱ 820,385,387	₱ 657,086,589

Due from other banks includes US currency deposits amounting to \$12,274 with equivalent peso value of ₱622,806.

Annual interest rates on due from other banks range from 0% to 5.7% p.a. in 2019 and 2018. For the years ended, December 31, 2019 and 2018, the interest income earned on due from other banks amounted to ₱12,307,312 and ₱7,089,901 (see Note 18), respectively, and are included as part of interest income in the statements of income.

Note 8 – Held-to-Maturity Financial Assets

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. These have fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity to collect principal and /or interests. The term of these investments ranges from within one (1) year to ten (10) years. The balance of this account is composed of the following:

As of December 31, 2019				
Counterparty	Type	Fair Value	Premium/(Discount)	Amoritized Cost
Commercial Banks	RTB/ TB	₱ 366,962,463	₱ (6,769,140)	₱ 360,193,323
Land Bank of the Phils.	10-yr Agra Bonds	147,442,612	(7,678,371)	139,764,241
Total		₱ 514,405,075	₱ (14,447,511)	₱ 499,957,564

As of December 31, 2018				
Counterparty	Type	Fair Value	Premium/(Discount)	Amoritized Cost
Commercial Banks	RTB/ TB	₱ 350,962,462	₱ (7,189,973)	₱ 343,772,489
Land Bank of the Phils.	10-yr Agra Bonds	100,483,379	(6,706,520)	93,776,859
Total		₱ 451,445,841	₱ (13,896,493)	₱ 437,549,348

Classified as financial assets at amortized cost, these quoted treasury bills and bonds have fixed annual interest rates ranging from 3.15% to 10.00%. On the other hand, LBP 10-year Agra Bonds bear market interest rates based on average 91-day treasury bills of the auction immediately preceding end of quarter and payable every semester. Interest earned for the years 2019 and 2018 amounted to ₱ 21,255,084 and ₱ 14,373,502 (see Note 18), respectively and is shown as part of interest income in the statements of income.

Note 9 – Loans and Receivables

The account consists of the following:

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	Note	2019	2018
Receivables from customers			
Loans and discounts	₱	496,189,659	₱ 517,650,118
Unamortized discounts		(59,743)	(59,475)
Amortized cost		496,129,916	517,590,643
Allowance for credit losses			
Specific		(48,633,796)	(45,317,346)
General		(3,048,739)	(2,740,442)
Total		(51,682,535)	(48,057,788)
Net carrying values		444,447,381	469,532,855
Accrued interest receivable	9.1	8,113,065	5,907,011
Allowance for credit losses		-	(576,859)
Sales contract receivable	9.2	44,690,555	45,852,105
Allowance for credit losses		(11,342,889)	(10,986,345)
Loans and receivables - net	₱	485,908,112	₱ 509,728,767

The movements in allowance for credit losses on loans and receivables from borrowers are as follows:

	2019	2018
Balance at beginning of year	₱ 59,620,992	₱ 61,768,914
Provision for credit losses on loans and receivables	5,847,423	5,057,920
Write-off of bad debts	(4,704,443)	-
Reversal/ adjustment	2,261,453	(7,205,842)
Total	₱ 63,025,425	₱ 59,620,992

On August 17, 2019, the Board of Directors issued Board Resolution No. 2019-089 to approve the charged-off non-performing microfinance loans amounting to P4.70 Million which was debited against allowance for credit losses.

The following table shows the secured and unsecured portions of receivables from borrowers, net of unamortized discount, as at December 31:

	2019		2018	
	Amount	%	Amount	%
DOSRI - secured by non-risk assets	₱ 495,945	0.10%	₱ 29,481	0.01%
NON-DOSRI				
Secured portion				
REM residential	400,759,440	80.78%	414,370,559	90.55%
REM commercial	27,893,048	5.62%	25,507,237	5.57%
REM agricultural	3,646,328	0.73%	6,717,870	1.47%
Other collateral	6,302,254	1.27%	4,273,873	0.93%
Unsecured portion	57,032,901	11.50%	6,691,623	1.46%
Total	₱ 496,129,916	100.00%	₱ 457,590,643	100.00%

The following table shows the receivables from borrowers, net of unamortized discount, classified as to terms, as at December 31:

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Classified as to Terms:	2019	2018
Short term (1 year or less)	₱ 64,245,993	₱ 82,733,137
Medium term (over 1 year to 5 years)	414,815,372	359,475,065
Long term (over 5 years)	17,068,550	75,382,442
Total	₱ 496,129,915	₱ 517,590,644

As at December 31 information on the concentration of loans and receivables, net of unamortized discount, as to industry, follows:

	2019		2018	
	Amount	%	Amount	%
Real estate, renting & building	₱ 172,805,263	34.83%	₱ 185,975,983	37.49%
Wholesale & retail	122,246,919	24.64%	129,702,283	26.14%
Other community, social	89,545,884	18.05%	101,112,703	20.38%
Transportation, storage	39,521,945	7.97%	29,944,746	6.04%
Construction	27,556,798	5.55%	24,758,876	4.99%
Agri. Hunting & forestry	17,430,621	3.51%	21,305,466	4.29%
Household consumption	11,425,418	2.30%	11,052,097	2.23%
Hotel & restaurant	7,646,409	1.54%	5,868,829	1.18%
Health & social work	4,706,127	0.95%	4,254,097	0.86%
Education	3,244,533	0.65%	3,615,563	0.73%
Total	₱ 496,129,916	100.00%	₱ 517,590,644	104.33%

The BSP considers that loan concentration of credit exists when the total loan exposure to a particular industry or economic sector exceeds thirty percent (30%) of total loan portfolio. Identified concentrations of credit risks are controlled and managed accordingly except those that are under "Real estate activities".

As required by BSP, the Bank discloses loan transactions with investees and with certain Directors, Officers, Stockholders, and Related Interests (DOSRI). Existing banking regulations limit loan to individual DOSRI to the total of their respective deposits and book value of their respective equity with the Bank and at least seventy percent (70%) of which must be secured. In the aggregate, loans to DOSRI generally should not exceed total equity or fifteen percent (15%) of total loan portfolio, whichever is lower, and likewise, at least 70% of said aggregate loans must be secured.

On the other hand, existing regulations also require that the aggregate outstanding loans and other credit accommodations granted under the bank's financial assistance program to officers and rank and file, inclusive of those granted to officers in the nature of lease with option to purchase, should not exceed five percent (5%) of the bank's total loan portfolio.

DOSRI accounts and financial assistance program for officers and employees are shown in the table below (as reported to BSP) as at December 31, for which the Bank is in compliance with aforementioned regulations:

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	2019		2018	
	DOSRI Loans	Financial Assistance Program to officers and employees	DOSRI Loans	Financial Assistance Program to officers and employees
Outstanding Loans	₱ 495,945	₱ 4,596,210	₱ 29,481	₱ 4,232,349
Percentage to total loan portfolio (TLP)	0.10%	0.93%	0.01%	0.82%
Percentage of unsecured to TLP	0%	0.93%	0%	0.82%
Percentage of past due to TLP	0%	0%	0%	0%
Percentage of non-performing to TLP	0%	0%	0%	0%

The following table shows the receivables from borrowers, net of unamortized discount, classified as to status and loan product as at December 31:

Classified as to status of loans for 2019				
Loan Product	Current	Past Due	Non-Performing	Total
Agra-agri credit				
a. Agrarian reform loans	₱ -	₱ -	₱ 213,370	₱ 213,370
b. Other agri credits	8,663,688	2,115,928	6,437,635	17,217,251
Microfinance	43,802,302	-	4,704,962	48,507,264
SME Loans				
a. Small enterprise	168,672,397	23,859,001	31,901,606	224,433,004
b. Medium enterprise	73,388,558	-	19,173,462	92,562,020
Loans to private corporations	4,133,635	-	-	4,133,635
Loans for housing purpose	47,879,407	943,689	10,382,420	59,205,516
Loans for personal purpose	7,846,553	64,702	3,514,163	11,425,418
Loans for other purpose	28,494,303	1,952,774	7,985,361	38,432,438
Total	₱ 382,880,843	₱ 28,936,094	₱ 84,312,979	₱ 496,129,916

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Classified as to status of loans for 2018				
Loan Product	Current	Past Due	Non-Performing	Total
Agra-agri credit				
a. Agrarian reform loans ₱	- ₱	- ₱	213,370 ₱	213,370
b. Other agri credits	10,584,935	7,423,629	2,983,945	20,992,509
Microfinance	46,894,941	-	8,945,494	55,840,435
SME Loans				
a. Small enterprise	147,401,944	26,110,141	40,616,263	214,128,348
b. Medium enterprise	77,877,742	14,763,176	13,084,456	105,725,374
Loans to private corporations	14,129,268	-	5,718,921	19,848,189
Loans for housing purpose	42,223,856	3,422,952	7,683,203	53,330,011
Loans for personal purpose	7,157,600	-	3,894,497	11,052,097
Loans for other purpose	24,180,957	1,503,574	10,775,779	36,460,310
Total	₱ 370,451,243	₱ 53,223,472	₱ 93,915,928	₱ 517,590,643

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 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 weekly payments, the cure period is for seven (7) days.

The Board of Directors approved the Bank's cure period policy based on 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. Management regularly reviews the reasonableness of its cure period policy.

Hence, loans classified as past due are accounts which have been past due from 31 to 90 days, while, non-performing loans include accounts which have been past due for more than ninety (90) days and accounts in litigation.

Loans and receivables bear annual interest rates ranging from 6% to 70 % per annum, in 2019 and 2018. Interest earned from loans and receivables for the years 2019 and 2018 amounted to ₱108,448,022 and ₱98,302,795, respectively, and are included as part of interest income in the statements of income.

As of December 31, 2019 and 2018, loans amounting ₱ 10 Million and ₱ 25 million, respectively, are pledged as collateral to secure borrowings under rediscounting privileges (see Note 14). Furthermore, as at December 31, 2019 and 2018, housing loans amounting to ₱ 7,956,271 and ₱ 11,713,943, respectively, are secured by real estate mortgage and further guaranteed by the Home Guaranty Corporation.

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9.1 Accrued Interest Receivable on Financial Assets

Breakdown of accrued interest receivable on financial assets, gross of allowance for credit losses, as of December 31, follows:

	2019	2018
Due from other banks	₱ 1,140,068	₱ 1,245,068
Held-to-maturity financial assets	3,582,764	4,085,084
Loans and discounts	3,390,233	576,859
Total	₱ 8,113,065	₱ 5,907,011

9.2 Sales Contract and Receivable (SCR)

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:

	2019	2018
Performing	₱ 30,401,640	₱ 20,978,320
Non-performing	14,288,915	24,873,785
Total	₱ 44,690,555	₱ 45,852,105

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.

SCR bears annual interest rate of 20% per annum in 2019 and 2018. Interest earned from SCR for the years 2019 and 2018, amounted to ₱7,017,835 and ₱ 6,657,624, respectively, and are included as part of interest income (loans and discounts) in the statements of income.

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Note 10 – Bank Premises, Furniture, Fixtures and Equipment

This account consists of the following:

		2019			
		Beg. Balance Dec. 31, 2018	Addition	Disposal	End Balance Dec. 31, 2019
Cost					
Land	₱	11,298,088	₱ -	₱ -	₱ 11,298,088
Bank Premises - Buildings		60,358,234	-	1,492,574	58,865,660
Furniture, Fixtures & Equipment		12,937,050	472,415	-	13,409,465
Other Equipment		5,400,300	159,335	87,002	5,472,633
IT Equipment		19,855,970	3,415,326	177,052	23,094,244
Transportation Equipment		14,192,930	483,977	1,676,268	13,000,639
Leasehold Improvements		679,273	-	-	679,273
Total	₱	124,721,844	₱ 4,531,054	₱ 3,432,897	₱ 125,820,001
Accumulated depreciation					
Bank Premises - Buildings	₱	35,021,682	₱ 2,431,010	₱ 1,492,574	₱ 35,960,118
Furniture, Fixtures & Equipment		12,097,473	424,005	-	12,521,479
Other Equipment		4,567,054	289,864	67,447	4,789,471
IT Equipment		15,814,677	1,731,176	177,052	17,368,801
Transportation Equipment		9,452,092	2,175,811	1,676,268	9,951,635
Leasehold Improvements		251,714	76,577	-	328,291
Total	₱	77,204,693	₱ 7,128,442	₱ 3,413,341	₱ 80,919,794
		2018			
		Beg. Balance Dec. 31, 2017	Addition	Disposal	End Balance Dec. 31, 2018
Cost					
Land	₱	11,298,088	₱ -	₱ -	₱ 11,298,088
Bank Premises - Buildings		59,838,234	520,000	-	60,358,234
Furniture, Fixtures & Equipment		12,482,161	459,573	4,684	12,937,050
Other Equipment		5,194,192	208,315	2,207	5,400,300
IT Equipment		17,592,070	2,266,797	2,897	19,855,970
Transportation Equipment		13,636,965	1,029,098	473,133	14,192,930
Leasehold Improvements		1,068,745	-	389,473	679,272
Total	₱	121,110,455	₱ 4,483,783	₱ 872,394	₱ 124,721,844
Accumulated depreciation					
Bank Premises - Buildings	₱	32,579,146	₱ 2,442,536	₱ -	₱ 35,021,682
Furniture, Fixtures & Equipment		11,637,020	465,137	4,683	12,097,474
Other Equipment		4,283,022	286,239	2,207	4,567,054
IT Equipment		14,588,487	1,229,087	2,897	15,814,677
Transportation Equipment		8,520,806	1,404,419	473,133	9,452,092
Leasehold Improvements		564,610	76,577	389,472	251,715
Total	₱	72,173,091	₱ 5,903,995	₱ 872,392	₱ 77,204,694

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The carrying values of bank premises, furniture, fixtures, and equipment as at December 31, follow:

	2019	2018
Land	P 11,298,088	P 11,298,088
Bank premises - buildings	22,905,542	25,336,552
Furniture and fixtures	887,986	839,576
Other equipment	683,162	833,246
Information technology (IT) equipment	5,725,444	4,041,293
Transportation equipment	3,049,004	4,740,838
Leasehold improvements	350,982	427,558
Total	P 44,900,208	P 47,517,151

Under Section 109 of the MORB, investments in bank premises, furniture, fixtures and equipment do not exceed 50% of the Bank's unimpaired capital. As at December 31, 2019 and 2018, the Bank has satisfactorily complied with this requirement.

As of December 31, 2019 and 2018, there is no property, plant and equipment of the Bank that is pledged as security for liabilities nor restrictions on title thereon.

The Bank disposed certain fully depreciated property and equipment during the year. Gain on disposal of said assets amounted to P14,367 in 2019 and nil in 2018, and were included as part of gain on sale of non-financial assets in the statements of income.

The details of depreciation expense on bank premises, furniture, fixtures and equipment recognized for the years 2019 and 2018, follow:

	Note	2019	2018
Bank premises - buildings	P	2,431,010	P 2,442,536
Furniture and fixtures		424,005	465,137
Other equipment		289,864	286,239
Information technology (IT) equipment		1,731,176	1,229,087
Transportation equipment		2,175,811	1,404,419
Leasehold improvements		76,577	76,577
Total	21.3	P 7,128,443	P 5,903,995

Note 11 – Investment Properties

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.

The gross carrying amounts, accumulated depreciation and allowance for impairment of investment properties, and its net carrying amounts at the beginning and end of 2019 and 2018 are shown below:

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	Land	Buildings	Others Properties	Total
As of December 31, 2019				
Cost	₱ 94,605,338	₱ 37,602,325	₱ 180,000	₱ 132,387,663
Accumulated depreciation	-	(18,245,347)	-	(18,245,347)
Allowance for impairment	(13,220,862)	(2,056,555)	(180,000)	(15,457,417)
Net Carrying Amount	₱ 81,384,476	₱ 17,300,423	₱ -	₱ 98,684,899

	Land	Buildings	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 Amount	₱ 67,914,290	₱ 19,417,691	₱ -	₱ 87,331,981

	Land	Buildings	Others Properties	Total
As of January 1, 2018				
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 Amount	₱ 59,321,250	₱ 19,964,699	₱ -	₱ 79,285,949

The movement and carrying values of investment properties are shown below:

	Note	Land	Buildings	Total
2019				
Balance at January 1, 2018		₱ 67,914,290	₱ 19,417,691	₱ 87,331,981
Additions		17,582,399	4,944,634	22,527,033
Adjustment		8,468,286	-	8,468,286
Disposals		(12,580,499)	(3,941,445)	(16,521,944)
Depreciation	21.3	-	(3,120,457)	(3,120,457)
Impairment		-	-	-
Balance at December 31, 2019		₱ 81,384,476	₱ 17,300,423	₱ 98,684,899

	Note	Land	Buildings	Total
2018				
Balance at January 1, 2017		₱ 59,321,250	₱ 19,964,699	₱ 79,285,949
Additions		18,688,795	5,344,074	24,032,869
Adjustment		(323,781)	-	(323,781)
Disposals		(9,100,148)	(2,470,885)	(11,571,033)
Depreciation	21.3	-	(3,420,197)	(3,420,197)
Impairment		(671,826)	-	(671,826)
Balance at December 31, 2018		₱ 67,914,290	₱ 19,417,691	₱ 87,331,981

Fair values of investment properties approximate the carrying values as of December 31, 2019 and 2018.

Gain on sale of investment properties amounted to ₱22,196,226 and ₱26,359,098 in 2019 and 2018, respectively, and are presented as part of gain on sale of non-financial assets under other income in the statements of income.

Direct expenses incurred from these properties amounted to ₱2,387,441 in 2019 and ₱ 970,284 in 2018 are reported under litigation expenses (see Note 18) as part of operating expenses in the statements of income.

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Note 12 – Other Assets

The account consists of the following:

	Notes	2019	2018
Computer software	12.1	₱ 4,491,472	₱ 3,005,382
Deferred tax assets	12.2	6,667,934	9,134,048
Goodwill	12.3	11,542,141	13,128,747
Accounts receivable	12.4	26,532,453	18,284,723
Allowance for credit losses		(4,465,551)	(3,203,515)
Due from closed banks		5,750,000	5,750,000
Impairment allowance		(5,750,000)	(5,750,000)
Prepaid expenses		1,391,680	1,184,622
Deposit with utilities		571,339	571,339
Sinking Fund - for medical benefits		374,365	294,941
Stationery and supplies		188,503	136,733
Petty cash fund		52,000	52,000
Documentary and postage stamps		31,473	31,168
Shortage		4,761	48,570
Miscellaneous assets		170,917	170,419
Total		47,553,487	42,839,177

12.1 Computer software

This account refers 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. 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 ₱1,067,810 in 2019 and ₱ 872,672 in 2018. These are included as part of depreciation/amortization expenses under operating expenses in the statements of income.

The movement and net carrying values of computer software as of December 31 are presented below:

	Note	2019	2018
Beginning balances, cost		₱ 8,826,418	₱ 7,987,593
Additions during the year		2,553,900	838,825
Ending Balance, cost		11,380,318	8,826,418
Accumulated Amortization			
Beginning balance		5,821,036	4,948,364
Amortization expense during the year	21.3	1,067,810	872,672
Ending Balance, accumulated depreciation		6,888,846	5,821,036
Net Carrying Value		₱ 4,491,472	₱ 3,005,382

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12.2 Deferred Tax Assets

The balances of deferred tax assets as of December 31, 2019 and 2018 comprise of temporary differences attributable solely to allowance for credit losses. The deferred tax asset movements during the years ended December 31, 2019 and 2018 are shown below:

	2019	2018
Beginning balance	₱ 9,134,048	₱ 11,047,066
Add (Deduct): Tax effects of temporary differences		
Provision for credit losses	169,696	1,517,376
Reversal of deferred tax assets during the year	(2,635,810)	(3,430,394)
Ending balance	₱ 6,667,934	₱ 9,134,048

12.3 Goodwill

Goodwill arose from the acquisition of Rural Bank of Mendez, Inc. in 2016 via the purchase of all assets and assumption of all liabilities. The movements of this account for the years 2019 and 2018 are as follows:

	2019	2018
Beginning balance	₱ 13,128,747	₱ 12,252,898
Add (Deduct):		
Payment of claims of RB Mendez stockholder		875,849
Collection of fully provided receivable acquired from RB Mendez	(1,586,606)	
Ending balance	₱ 11,542,141	₱ 13,128,747

Management estimates the expected cash flows from the branch where the goodwill arises from, and has assessed that the carrying amount of the goodwill is recoverable. Accordingly, no impairment loss is recognized in the statements of income in both years.

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12.4 Accounts Receivable

Accounts receivable arising claims from the following sources:

	Note	2019	2018
Employees under litigation	12.4.1	₱ 7,815,004	₱ 838,794
BancNet, Inc.		7,669,700	5,481,700
CIS Bayad Center, Inc.		4,565,567	4,113,570
Creditable Taxes		2,365,349	947,243
Remittance centers and companies		1,491,963	1,785,249
Advances for insurance premiums		852,303	978,599
50% downpayment for uniforms		516,880	-
SSS - cash bond		500,000	500,000
Over-remittance of expanded taxes		113,490	113,490
SSS- maternity benefits		89,250	-
Advances to employees		13,956	1,629,629
Express-O Core banking system		-	1,505,062
Others		538,991	391,387
Total		₱ 26,532,453	₱ 18,284,723

12.4.1 Employees under litigation

This account refers to the claims from two (2) bank personnel who have committed fraud against the Bank. One bank personnel committed the said crime in year 2012 under then Rural Bank of Mendez, Inc. and his case is pending with the Regional Trial Court (RTC) in Naic, Cavite. The other bank personnel committed fraud in the current year, 2019, and the Bank has already filed a criminal charge with the RTC. The Bank submitted the required reports on crimes and losses (RCLs) to the BSP in 2012 and in July, 2019, respectively. Full allowance for losses was imposed against these claims.

Note 13 – Deposit Liabilities

This account consists of the following:

	2019		2018	
	No. of accounts	Amount	No. of accounts	Amount
Demand deposits	1,330	₱ 377,994,550	1,362	₱ 230,442,276
Savings deposits	62,792	1,055,037,470	59,293	988,774,787
Time deposits	344	279,426,097	388	301,939,223
Total	64,466	₱ 1,712,458,117	61,043	₱ 1,521,156,286

The maturity profile of deposit liabilities as of December 31, follow:

	2019	2018
Within one year	₱ 1,477,363,853	₱ 1,265,963,630
Beyond one year	235,094,264	255,192,656
Total	₱ 1,712,458,117	₱ 1,521,156,286

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Hereunder is the breakdown of deposit liabilities by size:

	No. of Accounts	2019	No. of Accounts	2018
₱ 500,000 and below	63,905	₱ 764,746,417	60,500	₱ 747,920,742
More than ₱ 500,000	561	947,711,700	543	773,235,544
Total	64,466	₱ 1,712,458,117	61,043	₱ 1,521,156,286

Savings deposit and demand deposit bear interest rates at 0.10% p.a. in 2019 and 2018. Time deposit interest rates range from 0.12% p.a. to 3.1% p.a. in 2019 and 2018. Interest expense on deposit liabilities in 2019 and 2018 amounted to ₱10,846,129 and ₱10,351,047 (see Note 19), respectively, and were included as part of interest expense in the statements of income.

Under existing BSP regulations, deposit liabilities are subject to required reserves computed per Note 6. As of December 31, 2019 and 2018, the Bank is in compliance with these regulations.

Note 14 -Bills Payable

This account represents borrowings with Land Bank of the Philippines under rediscounting privileges and outstanding balances as of December 31 are shown below:

	2019	2018
Land Bank of the Philippines	₱ 10,000,000	₱ 25,000,000

The said borrowings are denominated in Philippine pesos with annual interest rates of 4.75% in 2019 and 6%, in 2018, and with term of within one (1) year. Total interest expense on bills payable incurred amounted to ₱35,944 in 2019 and ₱54,514 in 2018 (see Note 19), and are included as part of interest expense in the statements of income.

As of December 31, 2019 and 2018, bills payable are the only secured liabilities, while all other liabilities are unsecured. Bills payable are collateralized by certain loans from customers (see Note 9).

Note 15 – Other Liabilities

This account consists of:

	Note	2019	2018
Accounts payable	15.1	₱ 14,391,128	₱ 14,416,439
Accrued expenses	15.2	6,424,957	6,778,612
Other taxes and licenses payable		3,249,939	2,647,917
Due to Treasurer of the Philippines		1,592,684	86,402
Provision for pension and other post benefits		1,540,175	1,424,867
Overages		515,197	436,274
Accrued interest payable		906,096	440,605
Withholding tax payable		497,624	567,337
SSS, Philhealth, Pag-IBIG contribution payable		441,645	382,622
Unclaimed balances		34,151	34,151
Miscellaneous liabilities		63,666	29,682
		₱ 29,657,262	₱ 27,244,908

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15.1 Accounts Payable

This account comprises of the following:

	2019		2018
Due to SSS Pensioners	₱ 5,326,053	₱	5,323,400
CIS Bayad Center	2,844,172		2,553,497
Interest Rebate due to various borrowers	1,837,430		1,834,050
Due to BancNet	587,437		427,419
Refundable rental deposit	509,345		416,571
Due to employees	497,693		434,531
Due to insurance companies	482,023		684,641
Due to depositors with closed accounts	456,134		421,922
Due to Home Guaranty Corp	251,021		248,928
Due to Western Union	137,746		425,900
Due to IT provider	113,400		113,400
Due to directors	88,861		243,361
Others	1,259,813		1,288,819
	₱ 14,391,128	₱	14,416,438

15.2 Accrued Expenses

The breakdown of the account is as follows:

	2019		2018
Profit sharing to directors (non-executive directors)	₱ 10,785,264	₱	11,037,738
Profit sharing to regular employees and executive directors	9,103,017		7,886,122
Sub-total	19,888,281		18,923,860
Less: Payments during the year	(13,470,556)		(12,156,092)
Balance	6,417,725		6,767,768
Add: Incentive payable to employees	7,232		10,844
Total	₱ 6,424,957	₱	6,778,612

Profit sharing or bonus is declared and approved through board resolutions by the Board of Directors on a quarterly basis which is paid partially in the subsequent quarters within the year and fully paid in the month after the end of reference year in accordance with the Bank's By-Laws. The said profit sharing is charged to salaries and other benefits under operating expenses in the statement of income (see Note 21.1)

Note 16 – Income Tax Payable

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 is subject to the RCIT for the years 2019 and 2018.

Income tax payable balances as of December 31 are computed as follows:

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	Note	2019	2018
Minimum corporate income tax (MCIT)	22 ₱	1,856,310 ₱	1,771,685
Regular corporate income tax (RCIT)	22	4,102,497	6,130,110
RCIT/MCIT (whichever is higher)		4,102,497	6,130,110
Less: Payments			
Quarterly tax payments		(3,255,243)	(4,883,199)
Creditable tax withheld on ROPA		(627,738)	(345,361)
Balance as of December 31	₱	219,516 ₱	901,550

Note 17 – Equity

17.1 Capital Stock

The Bank's authorized capital stock and paid in capital as of December 31, follow:

	2019		2018	
	Common	Preferred	Common	Preferred
Authorized Capital Stock				
Amount	₱ 190,000,000 ₱	₱ 10,000,000 ₱	₱ 190,000,000 ₱	₱ 10,000,000
Number of shares	1,900,000	100,000	1,900,000	100,000
Par value per share	₱ 100 ₱	₱ 100 ₱	₱ 100 ₱	100
Issued and outstanding				
Amount	₱ 188,879,800 ₱	- ₱	₱ 188,879,800 ₱	-
Number of shares	1,888,798	-	1,888,798	-

The Bank's 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 Rural Bank of Tanza (Cavite), Inc. and Rural Bank of Teresa (Rizal), Inc. 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, 2019 and 2018, the Bank did not avail the financial assistance under the SPRB, hence, no preferred stock was subscribed and outstanding.

17.2 Additional Paid-in Capital

Pursuant to the Articles and Plan of Consolidation, the excess of net assets of constituent banks over the value of issued shares as of March 31, 2015, was treated as additional paid in capital. The additional paid-in capital was arrived at based on audited financial statements of constituent banks on March 31, 2015, and its balances as of December 31, follow:

	2019	2018
Net Assets	₱ 215,691,631	₱ 215,691,631
Less: Common stock issued at par value	188,879,800	188,879,800
Additional Paid-in Capital	₱ 26,811,831	₱ 26,811,831

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17.3 Retained Earnings

This account refers to the accumulated earnings of the Bank composed of previous earnings plus net profits earned during the year. As of December 31, retained earnings are free as no reserves have been segregated. Movements of the account are presented below:

		2019		2018
Beginning balance	₱	77,147,076	₱	52,675,377
Net income for the year		28,004,221		24,471,699
Ending balance	₱	105,151,297	₱	77,147,076

Note 18 – Interest Income

This account refers to interest earned and/or actually collected for the years 2019 and 2018, from the following financial assets:

	Notes		2019		2018
Loans and receivables	9	₱	108,448,022	₱	98,302,795
Held-to-maturity financial assets	8		21,255,084		14,373,502
Deposits with other banks	7		12,307,312		7,089,901
Total		₱	142,010,418	₱	119,766,198

For income tax purposes, interest income from loans and receivables is subject to 30% regular tax rate, while interest income from held-to-maturity financial assets and deposits with other banks is subject to 20% final withholding tax.

Note 19 – Interest Expense

This account refers to interest payments and accruals on interest bearing financial liabilities as follows:

	Notes		2019		2018
Deposit liabilities	13	₱	10,846,129	₱	10,351,046
Bills payable	14		35,944		54,514
Total		₱	10,882,073	₱	10,405,560

Note 20 - Other Income

This account, also referred to as non-interest income, is composed of:

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	Notes	2019	2018
Gain from sale of non-financial assets	₱	22,210,593	₱ 26,359,098
Services charges and commission	20.1	21,674,833	22,155,589
Miscellaneous Income	20.2	4,156,738	4,892,532
Recovery on charged-off assets		133,570	38,161
	₱	48,175,734	₱ 53,445,380

20.1 Service charges and commission

Details of service charges and commission are as follow:

	2019	2018
Bank commissions on loans	₱ 12,970,906	₱ 14,106,520
Commission on insurance premiums	4,575,394	4,640,640
Service charges on demand deposit	1,810,132	679,430
Service fees on bills payment services	1,044,543	1,070,419
Service fees on remittance services	199,178	302,537
ATM fees	549,272	743,527
Inspection fees	287,643	397,750
Other retail banking fees	237,764	214,765
Total	₱ 21,674,833	₱ 22,155,589

20.2 Miscellaneous income

This account consists of the following:

	2019	2018
Penalty on Loans	₱ 3,218,419	₱ 3,799,704
Rental income	936,715	1,091,769
Others	1,605	1,059
Total	₱ 4,156,738	₱ 4,892,532

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Note 21 – Operating Expenses

This account is composed of the following:

	Note	2019	2018
Salaries and other benefits	21.1	₱ 73,212,754	₱ 69,927,105
Other administrative expenses	21.2	38,546,180	33,511,100
Taxes and licenses	27	16,579,792	14,327,687
Depreciation/ amortization	21.3	11,316,709	10,196,863
Provision for credit losses		7,524,025	5,057,920
Provision for impairment losses		-	671,826
Fees and commission		17,900	29,085
		₱ 147,197,360	₱ 133,721,586

21.1 Salaries and other benefits

The breakdown of salaries and other benefits is presented below:

	Note	2019	2018
Salaries and wages		₱ 33,415,081	₱ 31,391,086
Profit sharing - employees	15.2	9,103,017	7,886,122
13th Month Pay		2,632,481	2,507,480
Social Security Expense		3,010,390	2,686,843
Contribution to Retirement Fund	2	1,540,175	1,424,867
Medical/ hospitalization expense		881,291	866,717
Other fringe benefits		9,915,380	9,990,047
Profit sharing directors	15.2	10,785,264	11,037,738
Directors' fees		1,929,675	2,136,205
Total		₱ 73,212,754	₱ 69,927,105

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21.2 Other Administrative expenses

Expenses classified as administrative expenses are broken down below.

	Note	2019	2018
Security and Janitorial		8,001,261	7,448,403
Power, Light & water		3,707,180	3,313,444
Telephone & Communication		3,283,779	3,193,478
Insurance - PDIC		3,031,481	2,829,391
Fuel & Lubricants		2,531,992	2,415,257
Stationery & Supplies		2,465,142	2,395,300
Litigation and Acquired Assets Expense		2,387,441	970,284
Repairs and Maintenance		2,260,483	2,136,468
Representation & Entertainment		1,768,134	1,651,530
Fines, penalties and other charges		1,429,013	240,860
Advertising & publicity		1,270,405	1,309,541
Insurance - others		1,251,135	1,164,376
Rent	21.2.1	1,030,736	912,735
Management and professional fees		739,068	400,503
Information Technology		565,433	600,595
Travelling		394,018	284,872
Memberships fees and dues		334,817	316,559
Supervision fees		278,982	258,711
Donations and charitable contributions		145,810	193,240
Periodicals and Magazines		28,598	30,594
Miscellaneous Expense		1,641,271	1,444,959
		38,546,180	33,511,100

21.2.1 – Rent

The bank is a lessee under non-cancellable operating lease. The lease has terms ranging from 3 to 7 years with renewal options. The projected future minimum rentals payable under these non-cancellable operating lease as of December 31 are as follows:

	2019	2018
Within one year	₱ 1,037,578	₱ 954,615
After one year but not more than five years	2,411,246	1,746,307
More than five years	-	281,414
Total	₱ 3,448,823	₱ 2,982,336

21.3 Depreciation/ amortization expense

This account is composed of the following:

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	Notes	2019	2018
Bank premises, furniture, fixtures & equipment	10 P	7,128,442 P	5,903,995
Investment properties - buildings and improvement	11	3,120,457	3,420,197
Computer software	12.1	1,067,810	872,672
Total	P	11,316,709 P	10,196,864

Note 22 – Income Tax Expense

Regular corporate income tax (RCIT) is 30% of profit before tax. The bank is also subject to the Minimum Corporate Income Tax (MCIT) which is 2% of gross profit as defined by the Tax Code. The bank is liable whichever is higher between RCIT and MCIT. For the years ended December 31, 2019 and 2018, the Bank's taxable income is subject to RCIT.

MCIT is computed as follows:

	Notes	2019	2018
GROSS INCOME			
Total interest income	18 P	142,010,418 P	119,766,198
Total other income	20	48,175,734	53,445,380
Total		190,186,152	173,211,578
Less: Non-taxable income (subject to final tax)		(33,562,396)	(21,463,403)
Gross taxable income		156,623,756	151,748,175
Less: Cost of Service			
Interest expense	19	10,882,073	10,405,560
Interest arbitrage		(10,882,073)	(7,082,923)
Salaries and other benefits		60,497,815	56,753,162
Supervision fees		278,982	258,711
Insurance - PDIC		3,031,481	2,829,391
Total		63,808,278	63,163,901
Gross income for MCIT purposes		92,815,478	88,584,274
MCIT Rate		2%	2%
Minimum corporate income tax	16 P	1,856,310 P	1,771,685

RCIT is computed as follows:

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	Note	2019	2018
Profit (loss) before tax per books	₱	32,106,718	₱ 29,084,432
Add: Non-deductible expense			
Interest arbitrage		10,882,074	7,082,923
Provision for credit losses		7,524,025	5,057,920
Provision for impairment loss			671,826
Fines and penalties		1,429,013	-
Total		51,941,830	41,897,101
Less: Non-taxable income/deductible expense			
Interest income subject to final tax		(33,562,396)	(21,463,403)
Bad debts written-off		(4,704,443)	-
Net taxable income		13,674,991	20,433,698
RCIT Rate		30%	30%
RCT / Income tax expense	16 ₱	4,102,497	₱ 6,130,109

Under existing Tax Code, the Bank may choose either the itemized deduction or optional standard deduction of 40% of gross receipts as deduction in computing taxable income. For the years ended December 31, 2019 and 2018, the Bank opted to claim itemized deductions.

Note 23 – Earnings per share/ book value per share

The earnings per share is computed as follows:

	2019	2018
Net income after taxes for the year	₱ 28,004,221	₱ 24,471,699
Less: Preference dividends for the current year	-	-
Net income to common shares	₱ 28,004,221	₱ 24,471,699
Weighted average number of shares		
Outstanding and issued shares	1,888,798	1,888,798
Less: treasury shares	-	-
	1,888,798	1,888,798
Earnings per share	₱ 14.83	₱ 12.96

The book value per share is computed as follows:

	2019	2018
Total equity	₱ 320,842,928	₱ 292,838,707
Less: Preference dividends for the current year	-	-
Net income to common shares	₱ 320,842,928	₱ 292,838,707
Weighted average number of shares		
Outstanding and issued shares	1,888,798	1,888,798
Less: treasury shares	-	-
	1,888,798	1,888,798
Book value per share	₱ 169.87	₱ 155.04

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Note 24 – Related Party Transactions

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. The Bank's related parties include:

1. Key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members;
2. Directors, Officers, Stockholders and Related Interests (DOSRI)
3. Post-employment benefit plan

Remunerations of Key Management Personnel

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 the position of Vice-president up to President to constitute key management personnel for purposes of PAS 24. The compensation of key management personnel included under 'Salaries and other benefits' in the statements of income are as follows:

		2019		2018
Short term employee benefits	₱	5,510,015	₱	5,353,637
Post-employment benefits		129,708		155,844
Total	₱	5,639,723	₱	5,509,481

Loans to related parties

The Bank has loan transactions with related parties such as stockholders and key management personnel. Loans to key management personnel are granted through the BSP-approved financial assistance program for officers and employees, and are not subject to individual and aggregate ceilings required for loans granted to DOSRI under BSP regulations.

The following are the Bank's loan transactions with related parties:

Related Party	2019		2018	
	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
DOSRI	₱ 733,535	₱ 495,945	₱ 48,399	₱ 29,481
Key Management Personnel	295,438	154,316	57,569	69,754
Total	₱ 1,028,973	₱ 650,261	₱ 105,968	₱ 99,235
Unsecured related party loans		₱ 154,316		₱ 69,754
% of related party loans (RPL) to total loan portfolio (TLP)		0.13%		0.02%
% of unsecured RPL to total RPL		23.73%		70.29%
% of past due RPL to total RPL		0%		0%
% of non-performing RPL to total RPL		0%		0%

DOSRI Deposits

The total balance of DOSRI deposits are inclusive of the corresponding related accrued interest included in the

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financial statements as of December 31, 2019 and 2018. Deposit liabilities transactions with related parties have similar terms with other counterparties (see Note 13).

Transactions with Retirement Fund

The Bank's transactions with its retirement fund for the years ended December 31, 2019 and 2018 relate to the contributions and benefits paid out of the plan to the Bank's employees as disclosed in Note 2.

The following retirement plan assets are placed in the Trust Department of a Universal Bank comprising of the following:

	2019		2018	
Deposit in banks	₱	2,255	₱	1,189,879
Investments		17,175,844		13,642,335
Other receivables		130,107		107,367
Accrued payables		(16,304)		(14,650)
Total	₱	17,291,902	₱	14,924,931

The retirement fund neither provides any guarantee or surety for any obligations of the Bank nor its investments by any restrictions or liens.

Note 25 – Events After Reporting Period

The Bank disclosed that there are no any significant events took place after the balance sheet date that could affect the presentation of the financial statements.

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Note 26 - Basic Quantitative Indicators of Financial Performance

The following are the financial performance indicators of the Bank:

	2019		2018	
	Amount	Ratio	Amount	Ratio
Return on average equity				
Net Profit	28,004,221	9.13%	24,471,699	8.72%
Average total equity	306,840,818		280,602,859	
Return on average assets				
Net Profit	28,004,221	1.42%	24,471,699	1.38%
Average total assets	1,970,159,638		1,770,991,469	
Net Interest Margin				
Net Interest Income	131,128,345	7.60%	109,360,638	7.11%
Average interest earning assets	1,726,349,770		1,537,780,022	
Past Due Ratio				
Past Due Loans	113,249,074	22.83%	147,139,400	28.43%
Total Loan Portfolio	496,129,916		517,590,643	
Liquidity Ratio				
Cash/Cash Equivalents/BSP/DFOB/HTM	1,396,131,118	81.05%	1,179,724,376	76.30%
Deposit Liabilities + Bills payable	1,722,458,117		1,546,156,286	
Debt-to-equity Ratio				
Total Liabilities	1,752,334,896	546.17%	1,574,302,744	537.60%
Total equity	320,842,928		292,838,708	
Equity to Assets Ratio				
Total Equity	320,842,928	15.48%	292,838,708	15.68%
Total Assets	2,073,177,825		1,867,141,452	

Note 27 – Supplementary Information Required under Revenue Regulations 15-2010

The following is the supplementary information which is required by the Bureau of Internal Revenue (BIR) under its existing revenue regulations (RR) to be disclosed as part of the notes to the financial statements. This supplementary information is not a required disclosure under PFRS.

The components of 'Taxes and licenses' recognized in the statement of income for the year ended December 31, 2019, follow:

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	Amount
Gross receipts tax	₱ 11,363,473
Documentary stamp tax	2,780,128
Business permit and license	1,152,826
Real property tax	181,978
BIR annual registration fee	6,000
Others	1,095,387
Total	₱ 16,579,792

DST in 2019 consists of taxes on special savings account, certificate of time deposits and loans.

DST paid during the year	₱ 3,314,165
Accrued	386,576
Total	₱ 3,700,741

Withholding taxes in 2019 are categorized into:

	Paid in 2019	Accrued as of December 31, 2019
Expanded withholding tax	₱ 872,494	₱ 169,952
Withholding taxes on compensation and benefits	1,759,141	313,778
Final withholding tax on interest expense	1,481,891	140,194
Total	₱ 4,113,526	₱ 623,924

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Bangko Mabuhay (A Rural Bank), Inc.
A. Soriano Street (Hi-way), Bgy. Daang Amaya III, Tanza, Cavite

Reconciliation of Retained Earnings Available for Dividends Declaration
As of December 31, 2019
(Amounts in Philippine Pesos)

Unappropriated Retained Earnings, beginning	₱	77,147,077
Net Income based on the face of AFS	₱	28,004,221
Less: Non-actual/unrealized income, net of tax		
Equity in net income of associate/joint venture		
Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents) Unrealized actuarial gain		
Fair value adjustment (M2M gains)		
Fair value adjustment of investment property resulting to gain adjustment due to deviation from PFRS/GAAP - gain		
Other unrealized gains or adjustments to retained earnings as a result of certain transactions accounted for under PFRS		
Add: Non-actual losses		
Depreciation on revaluation increment (after tax)		
Adjustment due to deviation from PFRS/GAAP - loss		
Loss on fair value adjustment of investment property (after tax)		
Net Income Actual/ Realized	₱	28,004,221
Add/Less:		
Dividend declaration during the period		
Transfers to retained earnings		
Transfers to reserves		
Adjustment [see Statement of Changes in Equity (SCE)]		-
Unappropriated Retained Earnings, as adjusted, ending	₱	105,151,298
Retained Earnings - Fee (see SCE)	₱	105,151,298
Undivided Profits, Dec. 31, 2019 (see SCE)		-
Total Retained Earnings - Free		105,151,298

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SCHEDULE OF STANDARDS AND INTERPRETATIONS
For the years ended, December 31, 2019 and 2018

Pursuant to Part I Section 4 J. of the Securities Regulation Code (SRC) Rule 68, as amended, promulgated by the SEC, hereunder is a schedule of Philippine Financial Reporting Standards and Interpretations effective as of December 31, 2019 and 2018 and the indication opposite each standard whether it is “adopted”, or “not adopted” or “not applicable”:

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2019		Effective Date	Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Revised Conceptual Framework for Financial Reporting		Jan. 1, 2020	✓		
Philippine Financial Reporting Standards					
PFRS 1 (Revised)	First-time adoption of Philippine Financial Reporting Standards	Jul. 1, 2009	✓		
PFRS 2	Share-based Payment	Jan. 1, 2005			✓
PFRS 3 (Revised)	Business Combination	Jul. 1, 2009			✓
PFRS 4	Insurance Contracts	Jan. 1, 2005			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	Jan. 1, 2005	✓		
PFRS 6	Explorations for and Evaluation of Mineral Resources	Jan. 1, 2006			✓
PFRS 7	Financial Instruments: Disclosures	Jan. 1, 2007	✓		
PFRS 8	Operating Segments	Jan. 1, 2009			✓
PFRS 9	Financial Instruments	Jan. 1, 2018	✓		
PFRS 10	Consolidated Financial Statements	Jan. 1, 2013			✓
PFRS 11	Joint Arrangements	Jan. 1, 2013			✓
PFRS 12	Disclosure of Interest in Other Entities	Jan. 1, 2013	✓		
PFRS 13	Fair Value Measurement	Jan. 1, 2013	✓		
PFRS 14	Regulatory Deferral Accounts	Jan. 1, 2016	✓		
PFRS 15	Revenue from contracts with customers	Jan. 1, 2018	✓		

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PFRS 16	Leases	Jan. 1, 2019	✓		
PFRS 17	Insurance Contracts (PFRS 17 was issued to replace PFRS 4)	Jan. 1, 2021		✓	
Philippine Accounting Standards					
PAS 1 (Revised)	Presentation of Financial Statements	Jan. 1, 2009	✓		
PAS 2	Inventories	Jan. 1, 2005			✓
PAS 7	Statement of Cash Flows	Jan. 1, 2005	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	Jan. 1, 2005	✓		
PAS 10	Events after the Reporting Period	Jan. 1, 2005	✓		
PAS 12	Income Taxes	Jan. 1, 2005	✓		
PAS 16	Property Plant and Equipment	Jan. 1, 2005	✓		
PAS 17	Leases	Jan. 1, 2005	✓		
PAS 18	Revenue	Jan. 1, 2005	✓		
PAS 19 (Revised)*	Employee Benefits	Jan. 1, 2005	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance	Jan. 1, 2005			✓
PAS 21	The Effects of Changes in Foreign Exchange Rate	Jan. 1, 2005	✓		✓
PAS 23 (revised)	Borrowing Costs	Jan. 1, 2009	✓		
PAS 24 (revised)	Related Party Disclosure	Jan. 1, 2011	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	Jan. 1, 2005	✓		
PAS 27 (Amended)	Separate Financial Statements	Jan. 1, 2005			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures	Jan. 1, 2013			✓
PAS 29	Financial Reporting in Hyperinflationary Economies	Jan. 1, 2005		✓	
PAS 31	Interests in Joint Ventures	Jan. 1, 2005			✓
PAS 32	Financial Instruments: Disclosure and Presentation	Jan. 1, 2007	✓		
PAS 33	Earnings per Share	Jan. 1, 2005	✓		
PAS 34	Interim Financial Reporting	Jan. 1, 2005	✓		
PAS 36	Impairment of Assets	Jan. 1, 2005	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	Jan. 1, 2005	✓		
PAS 38	Intangible Assets	Jan. 1, 2005	✓		
PAS 39	Financial Instruments: Recognition and Measurement	Jan. 1, 2005	✓		

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PAS 40	Investment Property	Jan. 1, 2005	✓		
PAS 41	Agriculture	Jan. 1, 2005			✓
Philippine Interpretations – International Financial Reporting Interpretations Committee (IFRIC)					
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	Jan. 1, 2005		✓	
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments	Jan. 1, 2005			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	Jan.1, 2006	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	Jan. 1, 2006			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment	Dec. 1, 2005			✓
IFRIC 7	Applying the Restatement Approach under PAS 39 Financial reporting Hyperinflationary Economies	Mar. 1, 2006			✓
IFRIC 10	Interim Financial Reporting and Impairment	Nov. 1,2006	✓		
IFRIC 11	PFRS-2 Group and Treasury Share Transactions	Mar.1,2007			✓
IFRIC 12	Service Concession Arrangements	Jan. 1, 2008			✓
IFRIC 13	Customer Loyalty Programmes	Jul. 1,2008			✓
IFRIC 14	PAS 19 -The Limit of Defined Benefit Asset, Minimum Funding Requirements and their Interaction	Jan. 1,2008			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	Oct. 1,2008			✓
IFRIC 17	Distributions of Non-cash Assets to Owners	Jul. 1,2009			✓
IFRIC 18	Transfers of Assets from Customers	Jul. 1,2009			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	Jul. 1,2010			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	Jan. 1,2013			✓
IFRIC 21	Levies	Jan. 1, 2014			✓
IFRIC 22	Foreign Currency Transactions and Advance Consideration	Jan. 1, 2018			✓
IFRIC 23	Uncertainty over Income Tax Treatments	Jan. 1, 2019			✓
Philippine Interpretations – Standing Interpretations Committee (SIC)					
SIC-7	Introduction of the Euro	Jan. 1, 2005			✓

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SIC-10	Government Assistance – No Specific Relation to Operating Activities	Jan. 1, 2005			✓
SIC-12	Consolidation – Special Purpose Entities	Jan. 1, 2005			✓
	Amendment to SIC – 12: Scope of SIC 12	Jan. 1, 2005			✓
SIC-13	Jointly Controlled Entities – Non Monetary Contributions by Ventures	Jan. 1, 2005			✓
SIC-15	Operating Leases – Incentives	Jan. 1, 2005		✓	
SIC-25	Income Taxes – Changes in the Tax Status of an Entity or its Shareholders	Jan. 1, 2005		✓	
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of A Lease	Jan. 1, 2005			✓
SIC-29	Service Concession Arrangements: Disclosures	Jan. 1, 2005			✓
SIC-31	Revenue – Barter Transactions Involving Advertising Services	Jan. 1, 2005			✓
SIC-32	Intangible Assets – Web Site Costs	Jan. 1, 2005	✓		

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**Schedule of Creditable Withholding Taxes
Utilized as Payment of Income Tax Due
For the years ended, December 31, 2019 and 2018
(Amounts in Philippine Pesos)**

2019			2018		
Date	Reference	Amount	Date	Reference	Amount
31/03/2019	BIR Form 1606 withholding tax	130,009.90	30/06/2018	BIR Form 1606 withholding tax	21,000.00
31/03/2019	BIR Form 1606 withholding tax	39,000.00	30/06/2018	BIR Form 1606 withholding tax	33,000.00
31/03/2019	BIR Form 1606 withholding tax	82,755.00	30/06/2018	BIR Form 1606 withholding tax	89,880.00
31/03/2019	BIR Form 1606 withholding tax	84,000.00	30/09/2018	BIR Form 1606 withholding tax	51,480.00
31/03/2019	BIR Form 1606 withholding tax	111,421.08	30/09/2018	BIR Form 1606 withholding tax	150,000.00
30/06/2019	BIR Form 1606 withholding tax	48,000.00			
30/06/2019	BIR Form 1606 withholding tax	36,000.00			
30/06/2019	BIR Form 1606 withholding tax	60,476.55			
30/06/2019	BIR Form 1606 withholding tax	36,075.00			
		627,737.53			345,360.00

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Comparison of Submitted Balance Sheet and Income Statement and Audited Financial Statements (AFS)
As of December 31, 2019
(Amounts in Philippine Pesos)

Pursuant to Appendix 55 to Section 174 of the Manual of Regulations for Banks (MORB), the following is the reconciliation statement between prudential reports such as the balance sheet and income statement submitted to the Bangko Sentral ng Pilipinas and AFS:

	Submitted Report	Audited Report	Variance/ Discrepancy	AJE	Reason for Discrepancy
Assets					
Cash and cash equivalents	24,003,809	24,003,809	-		
Due from Bangko Sentral ng Pilipinas	51,784,358	51,784,358	-		
Due from Other Banks	820,299,596	820,385,387	85,791	1	Interest earning on deposit
			-	2	service fee on closing account
Held-to-maturity Financial Assets	499,957,564	499,957,564	-		
Loans and Receivables	482,517,879	485,908,112	3,390,233	3	Accrued interest on loans
Bank Premises, furn., fix. & equipt.	44,900,208	44,900,208	-		
Investment Properties	98,684,899	98,684,899	-		
Other Assets	50,559,864	47,553,487	(3,006,377)	5	Audit fee for year 2019
					Reversal of deferred tax asset
				7	related to allowance for credit losses
				8	Reversal of creditable tax
					Additional allowance for credit
				9	lossess
Total Assets	2,072,708,177	2,073,177,824	469,647		
Liabilities					
Deposit Liabilities	1,712,458,117	1,712,458,117	-		
Bills Payable	10,000,000	10,000,000	-		
Other liabilities	29,368,676	29,657,262	288,586	1	Gross receipts tax (GRT) - int. on deposits
				4	GRT on accrued int.-loans
				5	Accrued audit fee 2019
				6	Accrued interest on bills payable
Income tax payable	-	219,516	219,516	10	Accrual of income tax payable
Total liabilities	1,751,826,793	1,752,334,895	(508,102)		
Equity					
Paid-in Capital	188,879,800	188,879,800	-		
Additional Paid-in Capital	26,811,831	26,811,831	-		
Retained earnings	105,189,753	105,151,298	(38,455)		
Total Equity	320,881,384	320,842,929	(38,455)		
Total Liabilities and Equity	2,072,708,177	2,073,177,824	469,647		

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Comparison of Submitted Balance Sheet and Income Statement and Audited Financial Statements (AFS)
As of December 31, 2019
(Amounts in Philippine Pesos)

	Submitted Report	Audited Report	Variance/ Discrepancy	AJE	Reason for Discrepancy
Gross Income	186,709,926	190,186,151	3,476,225	1	Interest earnings on deposit
				2	Accrued interest on loans
Total Expenses	156,014,044	158,079,433	2,065,389	1	GRT on interest on deposit
				2	Service fee on closing the account
				4	GRT on accrued interest - loans
				5	Audit fee for year 2019
				6	Accrued interest on bills payable
					Additional Allowance for credit
				9	losses
Net Income before tax	30,695,882	32,106,718	1,410,836		
Provision for income tax	2,653,206	4,102,497	1,449,291	7	Reversal of deferred tax asset
				8	Reversal of creditable tax
				10	Accrual of income tax expense
Net Income after tax	28,042,676	28,004,221	(38,455)		

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Adjusting Entries on Reconciling Items
As of December 31, 2019

No.	DEBIT		CREDIT		Notation/Explanation
	Account Name	Amount	Account Name	Amount	
1	Due from other banks	85,993	Undivided Profits (UP)-Int. Income	85,993	Int. income on deposit
			Other Liabilities - Accrued Other		
	UP - Taxes & Licenses	6,020	Taxes Payable	6,020	GRT on int. inc. on deposit
2	UP- Fees and Commission	202	Due from other banks	202	Service fee on closed account
3	Loans and Receivables - accrued interest receivable	3,390,233	UP - Interest Income - loans and receivables	3,390,233	Accrued interest on loans and receivables
4	UP - Taxes & Licenses	169,512	Other Liabilities - Accrued Other Taxes Payable	169,512	GRT on accrued interest income on loans and receivables
5	UP - Management and Professional Expense	202,500	Other Assets - Accounts Receivable	100,000	Audit fee for year 2019
			Other Liabilities - Accounts Payable	102,500	
6	UP - Interest expense -bills payable	10,556	Other Liabilities - Accrued Interest Payable	10,556	Accrued interest expense - bills payable
7	Income Tax Expense	833,086	Other Assets -Deferred Tax Asset	833,086	Reversal of deferred tax asset related to allowance for credit losses
	Other Assets - Deferred Tax Asset	663,390	Income Tax Expense	663,390	
8	Income Tax Expense	1,060,079	Other Assets - Creditable Tax	1,060,079	Adjustment due to provision for income tax
9	UP - Provision for Credit Losses	1,676,602	Other Assets - Allowance for Credit Losses	1,676,602	Additional provision for credit losses on accounts receivable
10	Income Tax Expense	219,516	Income Tax Payable	219,516	Accrual of income tax payable
Totals		<u>8,317,689</u>		<u>8,317,689</u>	

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II. Compliance with Appendix 125 of the MORB – Disclosure in the Annual Reports and Published Statement of Condition

A. Capital Structure and Capital Adequacy

		2019 (in P Millions)	2018 (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	77.147	52.675
	Undivided Profits	28.004	24.472
	Total Tier 1 Capital	320.843	292.839
2	Tier 2 Capital		
	General Loan Loss Provision	3.049	2.740
3	Deductions from Tier 1 and Tier 2 Capital		
	Unsecured DOSRI	-	-
	Deferred tax asset	6.668	9.134
	Goodwill	11.542	13.129
	Total Deductions	18.210	22.263
4	Total Qualifying Capital	305.682	273.316
5	Capital Requirement for Credit Risk	1,517,847	1,364.165
6	Capital Requirement for Market Risk	-	-
7	Capital Requirement for Operational Risk	200.476	180.483
8	Total Capital Adequacy Ratio	17.79	17.69
	Tier 1 Capital Adequacy Ratio	17.61	17.52