

## OUR BRANCHES

-  **CORPORATE / HEAD OFFICE**  
Priser Trading Cor. Flora Ave., Sto. Rosario St., Angeles City, Pampanga  
(045) 624-6177 to 79
-  **MAGALANG BRANCH**  
San Pedro I, Magalang, Pampanga  
(045) 624-6177 local 208-209
-  **DOLORES BRANCH**  
Emerald Business Center, McArthur Hi-way, Dolores City of San Fernando  
(045) 624-6177 local 207
-  **PORAC BRANCH**  
General Luna Street, Cangatba, Porac  
(045) 624-6177 local 215 to 218
-  **MABALACAT BRANCH**  
Pineda Building, McArthur Hiway, Mabalacat, Pampanga  
(045) 624-6177 local 205
-  **MEXICO BRANCH**  
San Antonio, Mexico, Pampanga  
(045) 624-6177 local 206
-  **ANGELES BRANCH**  
Rizal Ext. Angeles City, Pampanga  
(045) 624-6177 local 201 to 202
-  **FLORIDA BLANCA BRANCH**  
Sta. Maria, Cor. Rizal St. Poblacion, Florida Blanca, Pampanga  
(045) 624-6177 local 210 to 211
-  **ANGELES –PLARIDEL BRANCH**  
Plaridel St., Sto. Rosario, Angeles City  
(045) 624-6177 local 200
-  **BALIBAGO BRANCH**  
Lot 2 Bayanihan Park, M.A. Roxas St. Malabanas, Angeles City, Pampanga  
(045) 624-6177 local 203 to 204
-  **ARAYAT BRANCH**  
Plaza Luma, Arayat, Pampanga  
(045) 624-6177 local 212 to 214
-  **CONCEPCION-TARLAC BRANCH LITE**  
N. Dela Patria, Concepcion, Tarlac  
(045) 624-6177 local 219

# ANNUAL REPORT | 2018

GROWING TOGETHER FOR 50 YEARS AND BEYOND



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[www.poracbank.com](http://www.poracbank.com)





# CORPORATE PROFILE

Porac Bank is a closed family bank founded by Primo and Servillana David, Marciano Dizon, Mamerto De Mesa, Irmelo David, Vicente David and Juan Cuyugan in 1968. The bank was established to help the communities around Porac reach their financial goals.

Five decades later, Porac Bank witnessed a continued growth under the leadership of the four founders and their families. Their sincere commitment to serve the financial needs of the people has become the most important legacy the founders has handed over to the succeeding generations.

The importance of heritage has cultivated seasoned experts and leaders from the four families to wit: David, Dizon, De Mesa and Cuyugan. This, coupled with a customer-centric culture and a roster of dynamic professionals certainly set Porac Bank apart from competition —pushing it further to become one of the leading rural banks in the province.

Today, Porac Bank has expanded its branch network throughout the busiest and most progressive towns and cities of Pampanga including Angeles City, Mabalacat City, City of San Fernando and the towns of Magalang, Porac, Arayat, Mexico and Floridablanca. Early this year of 2019, the bank opened its 12th branch network in Concepcion, Tarlac —the very first outside the province of Pampanga. The bank offers traditional banking products viz. regular passbook savings, checking account, time deposit and loans for commercial, consumption, housing and agri/agra purposes. With a total of eleven branches in Pampanga and the newly opened branch-lite in Tarlac, Porac Bank hopes to widen its reach and move its doors closer to the unbanked and underserved people in the community.

## VISION

We will be one of the best Rural banks in Pampanga by 2018 in terms of financial and operational efficiency; To be a catalyst of progress for our stakeholders in “Banking” their confidence and security.

## MISSION

We are Porac Bank. We are in the business of fulfilling the aspirations of our stakeholders and building communities in Pampanga to improve lives.

We provide prompt financial services to individuals of varied interest, thriving SMEs through our customer-oriented professionals who are responsive, caring and open to the needs of our clients.

We are driven to be competitive; to sustain growth and stability, prudent in managing our resources, steadfast in developing diversified business.

We uphold to protect the interest of our clients, employees and shareholders with integrity, fairness and honesty in all our dealings.

We partner with our employees in building a progressive and profitable banking institution by fostering a working environment that recognizes individual worth and rewards outstanding performance.

## CORE VALUES



### Integrity

We at Porac Bank strongly believes that honesty and sincerity engenders trust and confidence from our stakeholders. It is in that premise that we commit to uphold the highest level of integrity in everything we say and do.



### Excellence

At the heart of every decision we make is our commitment to being the best in providing banking services with qualities that are second to none in terms of satisfaction.



### Commitment

Our long-standing commitment to help our community reach their financial goals have certainly stand the test of time. Over five decades, we have and will continue to show unwavering dedication to our clients, community and employees.



## MESSAGE FROM THE CHAIRMAN

# Growing Together

The year 2018 marks an important milestone in the history of Porac Bank as it celebrated its 50 years founding anniversary. Growing Together is a theme coined by the bank to depict five decades of great banking founded on the philosophy and lifelong commitment of shared growth — of a parallel growth for the bank, our employees, clients and the community we serve.

In line with the bank's vision of becoming one of the best rural banks in the province, we continuously seek to instill in our people a different take at customer-centricity —one that is built on the legacy of the four founders and passed down from generation to generation: a family-approach to personalized banking that capitalizes on trust and good moral values. This has allowed us to build deeper connections with our clients as we help them fulfill their financial goals. We are elated and proud to state that some had been with us as far back as 1969, when we first officially opened our doors to the public.

In the like manner, we at Porac Bank strives to build an effective organization through a family approach in managing the organization. We aim to provide the best work-life balance for our

employees that in our belief, drives high performing individuals and teams. We take pride in seeing our employees grow continuously at Porac Bank both personally and professionally in the last five decades.

Lastly, we are proud to state that our years of hard work and dedication to promote financial inclusion has allowed us to contribute to the progress of the communities we serve. In return for the trust and confidence, you, the stakeholders of Porac Bank have placed in us, we commit to thrive to the demands of time, to continue building our momentum and long history of growth, to become your financial partner that is second-to-none in delivering great banking services —all these as we grow together with you.

**RUBEN C. DIZON**  
Chairman

# PRESIDENT'S MESSAGE

2018 was a momentous year for PORAC BANK. After five decades of banking, Porac Bank continues to thrive and rise high from its humble beginnings. Within 50 remarkable years, we at Porac Bank remained invincible and resilient in times of crises and setbacks and almost implausibly, we were able to keep our noses up the water during many challenging times. Our mainstream commitment to growth enabled us to tap the opportunities presented before us amidst many trying times.

Over the past 50 years, we were also able to successfully shift from first to third generation of prudent and dynamic corporate leadership and in such times of transition, we were able to sustain remarkable improvement and attain substantial increases in our financial indicators.

Now on its golden year, Porac Bank's scorecard and financial returns registered significant milestones and accomplishments. All throughout Year 2018, the Bank remained steadfast and financially robust. Apily, we at Porac Bank ended our milestone year with flying colors in our report cards with marked increases in our revenues, deposit liabilities, loan portfolio and total resources and far exceeded certain financial ratios and targets.

Over the years, as the local banking sector has grown, our bank remained competitive and managed to retain our share of the local market. Throughout our 50-year journey, the strategic choices made by our leaders propelled Porac Bank into the ranks of profitable and successful financial institutions in Pampanga.

With branches strategically located in the most progressive towns and cities in the province, we have successfully provided financial assistance to various individuals and businesses in and outside Pampanga. At present, we have a total of eleven branches across the prime towns and cities of Pampanga. We envision to expand our territories in the future by putting up more branches not just in Pampanga but throughout Central Luzon.

With the recent trends in the information and communication technology prompting the banking industry to move towards digitalization, we at Porac Bank, remain committed to our business philosophy that centers on the needs, financial security and utmost convenience of our customers. We have invested largely in the improvement of our IT infrastructure to ensure that we are ready to serve the evolving needs of our clients and cope with the changes in the industry.

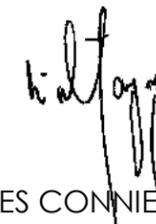
We are proud to announce that we are the first Rural Bank in Central Luzon to introduce the convenient, secure and reliable digital queuing system. The new technological facility aims to speed up daily transactions, and promote higher level of transparency and accuracy by allowing our clients to key-in details of deposit or withdrawal transactions. This facility aims to serve our clients better with added convenience.

With the positive effects noted from the centralization of the lending system, the bank has, in 2018, introduced the centralization of the accounting system to strengthen internal control measures while simplifying the accounting processes. The foregoing initiative has enabled us to closely monitor both functions and its compliance with governing policies. We have continuously streamlined our operations to further strengthen our commitment of conducting business at the highest level of integrity and transparency.

At Porac Bank, we do not only aspire financial success but we also aim to pursue benevolent activities as a way of giving back to the community we serve. Through our efforts of genuine volunteerism, the Bank dedicated itself to Corporate Social Responsibility activities to further boost the bank's corporate values and uphold a culture of social responsibility.

Moving forward, we will continue to be a dynamic institution in a fast changing banking environment. This has been the testament of our growth in the past five decades as we provide the best banking experience for our stakeholders.

We are Porac Bank and we envision greatness! Keeping our sights fixed firmly on the future. We, the directors, management and employees of Porac Bank assure you, our faithful stakeholders- valued clients and esteemed partners, that we will deal with the challenges and seize the opportunities with the same energy and enthusiasm that led to our success in the past 50 years towards the attainment of our future goals.



LOURDES CONNIE C. TAYAG  
PRESIDENT/CEO



“Our mainstream commitment to growth enabled us to tap the opportunities presented before us amidst many trying times.”

“We will continue to be a dynamic institution in a fast changing banking environment.”

5-YEAR COMPARATIVE STATISTICS

# LOAN PORTFOLIO

(IN MN PHP)



# FINANCIAL HIGHLIGHTS

	2018	2017
<b>Profitability</b>		
Total Net Interest Income	104,306	99,736
Total Non-Interest Income	34,153	32,570
Total Non-Interest Expenses	119,110	109,771
Pre-provisioning Profit	28,286	40,054
Allowance for Credit Losses	8,937	17,520
Net Income	19,349	22,534
<b>Selected Balance Sheet Data</b>		
Liquid Assets	592,659	435,642
Gross Loans	1,081,198	1,013,139
Total Assets	1,766,189	1,545,437
Deposits	1,335,233	1,205,244
Total Equity	280,276	304,200
<b>Selected Ratios</b>		
Return on Equity	7.08%	5.19%
Return on Assets	1.25%	1.06%
Capital Adequacy Ratio	18.58%	20.39%
<b>Per Common Share</b>		
Basic Net Income per share	9.16	7.02
Diluted Net Income per share	9.16	7.02
Book Value per share	123.28	133.76
<b>Others:</b>		
Cash Dividends Declared	0	11,297
Headcount	153	141
Officers	25	23
Staff	128	118

Note: (Amounts in Php Thousand, Except Ratios, Per Common Share and Headcount)

**1.25%**  
RETURN ON ASSET

**21,370**  
CASA & TD ACCOUNTS

TOTAL RESOURCES  
**PHP 1.76**  
BILLION

CAPITAL ADEQUACY RATIO  
**18.58%**

**1,333**  
LOAN ACCOUNTS

PAST DUE RATIO  
**10.58%**

**7.08%**  
RETURN ON EQUITY

**153**  
NUMBER OF EMPLOYEES

# STATEMENT OF FINANCIAL POSITION

RURAL BANK OF PORAC (PAMPANGA), INC. (The "Bank")

## STATEMENTS OF FINANCIAL POSITION

As at December 31, 2018 and 2017

	2018	2017
<b>ASSETS</b>		
Cash on Hand and in Vault (Note 6)	P 15,614,387	P 15,419,642
Due from BSP (Note 7)	46,300,179	41,363,706
Due from Other Banks (Note 7)	240,265,315	203,043,372
Held to Maturity Investment (Note 8)	290,479,380	175,815,622
Loans & Receivable, Net (Note 9)	1,058,088,759	993,834,275
Bank Premises, Furniture, Fixtures and Equipment, Net (Note 10)	36,355,849	35,158,956
Investment Property (Note 11)	52,834,298	45,141,980
Deferred Tax asset (Note 26)	5,372,571	17,908,569
Other Assets (Note 12)	7,541,642	6,764,131
Retirement benefit asset (Note 12)	13,336,891	10,987,058
<b>TOTAL ASSETS</b>	<b>P 1,766,189,271</b>	<b>P 1,545,437,313</b>
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Deposit Liabilities (Note 13)	P 1,335,232,963	P 1,205,244,485
Bills payable (Note 14)	100,000,000	20,000,000
Deferred Tax liability	2,607,476	2,607,476
Other Liabilities (Note 15)	45,576,901	11,206,286
Accrued interest payable (Note 15)	1,097,797	1,045,003
Income Tax Payable (Note 26)	1,397,766	1,134,330
<b>TOTAL LIABILITIES</b>	<b>P 1,485,912,905</b>	<b>P 1,241,237,580</b>
<b>SHAREHOLDERS' EQUITY</b>		
Capital Stock (Note 16)	P 225,947,300	P 225,947,300
Surplus Free (Note 16)	52,606,991	76,286,435
Reserve for healthcare fund (Note 16)	7,022,194	7,022,194
Reserve for defined benefit cost- OCI (Note 16)	(5,300,119)	(5,056,197)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>280,276,366</b>	<b>304,199,732</b>
<b>TOTAL LIABILITIES &amp; EQUITY ACCOUNTS</b>	<b>P 1,766,189,271</b>	<b>P 1,545,437,312</b>
<b>BOOK VALUE PER SHARE</b>	<b>123.28</b>	<b>133.76</b>

See accompanying Notes to Financial Statements.

# STATEMENT OF COMPREHENSIVE INCOME

RURAL BANK OF PORAC (PAMPANGA), INC. (The "Bank")

## STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2018 and 2017

	For the Year Ended December	
	2018	2017
<b>INTEREST INCOME</b>		
Loans & Receivables (Note 17)	P 107,371,591	P 102,572,247
Due from Other Banks (Note 17)	729,815	617,594
Investments (Note 17)	6,262,794	5,788,095
<b>TOTAL INTEREST INCOME</b>	<b>P 114,364,200</b>	<b>P 108,977,936</b>
<b>INTEREST EXPENSE</b>		
Deposits (Note 18)	P 10,058,303	P 9,242,287
<b>TOTAL INTEREST EXPENSE</b>	<b>P 10,058,303</b>	<b>P 9,242,287</b>
<b>NET INTEREST INCOME</b>	<b>P 104,305,897</b>	<b>P 99,735,649</b>
<b>PROVISION FOR CREDIT LOSSES</b>	<b>P 8,937,302</b>	
<b>NET INTEREST INCOME AFTER PROVISION</b>	<b>P 95,368,595</b>	<b>P 99,735,649</b>
<b>OTHER INCOME (Note 19)</b>	<b>P 34,152,584</b>	<b>P 32,569,727</b>
<b>TOTAL INCOME BEFORE OPERATING EXPENSES</b>	<b>P 129,521,179</b>	<b>P 132,305,376</b>
<b>OTHER OPERATING EXPENSE</b>		
Compensation & Fringe Benefits (Note 20)	P 44,574,320	P 34,420,795
Other Operating Expenses (Note 22)	61,294,272	60,395,744
Depreciation & Amortization (Note 23)	7,995,864	8,971,694
Taxes & Licenses (Note 26)	5,245,111	5,983,015
	<b>P 119,109,566</b>	<b>P 109,771,248</b>
<b>NET INCOME BEFORE INCOME TAX</b>	<b>P 19,348,915</b>	<b>P 22,534,128</b>
<b>INCOME TAX EXPENSE (BENEFIT) (Note 26)</b>	<b>P (1,344,979)</b>	<b>P 6,676,401</b>
<b>NET INCOME AFTER INCOME TAX</b>	<b>P 20,693,894</b>	<b>P 15,857,727</b>
<b>EARNINGS PER SHARE</b>	<b>9.16</b>	<b>7.02</b>

See accompanying Notes to Financial Statements.

# STATEMENT OF CHANGES IN EQUITY

RURAL BANK OF PORAC (PAMPANGA), INC. (The "Bank")

STATEMENTS OF CHANGES IN EQUITY  
For the Years Ended December 31, 2018 and 2017

	Capital Stock (Note 16)	Retained Earnings (Deficit)- Free (Note 16)	Retained Earnings (Deficit)- Appropriated (Note 16)	Total
Balance at January 1, 2018	P 225,947,300	P 76,286,435	P 1,965,997	P 304,199,732
Issuance of shares				-
Total comprehensive income for the year		20,693,894		20,693,894
Provisions and Adjustments		P (18,389,397)	(243,922)	(18,633,319)
Stock dividend declared		P (25,983,940)		(25,983,940)
Balance at December 31, 2017	P 225,947,300	P 52,606,991	P 1,722,075	P 280,276,366
Balance at January 1, 2017	205,407,300	99,121,499		304,528,799
Stock Dividend Declared	20,540,000	(20,540,000)		(20,540,000)
Cash Dividend Declared		(11,297,365)		(11,297,365)
Reserve for healthcare fund			7,022,194	7,022,194
Reserve for defined benefit cost- OCI			(5,056,197)	(5,056,197)
Issuance of shares				20,540,000
Total comprehensive income for the year	-	15,857,728		15,857,728
Provision and Adjustments		(6,855,427)		(6,855,427)
Balance at December 31, 2017	P 225,947,300	P 76,286,435	P 1,965,997	P 304,199,732

See accompanying Notes to Financial Statements.

# STATEMENT OF CASH FLOW

RURAL BANK OF PORAC (PAMPANGA), INC. (The "Bank")

COMPARATIVE STATEMENTS OF CASH FLOWS  
For the Year Ended December 31, 2018 and 2017

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income before Income Tax	P 20,693,894	P 15,857,727
Add: Expenditure without cash outlay:		
Depreciation & Amortization	7,995,864	8,971,694
Provision on credit losses	8,937,302	-
Gain from sale of property and equipment		(488,333)
Surplus reserve		(22,835,064)
Provisions & Adjustments -RE	(18,633,319)	(6,855,427)
Stock dividend declared	(25,983,940)	
Operating income before changes in operating assets	P (6,990,199)	P (5,349,403.00)
Changes in Operating Assets and Liabilities		
Increase/(Decrease) in:		
Loans & other Receivables	P (73,191,785)	P (130,330,597)
Investment Properties	(7,692,318)	19,610,967
Other Assets	(777,510)	103,100
Retirement benefit asset	(2,349,833)	
Deferred tax asset	12,535,998	(2,674,644)
Bills Payable		
Deposits Liabilities	129,988,478	67,377,536
Other liabilities	34,370,615	4,767,884
Accrued Interest and other liabilities	52,794	(40,573)
Income Tax Payable	263,437	(3,688,651)
<b>Net cash provided by operating activities</b>	<b>P 86,209,678</b>	<b>P (50,224,381)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase/(Decrease) in:		
Additions to bank premises	P (9,192,757)	P (13,127,828)
Acquisition of HTM investments	(114,663,758)	(16,742,311)
Proceeds from sale of Property and equipment	-	657,376
Retirement benefit asset	-	(1,455,748)
<b>Net cash provided by investing activities</b>	<b>P (123,856,515)</b>	<b>P (30,668,511)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid		
Proceeds from bills payable	P 80,000,000	P 20,000,000
Proceeds from issuance of stock	-	20,540,000
Stock dividend		
<b>Net cash provided/(used) by financing activities</b>	<b>P 80,000,000</b>	<b>P 40,540,000</b>
Net increase/(decreased) in cash and other cash activities	P 42,353,161	P (40,352,892)
Cash, beginning of year	259,826,720	300,179,612
<b>CASH, END OF YEAR</b>	<b>P 302,179,881</b>	<b>P 259,826,720</b>

(See accompanying Notes to Financial Statements)

# REVIEW OF OPERATIONS

## BILLS PAYMENT

In partnership with ECPay, one of the country's leading online payment platforms, the Bank successfully augmented its services with a bills payment facility. The new facility was launched in March 2018. It primarily aims to provide clients and anyone from the community added convenience by allowing the same to settle just about any of their dues including utilities, internet and telecom bills, credit cards, airline tickets, payments for government services such as SSS, Philhealth, Pag-ibig and many more at any of the eleven (11) branches of Porac Bank.

## MARKET RESEARCH

In preparation to the rather comprehensive marketing plan that the Management has in talks, the Bank conducted a market research in the form of focus group discussions in April 2018. The market research enjoined approximately twenty participants from the clients of the bank and twenty others that are non-clients of the bank. The results of the market research allowed the bank to conclude that it is indeed, one of the top rural banks in the province as named by the participants. Through said activity, the bank gained a deeper insight on how Kapampangans generally make financial decisions particularly when borrowing and saving and how Porac Bank is generally perceived by the public. The Management is enthusiastic that the results of said research may allow the bank to tap new opportunities and address previously noted weaknesses.

## CENTRALIZED ACCOUNTING

In August 2018, Porac Bank commenced with the pilot implementation of the centralized accounting system. The transition to the new system aims to set higher controls and provide a more reliable accounting system for the bank. The pilot implementation was concluded successful as the Management was able to establish better controls while noting an enhanced accounting system.

## PORAC BANK RENEWS GUARANTEE LINE WITH AGFP

To boost the bank's lending activities to the agri-agra sector, Porac Bank renewed its contract with the Agricultural Guarantee Fund Program in September 2018. With the guarantee line and enhanced policies for agri-agra lending, the bank is positive that it can extend an easier access to credit to the foregoing sector.

## PORAC BANK INKS AGREEMENT WITH ENCASH FOR THE PROVISION OF AN ATM

The bank tied an agreement with ENCASH in October 2018 for the lease of one independent ATM unit in Porac Bank Arayat Branch. Through which, all Bancnet cardholders may perform various transactions including but not limited to cash withdrawal, balance inquiry and bills payment. The foregoing initiative intends to provide easier access to ATM banking particularly to remote areas such as Arayat where access to such services is limited. Said ATM shall provide 24-hour cash access to the community of Arayat and other locals from nearby towns and municipalities. The ATM will be made available to the public by the first quarter of 2019.

## RENOVATION OF PORAC BANK'S HEAD / CORPORATE OFFICE

The Head/Corporate Office of Porac Bank was renovated to transform the whole building into a wide banking facility that can accommodate the increasing number of depositors and borrowers as well as the changing organizational structure. The renovation was finally completed by the third quarter of 2018.

## PORAC BANK INKS AGREEMENT WITH LANDBANK FOR POS-CASH OUT FACILITY & LINK.BIZ PORTAL

Later this year, Porac Bank signed two contracts with Landbank of the Philippines for the POS Cash-Out Facility and the LinkBiz Portal in August 31, 2018. The MOA signing was signed together with Central Luzon Branches Group Head/ First Vice

President Sylvia Lim, LBP Angeles Branch Head Marcelina de Lara and Cash Management Solutions Department Head/ DM Emelyn Justinlao.

The bank aims to provide Conditional Cash Transfer (CCT) beneficiaries in Porac, Pampanga and nearby municipalities easier access to their cash subsidies by deploying one POS unit in Porac Branch. The Link.Biz Portal on the other hand, shall provide an alternative means for the clients of Porac Bank to settle their loan obligation via online using their Landbank ATM accounts, participating BancNet member bank ATM accounts and GLOBE G-cash.



## PORAC BANK opens new Branch-lite in CONCEPCION, TARLAC



The year 2018 marks another important milestone for Porac Bank as the bank kicked-off the first phase of its plan for successive branch expansion. With the approval of the Bangko Sentral ng Pilipinas, the bank opened its 12<sup>th</sup> branch network situated in Tarlac—the very first outside the province of Pampanga. The new site is located at Benj-Arl Building, N. Dela Patria, L. Cortez Street, Concepcion, Tarlac. To announce the blessing and inauguration of the new branch, the

employees of Porac Bank paraded through Concepcion, Tarlac. Porac Bank was privileged to have the Mayor of Concepcion, Mr. Andres D. Lacson during the blessing and ribbon cutting ceremony of its Tarlac Branch-lite. The new branch has opened bigger opportunities for Porac Bank, stated the President, as she saw how easily the Tarlacenos welcomed the new player in the banking sector of Concepcion, Tarlac.



## CELEBRATING 50 YEARS OF *Great Banking*

The 50 Years Anniversary Gala Night was a joyous celebration of the bank's milestone. The Gala Night, which was held at Quest Hotel in Clark, Pampanga, was filled with the Bank's stockholders, directors, officers, business partners and valued clients.

During the celebration, Porac Bank commemorated its 50 years of banking defined by a kaleidoscope of happy memories, challenging seasons, lasting business relations, supportive friendships and enduring teamwork with its growth partners.

It was a night filled with presentation, music and sumptuous food, all enjoyed by the guests and individuals who have been part of the success of Porac Bank.

The Gala Night ended with a celebratory toast from the Board of Directors in grateful appreciation over the past five decades of continued trust and for the best that is yet to come.



# PARTNERS FOR GROWTH

One of the highlights of the bank's 50<sup>th</sup> anniversary celebration was the recognition of its PARTNERS FOR GROWTH. These are valued clients who have been with the bank for decades, thus, were recognized for their unwavering loyalty and continued trust throughout the bank's 50 years journey. The awardees represent the clients and employees of the bank – for whom the bank owes and dedicates its success as it marks its golden milestone. Some of the awardees were featured below.

**PoracBank's**



**MR AND MRS. GERRY FORTUNATO AND ELSY AYSON**

Mr. and Mrs Ayson have been with the bank for 20 years. They testified to a great customer experience and recognizes the ease and convenience they get when banking in Porac. They have considered the bank as their economic partner, one whom you can rely on. Such was the reason for the long standing relationship they've maintained with the bank and one that they have passed onto their children.

**MAGDALENA CALMA**

Ms. Magdalena Calma has been with the bank since it first opened its door to the public in 1968. At which time, Ms. Calma worked as a store keeper until she migrated to Guam in 1985 together with her family. Although she lived in Guam for 22 years, Ms. Magdalena remained a regular client of the bank. In an interview with the client, Ms. Magdalena disclosed that the reasons she remained loyal to the bank are due to the mobile collection of deposits which she finds very convenient and the premium quality of service she is treated with in every visit she makes at Porac Bank.

**JOSELITO DIZON**

Mr. Joselito Dizon was hired in Porac Bank on April 1983 as messenger in Porac Branch. A year after, he was promoted and became a Collector/Marketing Assistant in the first extension office of Porac Branch which was the Manibaug Savings Agency. Through the years, he has worked as a CASA Bookkeeper, Appraiser and Cashier OIC in branches Angeles-Nepo, Dolores, Mexico, Mabalacat and Magalang. Currently, he is appointed as the Bank's Clearing Supervisor assigned in the Corporate Office. It was a humble beginning turned into success story as Mr. Dizon rose from the ranks over his 35 years of service in Porac Bank.

# RISK MANAGEMENT

## RISK MANAGEMENT FRAMEWORK

The bank's risk management framework encompasses the following theoretical underpinnings:

- Risk should be managed on an ongoing basis which connotes a continuous process of identifying, measuring, controlling and monitoring of risks throughout the life of a transaction. This then allows the bank adequate information and historical basis to establish effective risk mitigants.
- People remain the bank's greatest and most critical resource to attain success. As such, adherence to the highest ethical standards and best human resource practices along with the provision of continuous trainings to hone the skills of the employees are imperative for the success of the bank.

## RISK APPETITE AND STRATEGY

In line with our belief that success and great rewards are only possible with calculative risk taking, Porac Bank adopts a conservative approach in accepting and managing risk exposures. The bank has well-defined policies, procedures and limits in place to dictate its risk-taking activities. These limits are regularly monitored and presented to the board of directors via the Risk Oversight Committee and are subject to periodic assessment.

The bank's risk strategy is centered around taking risk at an acceptable level with the promise of steady returns.

## RISK AREAS

Porac Bank faces risks inherent in the banking firm primarily in the form of credit, market liquidity, operational, and legal risk. The Bank's risk management framework is oriented towards the efficient management of these risks.

## CREDIT RISK

Credit risk is the risk of failure that may result from the borrower's failure to comply with the terms and conditions

of the loan agreed upon. Porac Bank manages this risk through:

- Use of internal credit risk rating system for corporate and consumer lending;
- Establishment of limits and strict adherence for the effective management of large exposures, concentration risk as well as exposure to a start-up business, out of the territory, RPT and DOSRI;
- Use of credit manual approved by the Board anchored from BSP Circular 855 for guidance in the credit workflow process for corporate and individual borrowers;
- Continuous development of credit policies and underwriting process to ensure compliance with the highest standards of due diligence in lending;
- Regular and practical evaluation of the ability of current borrowers to fulfill their financial obligation with the bank throughout the life of such transaction.

## FUNDING LIQUIDITY RISK

Funding liquidity risk pertains to the possibility that the Bank may fail to generate the necessary funds to meet its obligations when they become due as well as large and sudden demands for cash from its depositors without excessive costs. Maturity mismatch between the bank's assets and liabilities exposes the bank to such risk.

To monitor the bank's exposure to liquidity risk, a volume gap analysis is undertaken on a monthly basis following the Maximum Cumulative Outflow model. To further assess the bank's liquidity position, stress testing is conducted regularly. The bank adheres to a board-approved Contingency Funding Plan to ensure that the bank is ready should a liquidity problem arise.

## MARKET RISK

Market risk refers to the risk of loss that the Bank may suffer as a consequence of significant events in the

financial market such as changes in monetary policies. The bank's current business activities exposes it largely to interest rate risk which covers the volatility of the bank's investments particularly in government bonds. To bank monitors such risk through a price gap analysis which is further augmented by periodic stress testing.

## OPERATIONAL RISK

Poor Board and Management oversight, weak internal control, failed and/or inadequate systems, processes and people give rise to operational risk. Operational risk encompasses fraud, operational glitches and strategic risk.

The bank adopts an ongoing approach in managing operational risk as follows:

- Regular monitoring and evaluation of processes, people and systems;
- Implementation of stringent internal control policies;
- Continuous streamlining of business processes;
- Periodic risk assessment of the activities and engagements of the bank particularly those considered critical in the day to day operations of the bank;
- Implementation of an effective incident reporting mechanism;
- Adhering to a board-approved business continuity plan to ensure non-disruption of operations in the face of adversity; and
- Continuous training and development further augmented by periodic performance evaluation.

## OPERATIONAL RISK REPORTING

It is the thrust of the Rural Bank of Porac (Pamp), Inc. to promote the adoption of an effective risk management system that will enable the sustenance of a safe and sound banking operations for the bank.

The Operational Risk Manual embodies a comprehensive guideline in identifying, evaluating, measuring, monitoring and reporting of all operational risks associated with the activities conducted by the each unit of the bank. These guidelines aim to align the bank's risk management practices with international standards and best practices in the industry.

The bank implemented a process of regularly monitoring operational risk profiles and material risk exposures to losses on a continuing basis. The process takes into account both qualitative and quantitative assessment of exposure to all types of operational risk.

The process likewise assess the quality and appropriateness of corrective or mitigating actions and ensure that adequate controls and systems are in place to identify and address problems before they become major concern.

In effect, branches are required to identify, measure and report risk exposures arising from process/ policy infringement, operational lapses and the like on a monthly basis. These risks are then, through the Executive Committee, regularly reported to the Board of Directors for evaluation or proper disposition.

## LEGAL RISK

Legal risk is often caused by poorly documented transactions resulting in an economic or reputational loss due to regulatory or legal problems. It may also lead from inadvertent or intentional non-compliance with laws, rules, regulations and ethical norms.

Porac Bank manages legal risk through periodic compliance controls, process standardization, contracts, and documentation requirements. Also, outstanding court cases, contracts, and comparable records are kept centralized to allow for easier supervision and reporting of the same to the Risk Oversight Committee.

## OVERALL GOVERNANCE

The Board of Directors sets the risk appetite of the bank and approves risk strategies formulated and recommended to the same authority by the Risk Oversight Committee. The active participation of the board of directors is represented by the Risk Oversight Committee.

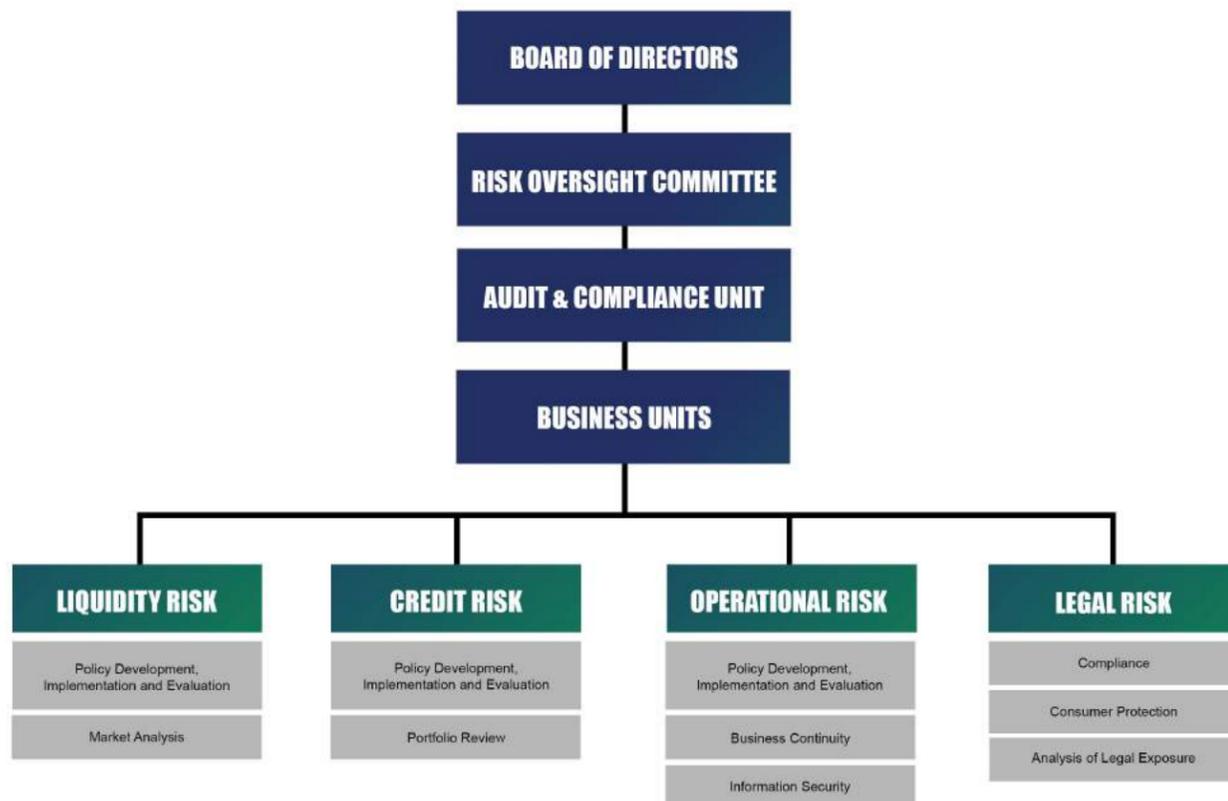
## RISK OVERSIGHT COMMITTEE

The Board of Directors of Porac Bank has appointed the independent director together with two other members of the board to constitute the Risk Oversight Committee (ROC) —with which the risk oversight function of the board of directors resides in. The Risk Oversight Committee monitors the risk profile of the bank through regularly conducted analyses on operational gaps and other relevant reports presented to said body by the assisting officers.

The key responsibilities of the Risk Oversight Committee are as follows:

- Formulate strategies for managing and controlling risks;
- Develop policies consistent with the risk management framework of the bank;
- Review adequacy of the bank's risk management policies and ensures effective implementation thereof;
- Identify, evaluate and monitor risk exposure and minimize the possible impact of risk exposure on bank operations and reputation.
- Regularly report to the Board of Directors the bank's risk profile, actions taken and further recommendations to manage the bank's overall risk exposure.

## RISK MANAGEMENT STRUCTURE



## RISK MANAGEMENT STRUCTURE

The bank adopts a three-line defense model in managing risks as follows:

- Process owners or their business units constitute the bank's first line of defense. The process of identifying, evaluating and monitoring of risk is integrated in the day to day operations of these units. In addition, business units are responsible for ensuring effective implementation of policies and procedures. Business units report to the Risk Oversight Committee any matters deemed significant in managing risk.
- The second line of defense refers to the audit and compliance unit. Both of which play a vital role in ensuring the effective implementation of policies and procedures through independent testing systems. The foregoing allows the bank to capture/ measure risks in an accurate manner and recommend as needed, enhancements to such policies and procedures necessary for efficiently mitigating risks.
- The third line of defense refers to the Risk Oversight Committee (ROC) and Board of Directors. The ROC is responsible for establishing and regularly reviewing the risk management framework, structures, limit setting and overall oversight of current and potential risks. The Board of Directors on the other hand, approves the bank's risk strategy and aligns the bank's direction to it. The same body plans and dictates the action to be taken to effectively manage risk.

# CONSUMER PROTECTION



Porac Bank fully supports the policy of the State to protect the interest of the consumers, promote their welfare and to establish standards of conduct for the banking industry. It is one with the Bangko Sentral ng Pilipinas (BSP) in providing disclosure and transparency, protection of client information, fair treatment, effective recourse as well as financial education and awareness to its consumers.

The Board of Directors (BOD) has the ultimate responsibility for the level of customer risk assumed by Porac Bank. Accordingly, the Board approves the Bank's overall business strategies and significant policies, including those related to managing and taking customer risks. The Senior management on the other hand is responsible for implementing a program to manage the customer compliance risks associated with the Bank's business model, including ensuring compliance with laws and regulations on both a long-term and a day-to-day basis.

Porac Bank identifies its customer protection risks in each principle through analyzing its effects to the Bank and the customer. The following were specifically recognized or identified risks by the Bank under the different principles or protection standards of consumer protection: 1) Oversight Bodies; 2) Disclosure and Transparency; 3) Conflict of Interest; 4) Protection of Customer Information; 5) Fair Treatment; 6) Remuneration

Structure; 7) Effective Recourse ; 8) Financial Education and Awareness.

The bank designed an operational channel in handling customer complaints. It has designated its Branch Managers to serve as the Customer Assistance Officers (CAOs), while appointed a Head, Consumer Assistance Officer assigned in the Corporate Office. The Head, Consumer Assistance Officer shall then report to the SVP for Operations and/or the President for the latter to present and discuss the report on complaints to the Board which will provide action based on the recommendations of the Head of CAOs and/or the SVP Operations. Below is the corporate structure of Porac in handling complaints:



# ANTI-MONEY LAUNDERING



It is the policy of the bank to protect the integrity and confidentiality of bank accounts and ensure that it shall not be used as money laundering site or a conduit for the proceeds of an unlawful activity. Porac Bank prohibits and actively prevents money laundering and any activity that facilitates money laundering and/or funding of terrorist or criminal activities by promoting high ethical standards and complying with relevant laws, rules and regulations.

## BASIC PRINCIPLES AND POLICIES TO COMBAT MONEY LAUNDERING AND TERRORIST FINANCING

The bank's AMF/CFT framework is founded on the following principle:

- Comply with the highest ethical standards to sustain a sound banking system ;

- Protect the bank and its stakeholders against potentially malicious individuals and organizations by obtaining adequate information from each client;
- Adopt a sound AML / CFT system to identify, evaluate, monitor and control relevant risks ;
- Promote faithful compliance by institutionalizing shared responsibilities across every member of the organization with existing laws to combat money laundering and terrorist financing;
- Ensure full cooperation with AMLC for the effective implementation and enforcement of the AMLA and its IRR.

## BOARD AND SENIOR MANAGEMENT OVERSIGHT

The board of directors shall be responsible for ensuring that the provisions of the MLPP manual and the AMLA and its implementing rules and regulations, as amended, are fully observed.

Likewise, the Senior Management shall be responsible for maintaining company activities appropriately aligned with the Board's strategic objective, risk, and corporate values.

The senior management shall establish a control and balance management structure to cultivate a culture of accountability and transparency.

## RECENT UPDATES IN THE MLPP MANUAL

### A. AMENDMENTS TO THE MLPP MANUAL

In December 2017, the board of directors passed the approval for the revision of the MLPP manual which includes the following enhancements: (a) Policy on obtaining the purpose of account opening (b) Verification procedure for High Risk Accounts against the Negative File Information System (NFIS) , Guidelines on tagging consumer accounts as "Doing Business As" (c) further enhancement to the guidelines on reviewing CTR/ STR transactions at branch level (d) enhancements in the risk assessment system particularly, the risk methodology score range table, specific risk criteria and (e) monitoring and disposition of returned "Thank You" Letters. The foregoing enhancements has been disseminated to all concerned personnel and placed in full effect starting February 2018.

To further strengthen efforts to combat money laundering, the bank has appointed an AML Compliance Specialist who is primarily in charge with the review mechanism for both covered and suspicious transactions. The AML Specialist is likewise responsible in monitoring customer transactions to establish their normal account activities at an aggregate level.

Doing so provides the bank enough leverage to easily identify unusual activities or patterns of activities in each account. Lastly, the AML Specialist seeks to guarantee and maintain the integrity of all data reported to the AML council.

In addition to the foregoing enhancements in the MLPP manual, continuous trainings and seminar are being conducted to ensure that employees are kept abreast of the latest development in anti-money laundering laws, rules, regulations and procedures –an imperative initiative for an effective AML system.

## B. INSTITUTED CONTROL MECHANISMS AND STRENGTHENED REVIEW FUNCTION

In 2018, the bank instituted strict control mechanisms and enhanced review function during the (1) customer acceptance and identification process and (2) on-going account and transaction monitoring process. The bank is committed to instill and maintain a culture of due diligence on its people –from the first line of defense that is the Branch Managers, to the Compliance unit up to the third and last line of defense, the Internal Audit unit.

Continuous AML trainings and discussions for employees were conducted to ensure consistent compliance with all applicable laws, rules, regulations and procedure relative to anti-money laundering and terrorist financing.

## C. REGULAR UPDATING OF AML CODES FOR FAULTLESS CT REPORTING

To further promote data integrity, the bank has, in the same year, institutionalized a continuous process of identifying, updating and regularizing system AML codes consistent with AMLA prescribed codes. Updates thereon are immediately disseminated to the employees to ensure compliance.

# MEET OUR LEADERS



LOURDES CONNIE C. TAYAG

RENE B. DE MESA

ANNA CLAUDINE T. DAVID

MARK PRIMO T. DAVID

RALPH PRIMO A. DAVID



WILFRED JOSEPH T. DAVID

AIDA D. CORONEL

RUBEN C. DIZON

ELOISA D. SARMIENTO

AIMA DI LIMJOCO

NAPOLEON TEDD D. LIMJOCO

# 2018



## PORAC BANK BOARD OF DIRECTORS

**RUBEN C. DIZON, 83**  
*Filipino | Chairman*

Mr. Ruben C. Dizon has been a member of the Board of Directors of Porac Bank since 1973 and concurrently holds the position of Chairman. He graduated from De La Salle University with a bachelor's degree in Agriculture.

**AIDA D. CORONEL, 81**  
*Filipino | Non-Executive Director*

Director Aida D. Coronel graduated from the University of Santo Tomas in 1959 with a degree in BS Commerce. She has been a member of the board since 1988.

**NAPOLEON TEDD D. LIMJOCO, 40**  
*Filipino | Corporate Secretary*

Mr. Napoleon Tedd D. Limjoco graduated from the University of Asia and the Pacific in 1999 with a bachelor of arts in Humanities major in Business Administration. He earned his master's degree in Management and holds the position of Corporate Secretary since 2011. He is likewise the Vice President of Gold Fleuret Corporatio, President of Gold Fleuret Realty and Development Corporation and the Vice President of Florida Agri Business.

**ALMA D. LIMJOCO, 68**  
*Filipino | Non-Executive Director*

Director Alma D. Limjoco was first seated as member of the board of directors of Porac Bank in 1988. She graduated from St. Scholastica's College in 1971 with a bachelor's degree in Commerce. Likewise, she is the Director / Treasurer of Gold Fleuret, Gold Fleuret Realty and Development and Florida Agri Business Corporation and the President/ Director of Priser Trading Corporation.

**MARK PRIMO T. DAVID, 40**  
*Filipino | Non-Executive Director*

Director Mark Primo T. David graduated from Angeles University in 2000 with a degree in BS Computer Science. He has been a member of the board since 2010. Likewise, he holds the position of Admin Supervisor at the Office of City Administrator —Angeles City.

**RENE B. DE MESA, 70**  
*Filipino | Independent Director*

Independent Director Rene B. De Mesa graduated from Araneta University in 1969 with a degree in BS Agriculture. He has been a member of the board since 2003. He is likewise a Director of De Mesa Farm.

**LOURDES CONNIE C. TAYAG, 46**  
*Filipino | Executive Director*

Director/ President Lourdes Connie Tayag is a graduate of St. Scholastica's College in 1993 with a degree in AB Mass Communication. In 2010, she graduated from Holy Angel University with a degree in BS Nursing and later earned her master's degree in Business Administration from Ateneo Graduate School of Business in 2015. Prior to her appointment as President, she was the Corporate Secretary of the bank from 2001-2009 and has been elected as member of the board since 2010. She is likewise a Director /Treasurer of Sta. Rita College.

**WILFRED JOSEPH T. DAVID, 45**  
*Filipino | Executive Director*

Director Wilfred Joseph graduated from the University of the Philippines in 1993 with a bachelor's degree in Business Management and later earned a degree in Bachelor's of Law at Harvardian Colleges in 2004. He has been a director of the bank since 2014 and is currently one of the SVP for Operations of the bank.

**ELOISA D. SARMIENTO, 79**  
*Filipino | Non-Executive Director*

Director Eloisa Sarmiento graduated from University of Santo Tomas in 1960 with a bachelor's degree in Education major in Home Economics. She has been a member of the board since 1995.

**ANNA CLAUDINE T. DAVID, 45**  
*Filipino | Non-Executive Director*

Ms. Anna Claudine T. David has been a member of the board since 2003. She graduated from Assumption College in 1993 with a degree in bachelor's of Science in Commerce major in International Business and earned her master's degree in Business Administration from the University of Western Australia. She is likewise the managing Director of Factset Philippines, Inc.

**RALPH PRIMO A. DAVID, 43**  
*Filipino | Non-Executive Director*

Director Ralph Primo David holds a bachelor's degree in business management from Republic Central Colleges and has been a member of the board since 2007.

	No. of Meetings Attended	Total No. of Meetings	% Rating	%Shareholdings	Shares Held
Ruben C. Dizon	49	50	98%	14.79%	Direct
Aida D. Coronel	49	50	98%	13.84%	Direct
Alma D. Limjoco	37	50	74%	8.88%	Direct
Mark Primo T. David	48	50	96%	1.55%	Direct
Rene B. De Mesa	48	50	96%	1.99%	Direct
Lourdes Connie C. Tayag	44	50	88%	0.50%	Direct
Wilfred Joseph T. David	46	50	92%	1.55%	Direct
Ralph Primo A. David	46	50	92%	1.60%	Direct
Eloisa D. Sarmiento	49	50	98%	5.70%	Direct
Anna Claudine T. David	35	50	70%	1.75%	Direct
Mary Valerie Joy V. David*	18	18	100%	3.35%	Direct

NOTE: No major stockholder owns more than twenty percent (20%) shares of stock. No indirect shares  
\*Held office as Director from March 2018 - April 2018

From bottom right: Reyann Patio—Executive Assistant; Paul John Jaranilla—Organizational Development Manager; Kimberly Pabustan—Loan Officer; Eileen Manaloto—Chief Accountant; Emily Guanzon— Acting Chief Compliance Officer; Ana Teresa Banawa—Internal Auditor; Cynthia Gutierrez— AVP for HR&Admin.



# THE EXECUTIVE OFFICERS

From top left: Napoleon Tedd Limjoco-SVP for Operations; Lourdes Connie Tayag-President; Wilfred Joseph David-SVP for Operations; Jeremy Sun— SVP for IT; Maria Milagros Espiritu— VP for Accounting; Francel Pia Pena-VP for Property Management



## THE EXECUTIVE OFFICERS

**Lourdes Connie C. Tayag, 46**, is the President/CEO of the Rural Bank of Porac since March 2010. She forms part as Chair of the Executive Committee, Credit Committee and Property Management Committee. She is also the Director and Treasurer of Sta. Rita College. Prior to her election as President, she was the bank's Corporate Secretary from 2001 to 2010. She obtained a degree in A.B. Mass Communication at St. Scholastica's College in 1993, a Bachelor's degree in Science of Nursing at the Holy Angel University in 2010 and in 2015, a Master's Degree in Business Administration at Ateneo Graduate School of Business.

**Napoleon Tedd D. Limjoco, 40**, currently holds office at the Rural Bank of Porac (Pamp), Inc. as SVP for Operations and Corporate Secretary since 2011 and 2014, respectively. He is a member of various management committees including the Executive Committee, Credit Committee and Property Management Committee. Prior to his appointment as SVP for Operations, he held various positions in the bank from 2007 to 2014 including but not limited to Area Manager and AVP for Operations. He was elected the President of the Pampanga Federation of Rural Banks from 2010-2011. He also worked at Petron Corporation as Market Analyst from 2000 to 2007. He obtained a Bachelor's degree of Arts in Humanities Major in Business Administration in 1999 at the University of Asia and Pacific and a Master's Degree of Science in Management in 2000.

**Wilfred Joseph T. David, 45**, currently holds office at the Rural Bank of Porac (Pamp), Inc. as Director/ SVP for Operations. He is a member of various management committees including the Executive Committee, Credit Committee and Property Management Committee. His banking career started in 1992 at Metrobank where he worked as New Accounts until 1993. From 1994-1997 he worked at Far East Bank and Trust Co. as SDD. Prior to his appointment as SVP for Operations, he held various positions in the bank from 2008 to 2014 including but not limited to Management Trainee, Area Manager and AVP for Operations. He graduated with a degree in Business Management in 1993 at the University of the Philippines. He also obtained a degree in Bachelor of Laws in 2004.

**Jeremy M. Sun, 42**, was appointed the SVP for IT on July 2014. He graduated with a bachelor's degree in Electronics and Communications Engineering at Holy Angel University in year 2000 and has obtained a certificate for CISCO CERTIFIED NETWORK ASSOCIATE from the University of the Philippines in year 2013. He was a former Network Engineer at the University of the Philippines from 2001 to 2008. After which, he became the Consultant Engineer of the same institution from 2008 to 2012. From year 2006 to 2012, he worked at the Philippine General Hospital as Consultant Engineer.

**Francel Pia D. Pena, 38**, was appointed the VP for Property Management in 2014. She graduated in 2002 with a bachelor's degree in science of Family and Life Development and took post graduate studies in Arts of Reading at Philippine Normal University.

**Maria Milagros T. Espiritu, 54**, was appointed the VP for Accounting on August 2015. Prior to said appointment, she worked at the Philippine National Bank from 1996-2014 under various roles and positions including Bank Teller, Investment Specialist, Customer Relations Officer, Relationship Officer and Branch Manager. She graduated at the University of the Philippines in 1983 with a bachelor's degree in arts of economics and took post graduate studies of professional studies major in management at the Pampanga State University.

**Emily L. Guanzon, 48**, graduated in 1991 with a degree in BSBA major in Accounting at the Holy Angel University and passed the CPA licensure examination in the same year. She now holds office at the Rural Bank of Porac as the Acting Chief Compliance thereof. Prior to said appointment, she held various positions in the bank including but not limited to Cashier/ OIC, Bookkeeper/Internal Auditor

**Cynthia C. Gutierrez, 51**, was first hired as the HRD head in 1997 until 2014. Where, she was appointed the AVP for HR. She graduated from Angeles University Foundation in 1988 with a degree in Bachelor of Science in Commerce major in Economics. She took post graduate studies of Business Administration in the same school.

**Ana Teresa M. Banawa, 54**, graduated with a degree in BSBA Major in Accounting at the Holy Angel University in 1985. She became a Certified Public Accountant in Year 1987. She was initially hired by the bank as Assistant Auditor in 2011 until she was appointed the Internal Audit Head on October 05, 2015.

**Kimberly S. Pabustan, 25**, graduated magna cum laude at Systems Plus College Foundation in 2015 with a degree in Bachelor of Science in Accountancy and passed the CPA licensure examination in 2015. She was initially hired by the bank in 2016 as Credit Reviewer until she was promoted to ranks as Loan Officer on January 16, 2018.

**Paul John P. Jaranilla, 26**, was recently appointed the bank's Organizational Development Manager on November 2018. He was initially hired as Admin Staff/ Reliever on September 2013 and was, not long after, promoted to HR/ Admin Associate. He graduated from Holy Angel University in 2013 with a degree in BS Accounting Technology and obtained a Master's Degree in Business Management in 2016.

**Rey Ann M. Patio, 25**, appointed as the Executive Assistant (EA) to the President on June 05, 2015. Prior to her appointment as EA, she held the position of Disbursing Clerk from May 2013 until she was promoted to Treasury Assistant. She graduated from Holy Angel University in 2013 with a degree in Marketing Management. She obtained a Master's Degree in Business Management from the same school in year 2018.

**Eileen D. Manaloto, 25**, graduated magna cum laude from Holy Angel University with a degree in BS in Accounting Technology in 2013 and a degree in BS Accountancy in 2014. Ms. Manaloto passed the licensure examination for Certified Public Accountant on October of the same year. She started her career as the Assistant to the Internal Audit Head of Porac Bank from February 2015 to August 2015. After which she was assigned as the Chief Accountant of the Rural Bank of Porac.

## THE COMMITTEES

### Credit Committee

Chairperson: Lourdes Connie C. Tayag; Members: Wilfred Joseph T. David, Napoleon Tedd D. Limjoco, Alma D. Limjoco

Process, scrutinize, and recommend the approval or rejection of applications for loans within the scope of its authority. No loan shall be made unless the application has received the unanimous approval of the qualified membership of the Credit Committee present at the meeting at which such action is taken.

Credit Committee				Corporate Governance Committee			
	No. of Meetings Attended	Total No. of Meetings	% Ratings		No. of Meetings Attended	Total No. of Meetings	% Ratings
Lourdes Connie C. Tayag	47	50	94%	Rene B. De Mesa	2	2	100%
Wilfred Joseph T. David	46	50	92%	Mark Primo T. David	2	2	100%
Napoleon Tedd D. Limjoco	45	50	90%	Alma D. Limjoco	2	2	100%
Alma D. Limjoco	36	50	72%				
Mary Valerie Joy V. David*	13	13	100%				

\* Assumed Directorship From March 2018- April 2018

### Corporate Governance Committee

Chairperson: Rene B. De Mesa; Members: Alma D. Limjoco; Mark Primo T. David

Formulates corporate governance policy for the Board's consideration. Monitors compliance, reviews and revised the policy regularly for appropriateness.



## Risk Oversight Committee

Chairperson: Mark Primo T. David; Members: Rene De Mesa, Alma D. Limjoco

Responsible for the oversight of diverse risks inherent to the various facets of the business including but not limited to credit, legal, reputational, operational, liquidity and the like.



## Audit & Compliance Committee

Chairperson: Rene B. De Mesa; Members: Mark Primo T. David, Anna Claudine David

Evaluates the adequacy, efficiency and effectiveness of internal control measures, risk management and governance systems in the context of current and potential future risk.

Risk Oversight Committee				Property Management Committee				Audit & Compliance Committee				Executive Committee			
	No. of Meetings Attended	Total No. of Meetings	% Ratings		No. of Meetings Attended	Total No. of Meetings	% Ratings		No. of Meetings Attended	Total No. of Meetings	% Ratings		No. of Meetings Attended	Total No. of Meetings	% Ratings
Rene B. De Mesa	2	2	100%	Lourdes Connie C. Tayag	2	2	100%	Rene B. De Mesa	12	12	100%	Lourdes Connie C. Tayag	8	8	100%
Mark Primo T. David	2	2	100%	Wilfred Joseph T. David	2	2	100%	Mark Primo T. David	12	12	100%	Wilfred Joseph T. David	8	8	100%
Alma D. Limjoco	2	2	100%	Napoleon Tedd D. Limjoco	2	2	100%	Mary Valerie Joy V. David*	4	4	100%	Napoleon Tedd D. Limjoco	8	8	100%
								Anna Claudine T. David**	8	8	100%				

\* Assumed Directorship From March 2018- April 2018

\*\* Effective May 2018, Director Anna Claudine T. David was seated as member of the Audit and Compliance Committee to replace Ms. Mary Valerie Joy V. David.



## Property Management Committee

Chairperson: Lourdes Connie C. Tayag; Members: Napoleon Tedd D. Limjoco, Wilfred Joseph T. David, Francel Pia D. Peña

Primarily responsible in managing real estate properties consistent with the bank's profitability targets and liquidity/solvency requirement.



## Executive Committee

Chairperson: Lourdes Connie C. Tayag; Members: Napoleon Tedd D. Limjoco; Wilfred Joseph T. David

Acts as an indispensable support system to the Board of Directors. In that, the Committee administers and ensures effective implementation of applicable strategies and such other decisions passed by the Board. The Committee handles higher level of responsibility including but not limited to investment and funding decisions as well as corporate expenditures within their given authority.

# CORPORATE GOVERNANCE

**FRAMEWORK.** The Board of Directors of Porac Bank recognizes the importance of good corporate governance and corporate social responsibility in promoting and strengthening the trust of its stakeholders and believes that good corporate governance and corporate social responsibility will enhance shareholder value.

To be the Bank of Choice for our Customers, Shareholders, Employees and Community, the Board will conduct itself in accordance with the highest standard of ethical conduct and in accordance with law, in the best interests of its stakeholders.

**COMPOSITION.** The business affairs of Porac Bank is conducted under the supervision and control of eleven (11) Board of Directors, including one (1) independent director pursuant to Section 15 and 17 of R.A. No. 8791

**SELECTION.** In proposing directors, the Board will take into consideration experience in at least one area of significance to the Board (e.g. banking, business, marketing, technology, public service, human resources, finance, accounting, law, management or management consulting); ability to contribute to deliberations of the Board; ability to exercise sound business judgment; ability to think strategically; demonstrated leadership experience; also seeking a high level of professional skill and integrity, as well as other appropriate personal qualities.

The Corporate Governance Committee will propose candidates to the Board for consideration to be elected as a director in order to replace a vacant position. Proposed candidates are assessed based on the qualification and disqualification criteria of the bank which is anchored from the BSP's fit and proper standards.

Newly appointed directors will be provided with appropriate briefings and information relating to the Bank, and be advised of the legal, regulatory, good corporate governance and other duties of Directors as required by the BSP.

**OVERALL RESPONSIBILITY.** The duties and responsibilities of the Board as stipulated by law,

Articles of Incorporation, By-Laws and resolutions of shareholders, include the following:

**(a)** directing the policies, strategies and financial objectives of the Bank and approving policies and operational directions proposed by management as well as overseeing and monitoring management's implementation of those policies, strategies, and financial objectives, with the aim of maximizing economic value and shareholders' wealth.

**(b)** devising structures and procedures designed to ensure compliance with the regulatory requirements, the Articles of Incorporation resolutions of the Board and shareholders meetings and ethical standards, in good faith and with care;

**(c)** developing structures and procedures to ensure appropriate system for risk management, internal compliance, audit and control.

**(d)** developing structures and procedures to ensure a strong and appropriate capital fund for business and risk operations.

**(e)** monitoring and assessment of management performance in the implementation of Board-approved policies and budgets.

**(f)** getting criteria for, and evaluating, the performance of the Chairman of the Executive Committee, the President, senior members of the management which include, Senior Vice Presidents (SVPs), Vice Presidents (VPs) or other equivalent positions to SVPs, VPs in different name;

**(g)** Ensuring that there is preparation and bookkeeping on accounting reports and related documents as well as disclosure of appropriate information to shareholders, depositors, and the general, public.

**(h)** reviewing on a regular and continuing basis the succession plan for the position of Chairman of the Executive Committee and the President.

**(i)** observing and ensuring compliance with the Director's Code of Conduct.

**(j)** setting policies pertaining to good corporate governance and corporate social responsibility.

## **ROLE AND CONTRIBUTION OF THE EXECUTIVE, NON-EXECUTIVE AND INDEPENDENT DIRECTOR.**

Non-executive directors, who shall include independent directors, shall comprise at least majority of the board of directors whose role is to promote the independent oversight of management by the board of directors. Whilst, executive director manages the daily activities and ensures the board's vision is met.

**CHAIRMAN'S ROLE.** In accordance with BSP issued Circular 969, the Chairperson of the board of directors of Porac Bank shall provide leadership in the board of directors. He shall ensure effective functioning of the board of directors, including maintaining a relationship of trust with members of the board of directors. He shall:

- (1) ensure that the meeting agenda focuses on strategic matters including discussion on risk appetites, and key governance concerns;
- (2) ensure a sound decision making process;
- (3) encourage and promote critical discussion;
- (4) ensure that dissenting views can be expressed and discussed within the decision-making process;
- (5) ensure that members of the board of directors receives accurate, timely, and relevant information;
- (6) ensure the conduct of proper orientation for first time directors and provide training opportunities for all directors; and
- (7) ensure conduct of performance evaluation of the board of directors at least once a year.

**TERM LIMIT FOR INDEPENDENT DIRECTOR.** An independent director of Porac Bank may only serve as such for a maximum cumulative term of nine (9) years. After which, the independent director shall be perpetually barred from serving as independent director, but may continue to serve as regular director. The nine (9) year maximum cumulative term for independent directors shall be reckoned from 2012.

**CODE OF BUSINESS CONDUCT.** Porac Bank Board recognizes their commitment to observe highest ethical standards in all their business dealings and to uphold full compliance with all applicable laws, rules and regulations.

In line with this, the Code of Business Conduct aims to lay down the standards that Porac Bank expects of its board in fulfilling their roles and responsibilities as incumbent board members. This Code intends to articulate the acceptable and unacceptable activities, transactions and behaviors that could result or potentially result in conflict of interest and personal gain at the expense of Porac Bank.

Through this Code, Porac Bank seeks to develop a Culture of Accountability among its board of directors and to enhance their practice of good corporate governance.

**PERFORMANCE ASSESSMENT.** Evaluating the performance and effectiveness of the board as a body, the various committees and senior management link performance to the mission of the board, the company and the department or office. It promotes improvement in the banking function, recognizes exceptional professional performance, and ultimately achieves a workplace of high performing individuals and groups and brings about continued improvement in the work processes of the company.

The Corporate Governance Committee is assigned to facilitate the annual evaluation of the performance and effectiveness of the board as a body, as well as its various committees, its Senior Management and the bank itself.

A set of questionnaires/forms is answered by each CG committee to evaluate the performance of various committees taking into account different areas of concern and/or factors such as the degree of management, effectiveness and overall performance. The result of the assessment are relayed to the Board by the Corporate Governance Committee.

For year 2018, the performance assessment conducted by the CG Committee were presented to the board to which they pondered on the different areas of improvement and admirable performance of the board, committees and senior management. The end result exhibited an overall creditable performance in their mandated functions.

**ON-GOING ORIENTATION & EDUCATION.** Porac Bank ensures that the on-going orientation and education program for the board, senior management, officers and employees are in place and are laid-out in the annual training program approved by the Board. Prior to appointment of a board of director, the same shall be able to attend a seminar on corporate governance and must undergo on-boarding orientation. Continuing refresher and education is also given to the board and employees such as the annual AML seminar and other training program deemed fitting and necessary.

**SUCCESSION.** The The recently board-approved succession plan for directors and officers contains the following sections: 1.) Goals of the Succession Plan; 2.) Criteria for Selection of Successor; 3.) Planning and Review; 4.) Procedure; 5.) Assessment of Candidates; 6.) Emergency Succession; 7.) Communication of Policy. This succession plan shall allow the prospective successor to undergo assessment of qualification to become director in accordance with BSP Circular No. 969 to ensure

fitness and propriety of the candidates prior to their appointment or election.

**REMUNERATION & RETIREMENT.** The Corporate Governance Committee determines the remuneration of the senior management for approval to the board based on the annual performance evaluation which they conduct covering various factors for consideration such as management, functional, personal and targets at the same time assessing the decision skills, strategic skills and leadership skills of the said officers. The four most highly compensated management officers are the President, Senior Vice President, Vice President and Assistant Vice President.

The executive directors of Porac are entitled to fixed pay salary, benefits, bonuses and retirement program just like its employees. On the other hand, Non-Executive Directors of Porac Bank receives per diem on every board meetings.

The retirement age for officers is 65 years old or the compulsory retirement age mandated by the law.

**EXPENDITURE MANAGEMENT POLICY.** The expenditure management policy has been approved by the board to serve as a guiding framework for the allocation of expenditures of Porac Bank by determining regular finances and restricted expenses in order to ensure financial discipline and operational efficiency amongst the management. In effect, this policy shall restrict or prohibit excessive/ luxurious and/ or other expenses of similar nature that are no longer deemed reasonable for capital outlays; staff, office and facility development; performance incentives

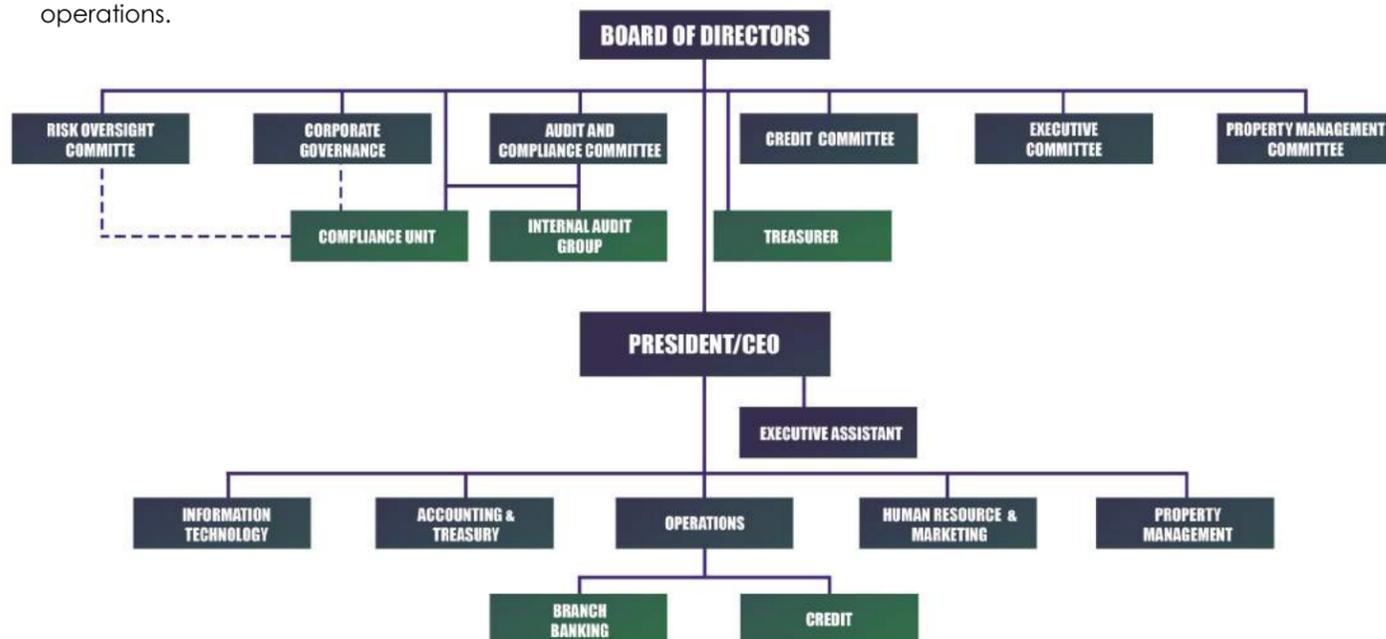
and other considerations pertinent to business operations.

**WHISTE BLOWING POLICY.** Porac Bank is geared towards the attainment and adherence of ethical, moral and legal conduct in the operation of its business. To assure that these standards are met and maintained, the bank complies with BSP Circular No. 499 or the establishment of effective whistle-blowing procedures by which employees can convey any concerns or suspicions that may arise in the course of performing their jobs to strengthen the Bank's system on detection and prevention of corporate fraud. The Whistle blowing Policy applies to all ranks, from Bank's Directors, the Senior Management, permanent and probationary officers/managers and staffs of the Head Office and its branches.

**DIVIDEND POLICY.** The procedures in distributing/ paying dividends entail prior board approval for cash dividends and a majority or at least 2/3 affirmative votes of the stockholders for (1) dividends on record and (2) payment dates based on BSP policies on declaration of dividends and with due recommendation from the Senior Management.

The net amount available for dividend declaration is based on the unrestricted retained earnings and undivided profits which shall be based on a sound accounting system and loss provisioning process that considers relevant adjustments to capital including losses, bad debts and unearned profits or income.

In 2018, the bank declared 11.5% stock dividend and no cash dividend.



## AUDIT & COMPLIANCE

Porac Bank's corporate compliance and internal audit functions are designed as an integrated process, independent from the business operations they assess to effectively manage its business risks and promote compliance with pertinent banking laws, rules and regulations, policies and standards of good practice and provide reasonable assurance regarding the achievement of objective in the effectiveness and efficiency of operation and reliability of financial reporting.

The Compliance Unit and Internal Audit Group conducts audits from an objective and comprehensive standpoint, independent of operational reporting lines, by assessing the suitability and effectiveness of business activities associated with compliance and risk management and offering advice and remedial recommendations in connection with any problems that may be identified.

The Compliance Unit and Internal Audit Group are directly reporting to the Board of Directors thru the Audit and Compliance Committee. With the Board of Directors' oversight, management has established structures, appropriate authorities and responsibilities and channels to support the regular monitoring and reporting of internal control processes.

On behalf of the Board, the Audit and Compliance Committee oversees the monitoring and review of the internal control system. Since the Committee receives reports from the Compliance Unit and Internal Audit Group on the bank's risk management and internal control systems, it provides the link between the auditors and the Board. The Committee is then well placed to advise the Board on the effectiveness of directives to mitigate risks in the achievement of Porac Bank's objectives.

## RELATED PARTY TRANSACTIONS

Porac Bank recognizes the potential for conflicts of interest resulting from transactions with DOSRI and its related parties. To this end, the Bank has created an integrated transaction strategy that offers for fair management and compliance with present legislation, laws and regulations related to related activities. This is to prevent possibly malicious and abusive conduct, which may be present in these transactions, from the bank and its stakeholders. Through this strategy, the Board of Directors guarantees that associated parties are always independent of each other.

The HRD commonly reviews related parties and their personal and business affiliates in order to ensure accurate and continuous identification of related parties. Deliberation and approval of related party transactions are consistent with present and relevant bank policies.

Related party transactions are monitored on an ongoing basis and are reported to the Risk Oversight Committee to ensure that such transactions remain within prescribed limits and are entered into for and in the best interest of the bank.

Significant related party transactions recorded in 2018 or those that crossed the materiality threshold set for each type of transaction are summarized in the table below. As required by the bank's RPT policy, these transactions were confirmed by a majority of the stockholders during the annual stockholder's meeting and were also reported to appropriate governing bodies.

Counterparty	Relationship between parties	Total Credit Transactions	Total Non Credit Transactions	Type of Transactions
PRISER Trading Inc.	Related Interest	0	P6,033,557.63	Others –rental payments for the lease of the 4-storey and two 2-storey building which houses the bank's Head/Corporate Office Plaridel Branch and Porac Branch, respectively.
<b>Total Exposures:</b>		0	P6,033,557.63	



# RECOGNIZING OUTSTANDING PERFORMERS

To recognize the outstanding employees for the year, the Human Resource Administration came up with a new employee recognition program that will showcase the hardworking bank employees from all branches and the corporate as well.

This year, there are total of eight (8) A-Lister Awardees; Ayie Marie Losa from Mexico; Rogelio Vilorio from Plaridel; Mary Rose Mercado and Anne Camille Dare both from Porac Branch. From the Corporate branch, we had Kimberly Pabustan, Daisy Mallari, Joyce Escueta and Lester Punzalan as the Quartely A-Listers.

Ms. Dare was recognized as the Branch Employee of the Year 2018 for meeting her tasks and initiating streamlined status reports for submission to the compliance department with accuracy and minimal supervision. While Mr. Punzalan, The Bank's sole IT Specialist was recognized as the Employee of the Year 2018 from the Corporate Branch for his efficient work and ability to juggle multiple tasks relating to information technology. These employees are truly the epitome of growth through hard work.

It was during the Bank's Anniversary Gala Night for Employees that the aforesaid were recognized for their contribution and outstanding performance during 2018. Aside from the A-Listers, the Bank also awarded the Marketing Assistant of the Year, Best in Loan Production, Service Awardees and Star of the Night.



## CREATING & MAINTAINING A CULTURE OF EXCELLENCE FOR FIFTY YEARS

Last April and May 2018, a Personality Development Seminar was conducted for all bank employees. This seminar was lead by Ms. Malu Galang from the Advocates for Personal Excellence (APEX). The mentioned seminar entitled "Excellence Upgrade" aims to help the employees maximize their potential through personality development.

More seminars for its employees, managers and even board members were conducted in 2018 to strengthen the bank's operations, maintenance and protection. Here are some of the list of seminars that were conducted in 2018:

- Annual Anti-Money Laundering Seminar for all employees and board members
- Seminar on Updated MLPP and AML Codes
- Operational Risk & Consumer Protection and Financial Awareness seminar for the Branch Managers
- Business Continuity Plan and Table-Top Testing Exercises
- Pilot on Centralized Accounting Briefing
- On-Boarding Seminar for New Hires





# Race for HOPE

Porac Bank commemorated its 50th year milestone with a fund raising event for KidsCancervive, a local support group for children who are battling cancer. The event which was aptly called Race for Hope, was successfully held on November 04, 2018 at the Clark Parade Grounds. Initially, the bank aimed to have at least 1,000 participants for the race. With joint efforts from the employees and the management, the bank surpassed its target by 100% as it registered a total of 2,000 runners. Fun run slots were sold out and the bank managed to raise a total of P275, 000.00 cash donations for its appointed beneficiary, the KidsCancerVive.

The event was participated by well-known figures in the sports industry including Nico Huelgas who even commended the bank and its philanthropic endeavors on a post he made on one of the leading social media platforms.

# PRODUCTS & SERVICES

## Agricultural Loan



We offer farmers easier access to credit that will open opportunities for the set-up, expansion and rehabilitation of their agribusiness as well as open doors to modern agricultural methods and technical advancements.

This product appeals to small and medium business owners and private corporations for business purposes. Whether you're increasing your inventory, purchasing new equipment, or expanding your business, we will make the process easy for you.

## Commercial Loan



## Housing Loan

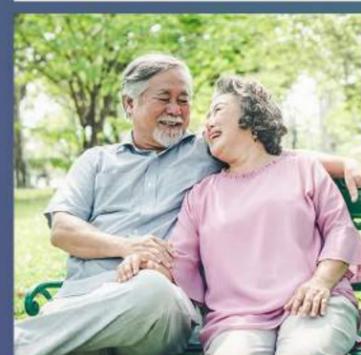


Are you looking to purchase a new home? Come talk to the people you know you can trust, to determine how much house you can truly afford.

## Easy Cash



## SSS Pensioners loan



## Loans Against Time Deposits



Available for any of your personal requirements.

## Deposit Pick-up Facility



## Bills Payment



## Accredited Bank for SSS Pensioners



## Time Deposit



Sometimes all you really want is something steady and secure. A time deposit will give you just that. Increase your yield with higher interest rates as amount of placement increases.

Whatever your personal or business transaction is, the convenience of a worry-free, cash-less system gives you great flexibility in managing your money.

## Savings Deposit



Whether you're putting away money for a special purchase, building personal wealth, or saving for an unexpected expense, our low maintenance savings account will help you reach your short and long-term financial goals.

## Checking Deposit



**Romeo G. Torno & Co.**

Certified Public Accountants

4<sup>th</sup> Blk. Dolores Homesite  
City of San Fernando, Pam  
BOA Accreditation No. 4618

email add: [rgt\\_ops@yahoo.com](mailto:rgt_ops@yahoo.com)  
Tel. No. (045)963-1775/963-6975  
SEC Accreditation No. 0278-F

**CERTIFICATION**

KNOW ALL MEN BY THESE PRESENTS:

I, IAN ROSELIER G. TORNO, of legal age, Filipino, a Certified Public Accountant engaged in the practice of auditing with office address at 4<sup>th</sup> Block Dolores Homesite, City of San Fernando, Pampanga do hereby certify:

That we were engaged by the Board of Directors of **Rural Bank of Porac (Pampanga), Inc. (the "Bank")** to audit and to express an opinion on the fair presentation of their financial statements as of December 31, 2018 in accordance with the Philippine Financial Reporting Standards;

1. That we started our audit on January 30, 2019 and concluded on April 11, 2019.
2. That the Financial Audit Report (FAR) together with the Letter of Comments (LOC) was submitted to the Board of Directors addressed to the Chairman on April 11, 2019
3. That the submitted LOC discloses our findings, comments, and recommendation;
4. That no material weakness or breach in the internal control and risk management system was noted in the course of our audit;
5. That no termination or resignation of the external auditor in the course of the audit that may warrant explanation;
6. That we complied with all the required disclosures in the audited financial statements provided under the provisions of the Manual of Regulations for Banks (MORB); and
7. That I nor any member of my immediate family do not have any direct or indirect financial or vested interest with the Bank, that may impair my independence as external auditor under the circumstances specified in the Code of Professional Ethics for CPAs;

That this certification is hereby issued in compliance with the requirements of the Bangko Sentral ng Pilipinas (BSP) in the submission of Financial Audit Report.

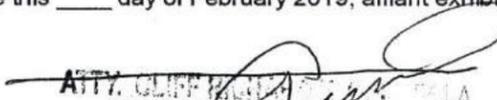
By:

  
IAN ROSELIER G. TORNO, CPA  
External Auditor

APR 25 2019

SUBSCRIBED AND SWORN to before me this \_\_\_ day of February 2019, affiant exhibited to me his BOA Cert. of Accreditation No. 4618.

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Page No. 76  
Book No. XXXXV1  
Series of 2019

  
ATTY. CLIFF RICHARD Z. GENISELA  
NOTARY PUBLIC CITY OF SAN FERNANDO, PAMPANGA  
Commission No. 2018-075 Issued on Feb 28, 2018  
PTR No. 8011405 Issued on Dec 28, 2018  
IBP No. 058064 Issued on Dec 28, 2018  
MCLE No. V-0047770 Valid From April 15, 2018 Until April 14, 2019  
Office Add: Rm 305, NPC Building Magallanes Drive, Intramuros, Manila

**Romeo G. Torno & Co.**

Certified Public Accountants

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SEC Accreditation No. 0278-F

**CERTIFICATION**

KNOW ALL MEN BY THESE PRESENTS:

I, IAN ROSELIER G. TORNO, of legal age, Certified Public Accountant and the External Auditor of **Rural Bank of Porac (Pampanga), Inc. (the "Bank")** do hereby certify that:

1. We were engaged to conduct an audit of the financial statements of **Rural Bank of Porac (Pampanga), Inc. (the "Bank")** as of December 31, 2018.
2. In the course of our audit, we have nothing to report regarding the following that may require urgent action by the Bangko Sentral ng Pilipinas:
  - a. fraud, dishonesty, breach of laws, etc.
  - b. any material findings involving fraud or dishonesty (including cases that were resolved during the period of audit);
  - c. potential losses the aggregate of which amounts to at least 1% of capital
  - d. any findings to the effect that the consolidated assets of the Bank, on a going concern basis, are no longer adequate to cover the total claims of creditors;
  - e. material internal control weakness which may lead to financial reporting problems;
  - f. material breach of laws or BSP rules and regulation such as, but not limited to:
    - 1) Capital Adequacy ratio: and
    - 2) Loans and other risk assets review and classification
  - g. findings on matters of corporate governance
3. It is however, understood that our accountability as an external auditor is based on matters within the normal coverage of our audit conducted in accordance with Philippine Standards on Auditing;
4. That this certification is being issued in compliance with the requirements of Subsection X190.1, Appendix 43 of the Manual of Regulations for Banks (MORB).

APR 25 2019

IN WITNESS WHEREOF, I have hereunto affixed my signature this \_\_\_ day of February 2019 at

  
IAN ROSELIER G. TORNO, CPA  
External Auditor

APR 25 2019

SUBSCRIBED AND SWORN to before me this \_\_\_ day of February 2019, affiant exhibited to me his BOA Cert. of Accreditation No. 4618.

Doc No. 377  
Page No. 76  
Book No. XXXXV1  
Series of 2019

  
ATTY. CLIFF RICHARD Z. GENISELA  
NOTARY PUBLIC CITY OF SAN FERNANDO, PAMPANGA  
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### INDEPENDENT AUDITORS REPORT

The Stockholders and the Board of Directors

**Rural Bank of Porac (Pampanga), Inc. (the "Bank")**

Priser Building Sto. Rosario St., Cor. Flora Ave. Barangay Sto. Rosario Angeles City, Pampanga.

Gentlemen:

#### Opinion

We have audited the financial statements of **Rural Bank of Porac (Pampanga), Inc. (the "Bank")** which comprise the Statement of Financial Position as at December 31, 2018 and the Statement of Comprehensive Income, Statement of Changes 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, 2018, and 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 Responsibility for the Audit of Financial Statement 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 statement 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 believed that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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 ease operations, or has no realistic alternative but to do so.

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

#### Auditor's Responsibility 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

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that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists.

Misstatement can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exist 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 material uncertainty exists, we are required to draw attention in auditor's report to related disclosures in the financial statement 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's to cease to continue as a going concern.

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 Revenue Regulations 15-2010.

Our audit was conducted for the purpose of forming an opinion on the basis financial statements taken as a whole. The supplementary information on taxes and licenses in Note 26 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenues and is not a required part of the basis financial statements. Such information is responsibility of the management of **Rural Bank of Porac (Pampanga), Inc. (the "Bank")**. The information has been subjected to the auditing procedures applied in my audit of the basic financial statements. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

#### Other Matters

The financial statements of the **Rural Bank of Porac (Pampanga), Inc. (the "Bank")** for the year ended December 31, 2017 were audited by another auditor who rendered an unqualified opinion on those statements. These are included in our report for comparative purposes only.

## Romeo G. Torno & Co.

Certified Public Accountants

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### STATEMENT OF REPRESENTATION

TO THE SECURITIES AND EXCHANGE COMMISSION:

In connection with our examination of the financial statements of **Rural Bank of Porac (Pampanga), Inc. (the "Bank")** which are submitted to the Commission, I hereby represent the following:

1. That I am in the active practice of the accounting profession and duly registered with the Board of Accountancy (BOA);
2. That the financial statements are presented in conformity with the generally accepted accounting principles in the Philippines in all cases where I shall express an unqualified opinion; except that in case of any departure from such principle, I shall indicate the nature of the departure, the effects thereof, and the reason why compliance with the principles would result in misleading statements, if such is a fact.
3. That I shall fully meet the requirements of independence as provided under the Code of Professional Ethics for CPAs;
4. That in the conduct of the audit, I shall comply with the Philippines Standards of Auditing promulgated by the Board of Accountancy; in case of any departure from such standards or any limitations in the scope of my examination, I shall indicate the nature of the departure and the extent of limitation, the reasons therefore and the effects thereof on the expression of any opinion or which may necessitate the negotiation of the expression of an opinion;
5. That I shall comply with the applicable rules and regulations of the Securities and Exchange Commission in the preparation and submission of the financial statements; and
6. That relative to the expression of my opinion on the financial statements, I shall not commit any acts discreditable to the profession as provided under the Code of Professional Ethics for CPAs.

As a CPA engaged in public practice, I make these representations in my individual capacity as a public practitioner in the practice of accountancy.

BY:

#### ROMEO G. TORNO & CO., CPAs

BOA Accreditation No. 4618  
September 18, 2017 valid until June 15, 2020  
SEC No. 0278 – FR-1 (Group C),  
February 6, 2017 valid until February 6, 2020  
BIR Accreditation No. 04-002375-000-2018  
March 5, 2018 valid until March 4, 2021  
CDA Accreditation No. 046-AF  
October 17, 2017 valid until October 16, 2020

## Romeo G. Torno & Co.

Certified Public Accountants

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BY:

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CDA Accreditation No. 046-AF  
October 17, 2017 valid until October 16, 2020

#### IAN ROSELIER G. TORNO, CPA

CPA Certificate No. 0091819  
SEC No. 1609 – A (Group C),  
February 6, 2017 valid until February 6, 2020  
Tax Identification No. 191-521-034  
BIR Accreditation No. 04-002375-2-2015  
March 5, 2018 valid until March 5, 2021  
PTR No. SF3351869  
January 21, 2019  
City of San Fernando, Pampanga

April 11, 2019

## Romeo G. Torno & Co.

Certified Public Accountants

4<sup>th</sup> Blk. Dolores Homesite  
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email add: [rgt\\_ops@yahoo.com](mailto:rgt_ops@yahoo.com)  
Tel. No. (045)963-1775/963-6975  
SEC Accreditation No. 0278-F

### SUPPLEMENTAL STATEMENT AUDITOR

The Board of Directors and Stockholders  
**Rural Bank of Porac (Pampanga), Inc. (the "Bank")**  
Priser Building Sto. Rosario St., Cor. Flora Ave. Barangay Sto. Rosario Angeles City, Pampanga.

Gentlemen:

I have audited the financial statements of **Rural Bank of Porac (Pampanga), Inc. (the "Bank")** for the year ended December 31, 2018 on which I have rendered the attached report dated April 11, 2019.

In compliance with SRC Rule 68, I am stating that the said company has a total of 53 stockholders owning one hundred (100) or more common shares each as of December 31, 2018.

BY:

#### ROMEO G. TORNO & CO., CPAs

BOA Accreditation No. 4618  
September 18, 2017 valid until June 15, 2020  
SEC No. 0278 – FR-1 (Group C),  
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March 5, 2018 valid until March 4, 2021  
CDA Accreditation No. 046-AF  
October 17, 2017 valid until October 16, 2020

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CPA Certificate No. 0091819  
SEC No. 1609 – A (Group C),  
February 6, 2017 valid until February 6, 2020  
Tax Identification No. 191-521-034  
BIR Accreditation No. 04-002375-2-2015  
March 5, 2018 valid until March 5, 2021  
PTR No. SF3351869  
January 21, 2019  
City of San Fernando, Pampanga

April 11, 2019

## 1 GENERAL INFORMATION

### Corporate Information

Rural Bank of Porac (Pampanga), Inc. (the "Bank") was incorporated on 12 November 1968 to engage in business of rural banking. On 11 December 1968, it was granted authority by the Monetary Board to operate as a rural bank.

The Bank's principal place of business is at Priser Building Sto. Rosario St., Cor. Flora Ave. Barangay Sto. Rosario Angeles City, Pampanga with its network of eleven (11) branches as of 31 December 31, 2018 and 2017, respectively.

The financial statements of the Bank as of 31 December 2018 and 2017 were authorized for issue by the Board of Directors (BOD) on April 11, 2019. The Board of Directors are empowered to make revisions to the financial statements even after the date of issue.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out separately below or explained in the respective notes to these financial statements. These policies have been consistently applied to the periods presented, unless otherwise stated.

### 2.1 Basis of Preparation of Financial Statements

#### Statement of Compliance

The financial Statements of the bank have been prepared in accordance with the 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 Philippines Board of Accountancy. The financial statements have been prepared using the measurement bases specified by PFRS for each type of assets, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow:

#### Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) PAS 1, Presentation of Financial Statements – The Bank presents its statement of financial position broadly in order of liquidity. 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.

#### Functional and Presentation Currency

These financial statements are presented in Philippine peso, the bank's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Bank are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the bank operates the financial statements of the Bank's Foreign Currency Deposits Units (FCDU) which is reported in its functional currency, the United States (US) dollar, are translated to Philippine peso based on Philippine Dealing System Closing Rate (PDSCR) at the end of reporting period (for the statement of financial position accounts) and at average PDSCR for the period (for profit and loss accounts).

## 2.2 Adoption of Specific Accounting Policies and Procedures

The significant accounting policies applied in the preparation of these financial statements are set out separately below or explained in the respective notes to these financial statements. These policies have been consistently applied to the periods presented, unless otherwise stated.

### Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis except for financial assets at fair value through profit or loss (FVTPL), financial assets at fair value through other comprehensive income (FVTOCI) and derivative financial instruments, if any, that have been measured at fair value. The financial statements are presented in Philippine peso ("₱") and all values are rounded to the nearest peso except when otherwise indicated.

### Statement of Compliance

The Bank's financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) and relative laws, regulations and industry practices applicable to rural banks. The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), Interpretations of the Philippine Interpretations Committee (PIC) and Standing Interpretations Committee (SIC)/International Financial Reporting Interpretations Committee (IFRIC) which have been approved and adopted by the Financial Reporting Standards Council (FRSC).

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

### Changes in Accounting Policy

The accounting policies adopted are consistent with those of the previous financial year, except that the Bank has adopted the following new accounting pronouncements starting January 1, 2017. Adoption of these pronouncements did not have any significant impact on the Bank's financial position or performance, unless otherwise stated.

#### *New Standards and Interpretations*

- PFRS 9 (2014), *Financial Instruments*
- PFRS 15, *Revenue from Contracts with Customers*
- Philippine Interpretation IFRIC 22, *Foreign Currency Transaction and Advance Consideration*

#### *Amendments to Standards*

- Amendments to PAS 40, *Investment Property, Transfer of Investment Property*
- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*

#### *Final Version of PFRS 9 Adoption*

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 version adopted by the Bank specified how an entity should classify and measure its financial assets. It requires all financial assets to be classified in their entirety on the basis of

the entity's business model for managing the financial assets. Financial Assets are measured either at amortized cost or fair value

#### *Financial Assets at Amortized Cost*

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

- a. the asset is held within the Bank's business model whose objective is to hold assets in order to collect contractual cash flows
- b. the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

#### *Financial Liability at Amortized Cost*

Financial Liability are measured at amortized cost using the effective interest method, except for:

- a. financial liabilities at fair value through profit or loss which are measured at fair value ; and
- b. financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.

#### *New Revised Standards, Amendments to Standards and Interpretations Not Yet Adopted*

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. The Bank intends to adopt these standards when they become applicable. Except as otherwise indicated, the Bank does not expect the adaptation of these new and amended standards and interpretations to have significant impact on the financial statements:

PFRS 16, *Leases*, replaces the current guidance in PAS 17. The standard now requires lessees to recognize a lease liability reflecting future lease payments and a right-of-use for virtually all lease contracts. Under PFRS 16, a contract is a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange of consideration. This standard is effective for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted, but only in conjunction with PFRS 15, "Revenue from Contracts with Customers".

The financial statements of the Bank have been prepared in compliance with Philippine Financial Reporting Standards (PFRS)

## 2.3 Recognition of Financial Assets

Financial assets in the scope of PAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in case of investments, directly attributable transaction costs.

The Bank determines the classification of its financial assets at initial recognition, when allowed and appropriate, re-evaluates this designation at each balance sheet date. It recognizes a financial asset or a financial liability in the balance sheet when it becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on the trade date, i.e., the date when the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulations or conventions in the market place.

### 2.3a Cash & cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks that are convertible to known amounts of cash with original maturities of three months or less from dates of placements and that are subject to

insignificant risk of changes in value. Due from BSP includes the statutory reserves required by the BSP which the Bank considers as cash equivalents as withdrawals can be made to meet the Bank's cash requirements as allowed by the BSP. The components of cash and cash equivalents are shown in the statement of cash flows. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

### **2.3b Held to Maturity Investments (HTM)**

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Bank's management has the positive intention and ability to hold to maturity. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income. Gains and losses are recognized in the statement of income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of income under 'Provision for credit and impairment losses.'

If the Bank sells more than an insignificant amount of HTM investments prior to maturity (other than in specific circumstances) the entire category would be tainted and reclassified as AFS investments. Furthermore, the Bank would be precluded from using the HTM investment category for the following two years. Under current regulations, investment in bonds and other debt instruments shall not exceed 50% of the adjusted net-worth plus 40% of the total deposit liabilities.

### **2.3d Investment in Non-Marketable Securities (INMES)**

Investment in Non-Marketable Equity Securities includes equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measure. INMES shall be measured upon initial recognition at its fair value plus transaction costs that are directly attributable to the acquisition of the securities. After initial recognition, the Bank shall measure INMES at cost.

A gain or loss arising from the change in fair value of the INMES shall be recognized in the Statement of Income & Expenses when the security is derecognized or impaired.

### **2.3e Loans & Receivables**

This accounting policy relates to the statement of financial position captions 'Loans and receivables', 'Due from BSP', 'Due from other banks' and refundable rental deposits under 'Other assets. These are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market, other than:

- those that the Bank intends to sell immediately or in the near term and those that the Bank upon initial recognition designates as at FVPL;
- those that the Bank, upon initial recognition, designates as AFS investments; or
- Those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

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

### **2.3f Other Investments & Other Financial Assets**

Financial Assets covered by PAS 39 are classified as either financial assets at fair value through profit or loss, loans or receivables, held-to-maturity financial assets and available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments, at fair value through profit or loss plus directly attributable transaction costs. The Bank determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date when the Bank commits to purchase the asset. Regular way purchases or sales of financial assets require delivery of assets within the period generally established by regulation or convention in the market place.

### **2.4 Financial Liabilities**

Financial liabilities include deposit liabilities, bills payable and other accrued expenses and are recognized when the Bank becomes party to the contractual agreement of the instrument. Financial liabilities are initially recognized at their fair value and subsequently measured at amortized cost less settlement payments. The following compose the financial liabilities of the Bank:

#### **2.4a Deposit Liabilities**

The deposit liability account includes demand deposits, savings deposits and term deposits. Demand deposits refer to those which are subject to withdrawal by check which are otherwise known as current or checking accounts. Savings deposits may be interest bearing or non-interest bearing and are withdraw-able upon presentation of properly accomplished withdrawal slip and passbook. Term deposits refer to interest-bearing deposits with specific maturity dates and evidenced by passbook or certificate issued by the Bank.

#### **2.4b Accrued Expenses and Other Liabilities**

These refer to obligations already incurred by the Bank which are not yet paid as of the balance sheet date. These are normally measured at actual costs.

### **2.5 Derecognition of Financial Assets and Financial Liabilities**

#### **2.5a Financial assets**

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

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

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

## **2.5b Financial Liabilities**

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

## **2.6 Impairment of Financial Assets**

Impairment is determined as follows:

- a.) For assets carried at amortized cost such as receivables from customers, impairment is based on estimated cash flows discounted at the original effective interest rate.
- b.) For assets carried at fair value, impairment is the difference between cost and fair value.
- c.) For assets carried at cost, impairment is the present value of future cash flows discounted at the current market rate of return for a similar financial asset.
- d.) For available for sale equity investments, reversal of impairment loss is recorded as increase in cumulative change in fair value through equity.

In addition, a provision is made to cover impairment for specific groups of assets where there is measurable decrease in estimated future cash flows.

## **2.7 Financial Assets Carried at Amortized Cost**

For financial asset carried at amortized cost, the Bank first assesses whether objective evidence of impairment exists individually for significant financial assets or collectively for insignificant financial assets.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance

account. The amount of the loss shall be recognized in the Statement of Income & Expenses. Interest income continues to be recognized within a period specified in the instrument or by regulation using the original effective interest rate of the asset. The financial assets, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collaterals have been realized.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset whether significant or not, the asset so included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Those characteristics are relevant to the estimate of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized, are not included in a collective assessment for impairment.

If, in a subsequent period, the amount of the estimated impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of impairment. Loss is recognized in the Income Statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

The present value of the future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure or other mode of acquisition reduced by costs for obtaining and selling the collateral.

For the purpose of a collective evaluation of impairment, financial assets are group on the basis of such credit risk characteristics as industry, collateral type and past due status.

## **2.8 Financial Assets Carried at Cost**

If there is objective evidence that an impairment loss has been incurred on an unquoted instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

## **2.9 Restructured Loans**

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment period and the arrangement of new loan terms and conditions. Once the terms renegotiated have been finalized, the loan is classified as restructured loan. Management continuously reviews restructured loans to ensure that all criteria are met and the future payments are likely to occur. The loan is continuously subject to an individual or collective impairment assessment calculated using the loan's original effective interest rate. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized in "Provision for Impairment and Credit Losses" in the Statement of Income & Expenses.

## **2.10 Offsetting of Financial Instruments**

Financial assets and financial liabilities are offset and the net amount reported in the Balance Sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there's an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented at gross amount in the balance sheet.

## **2.11 Loans & Discounts**

Receivables from customers are stated at the outstanding balance reduced by an allowance for probable loan losses.

Interest income on non-discounted term loan is accrued monthly as earned, except in the case of non-accruing loans.

Unearned discounts are recognized as income over the period for which such discount has been collected using the effective interest method. In accordance with the existing BSP regulations no interest income is accrued on accounts classified as past due.

Under existing BSP regulations, non-accruing loans are those that have been defined as being past due and items in litigations, or those for which, in the opinion of management, collection of interest or principal is doubtful. Interest income on these loans is recognized only to the extent of amount collected. Loans are not classified as accruing until interest and/or principal due are collected and the loans are brought to current or are restructured in accordance with existing BSP regulations and future payments appear assured. Collaterals of restructured loans exceeding P1Million shall be revalued by an independent appraiser acceptable to BSP.

Sec. 304 of the Manual of Regulations for Banks (MORB) states that past due accounts of a bank shall, as a general rule, refer to all accounts in its loan portfolio, all receivable components of trading account securities and other receivables, which are not paid at contractual due date.

Sec. 304 states that loans, investments, receivables or any financial asset shall be considered non performing even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired shall be considered non-performing if any principal and/or interest are unpaid for more than 90 days from contractual due date or accrued interest for more than 90 days have been capitalized, refinanced or delayed by agreement. Restructured loans shall be considered performing only, if prior to restructuring, the loans were categorized as performing. Non-performing loans and other receivables shall remain classified as such until a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least 6 months; or b) written off.

The allowance for loan losses is the estimated amount of losses in the Bank's portfolio, based on evaluation of the quality of loans and prior loan loss experience (Appendix 18 MORB). Any amount set aside with respect to losses on loans and advances in addition to those losses that have been specifically identified or potential losses are indicatively present in the portfolio of loans and advances, are accounted for as appropriations from retained earnings. Any credits resulting from the reduction of such amounts result in an increase in retained earnings and are not included in the determination of net profit or loss for the period. The allowance is increased by provisions charged to expense and reduced by reasonable write-offs and reversals as determined by the Bank.

### **2.12 Premises, Furniture, Fixtures and Equipment's**

The initial cost of premises, furniture, fixtures, and equipment except land, comprises its purchase price including import duties, borrowing costs (during the construction period), and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes the cost of replacing the part of such asset when the recognition criteria are met and the estimated cost of dismantling and removing the asset and restoring the site.

Expenditures incurred after the premises, furniture, fixtures, and equipment have been put into operation, such as repairs and maintenance, are normally charged to operations in the period the costs are incurred. In situations where it can be clearly determined that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of the asset beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs.

When major improvement is performed, its cost is recognized in the carrying amount of the premises, furniture, fixtures, and equipment as a replacement if the recognition criteria are satisfied.

For financial reporting purposes, depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets.

The useful lives and depreciation/amortization method are being reviewed by the Bank periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of premises, furniture, fixtures, and equipment. The residual value, if any, is also reviewed and adjusted if appropriate, at each balance sheet date.

Fully depreciated assets are retained in the accounts at P1.00 net value until they are no longer in use and no further charge for depreciation is made with respect to those assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the account and any resulting gain or loss are reflected in the income for the period. Any disposal or deletion of property, plant and equipment from the Bank's book of accounts should be approved by the management.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. Amortization of leasehold improvements is recognized over the estimated useful lives of improvements or the term of the lease, whichever is shorter.

### **2.13 Impairment of Premises, Furniture, Fixtures & Equipment**

An assessment is made at the balance sheet date to determine whether there is any indication that an asset may be impaired, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists and when the carrying value of an asset exceeds its estimated recoverable amount, the asset is written down to its recoverable amount.

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value of money and the risk specific to the asset. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. For impairment loss on specific assets or investments, the recoverable amount represents the net selling price.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged against operations in the year in which it arises. A previously recognized impairment loss is reversed only if there has been a change in estimate used to determine the recoverable amount of an asset, however, not to an amount higher than the carrying amount that would have been determined (net of any accumulated depreciation and amortization for premises, furniture, fixtures, and equipment) had no impairment loss been recognized for the asset in prior years. A reversal for impairment loss is credited to current operations.

### **2.14 Sales Contract Receivable**

Sales Contract Receivable (SCR) shall be recorded based on the present value of the installments receivables discounted at the imputed rate of interest. Discount shall be accrued over the life of the SCR by crediting interest income using the effective interest method. Any difference between the present value of the SCR and the derecognized assets shall be recognized in profit or loss at the date of sale in accordance with the provisions of PAS 18 Revenue. Provided, that SCR shall be subject to impairment provisions of PAS 39.

SCRs that meet all the requirements or conditions enumerated below are considered performing assets:

1. That there has been a down payment of at least twenty percent (20%) of the agreed selling price or in the absence thereof, the installment payments on the principal had already amounted to at least twenty percent (20%) of the agreed selling price;
2. That payment of the principal must be in equal installments or in diminishing amounts and with maximum intervals of one (1) year;
3. That any grace period in the payment of principal shall not be more than two (2) years and;
4. That there is no installment payment in arrears either on principal or interest.

### **2.15 Investment Properties**

Initially, investment properties are measured at cost including certain transaction costs. Investment properties acquired through a nonmonetary asset exchange is measured initially at fair value unless (a) the exchange lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measured. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any accumulated impairment in value.

Investment properties are derecognized when they have either been disposed of or when the investment properties are permanently withdrawn from use and no future benefit is expected from their disposal. Any gain or loss on the derecognition shall be recorded as gain on sale of investment properties in the Statement of Income in the year of disposal.

Expenditures incurred after the investment properties have been put into operation, such as repairs and maintenance costs, are normally charged to income in the period when the costs are incurred.

Depreciation is calculated in straight-line basis using the following useful lives from the time of acquisition for the investment properties.

However, under Sec.x394.2 of the BSP MORB, land and building classified as Real and Other Properties Acquired (ROPA) shall be accounted for as Investment Properties under PAS 40.

## **2.16 Other Assets**

Other assets account represents residual accounts which were not classified as a separate line item in the manual of accounts as provided in Circular 512 as amended.

## **2.17 Impairment of Non-Financial Assets**

The Bank assesses at each reporting date if there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell. When the carrying value of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments and time value of money and the risks specific to the asset. Impairment losses on continuing operations are recognized in the Income Statement in the expense categories.

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

## **2.18 Provisions**

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

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available on balance sheet date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received

in the course of settlement of the present obligation is recognized, if virtually certain, as a separate asset at an amount not exceeding the balance of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In addition, long-term provisions are discounted to their present values, where time value of money is material.

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

In those cases where the possible outflow of economic resources as a result of present obligation is considered improbable or remote, or the amount to be provided cannot be measured reliably, no liability is recognized in the financial statements. Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence not recognized in the financial assets.

## **2.19 Revenue Recognition**

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Bank and the amount of the revenue can be measured reliably. The following specific recognition criteria must also be met before revenue is recognized:

### **A. Interest Income**

Interest income on receivables from customers is recognized based on the accrual method of accounting, except in the case of non-accruing receivables. Unearned discount is recognized as income over the term of the receivable or discount using the effective interest method.

### **B. Loan Fees and Service Charges**

Loan commitment fees are collected from each credit line granted to each borrower and recognized as earned over the period for which it was collected. Service charges and other penalties are recognized only upon collection or accrued where there is reasonable degree of certainty as to its collection.

### **C. Other and Miscellaneous Income**

## **2.20 Income Taxes**

### **Current tax**

Current tax assets and current tax liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

### **Deferred tax**

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

Deferred tax liabilities are recognized for all taxable temporary differences with exceptions. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that future taxable income will be available against which the deductible temporary differences and carry forward of unused excess MCIT over RCIT and unused NOLCO can be utilized.

Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

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

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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

Current income tax and deferred income tax relating to items recognized directly in equity is recognized in OCI, and not in profit or loss.

## **2.21 Employee Benefits**

### **(a) Short term benefits**

The Bank provides short term benefits to its employees in the form of salaries and wages, 13th month pay, contributions to SSS/PHIC/HDMF and other short-term employee benefits and are presented as part of the operating expenses as compensation and fringe benefits -employees.

#### (b) Retirement Benefits

Republic Act (RA) No. 7641 (New Retirement Law) which took effect on January 7, 1993 requires the company to provide minimum retirement benefit to qualified retiring employees. Minimum retirement benefit is equivalent to at least one-half month salary for every year of service. An employee upon reaching sixty years of age and who has served at least five years may retire and be entitled to retirement benefits. The compulsory retirement age is sixty-five (65) years of age.

#### (c) Retirement Cost

The Bank has a non-contributory define benefit retirement plan. The retirement cost of the Bank is determined using the projected unit cost method. Under this method, the current service cost is the present value of retirement obligation in the future with respect to services rendered in the current year.

### 2.22 Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

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

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

#### Bank as lessee

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

### 2.23 Equity

Capital stock is measured at par value for all shares issued and outstanding. When the Bank issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax. The subscribed capital stock is reported in equity less the related subscription receivable not currently collectible. Capital stock consists of common and preferred. Preferred stocks are (a) cumulative, (b) non-voting, and (c) non-redeemable.

Subscribed common stock is recognized at subscribed amount net of subscription receivable.

Subscriptions receivable pertains to uncollected portion of subscribed stocks. The Bank accounted for the subscription receivable as a contra equity account.

Retained earnings represents the cumulative balance of periodic net income or loss, dividend contributions, prior period adjustments, effect of changes in accounting policy and other capital adjustments.

Cash dividends are recognized as liability and deducted from the equity when approved by the Board of Directors (BOD) while stock dividends are deducted from equity when approved by BOD and stockholders. Dividends for the year that are approved after the reporting date are dealt with as subsequent events. Stock issuance costs are accounted for as deduction from equity.

#### 2.23a Earnings per Share

Earnings per share (EPS) is computed by dividing net income by the weighted average number of ordinary shares outstanding during the year with retroactive adjustments applicable, if any, to preference shares.

#### 2.23b Book Value per Share

The book value per common share is derived from the total stockholders' equity net of preferred shares and dividends (for cumulative shares) divided by the total number of ordinary shares outstanding during the year.

### 2.24 Events after Reporting Date

Post-year-end events up to the date of approval of the BOD of the financial statements that provide additional information about the Bank's position at the reporting date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed in the notes when material to the financial statements.

## 3 Significant Accounting Judgments and Estimates

The preparation of the Bank's financial statements in accordance with PFRS requires 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, if any. 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.

### 3.1 Judgments

In the process of applying the Company'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. Classification of financial instruments

The Company exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as either a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the statements of financial position.

In addition, the Company classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

#### b. Classification of leases

Management exercises judgment in determining whether substantially all the significant risks and rewards of ownership of the leased assets are transferred to the Company. Lease contracts which transfer to the Company substantially all the risks and rewards incidental to ownership of the leased items, are capitalized. Otherwise, they are considered as operating leases.

*c. Determination of Functional currency*

PAS 21, *the effects of Changes in Foreign Exchange Rates* requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Company considers the following:

- The currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);
- The currency in which funds from financing activities are generated; and
- The currency in which receipts from operating activities are usually retained.

**3.2 Estimates**

In the process of applying the Company'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:

**3.2a Allowance for Probable Losses**

The allowance for probable loan losses, which includes both specific and general loan loss reserve represents management's estimate of probable losses inherent in the portfolio, after considering the prevailing and anticipated economic conditions, prior loss experience, estimated recoverable value based on fair market values of underlying collaterals and prospect of support from guarantors, subsequent collections and evaluations made by the BSP. The BSP observes certain criteria and guidelines in establishing specific loan loss reserves for classified loans and other risk assets as provided under Sec. 143 and Appendix 15 of the Manual of Regulations for Banks.

Individually assessed loans and other credit accommodations (which include other credits such as accounts receivables, sales contract receivables, accrued interest receivables and advances):

Loans and other credit accommodation with unpaid principal and/or interest is being classified and provided with allowance for credit losses (ACL) based on the number of days missed payments as follows:

For unsecured loans and credit accommodations:

Number of days Unpaid/with missed payments	Classification	ACL
31 - 90 days	Substandard	10%
91 - 120 days	Substandard	25%
121 - 18- days	Doubtful	50%
180 days and over	Loss	100%

For secured loans and other credit accommodations:

Number of days Unpaid/with missed payments	Classification	ACL
31 - 180 days	Substandard	10%
181 - 365 days	Substandard	25%
Over 1 year -5 years	Doubtful	50%
Over 5 years	Loss	100%

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

Loans and other credit accommodations that exhibit the characteristics for classified account described under appendix 15 of the MORB is being provided with allowance for credit losses as follows:

Classified Loans	Allowance
Loans Especially Mentioned	5% of the borrower's outstanding loan
Sub-standard Secured	10% of the borrower's outstanding loan
Sub-standard Unsecured	25% of the borrower's outstanding loan
Doubtful	50% of the borrower's outstanding loan
Loss	100% of the borrower's outstanding loan

Unsecured loans and other credit accommodations classified as "substandard" in the last two (2) internal credit reviews which have been continuously renewed/extended without reduction in principal and is not in process of collection, is downgraded to "doubtful" classification and provided with 50% allowance for credit losses.

Loans and other credit accommodations under litigation which have been classified as "pass" prior to litigation process is classified as "substandard" and provided with 25% ACL.

Loans and other credit accommodations that were previously classified as "pass" but were subsequently restructured shall have a minimum classification of "especially mentioned" and provided with a 5% ACL, except for loans which are considered non-risk under existing laws, rules and regulations.

Classified loans and other credit accommodations that were subsequently restructured shall retain their classification and provisioning until the borrower has sufficiently exhibited that the loan will be repaid.

Collectively Assessed Loans and Other Credit Accommodations which includes 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 types of loan which fall below the Bank's materiality threshold for individual assessment:

Current "pass" loans and other credit accommodations is provided with ACL based on the number of days of missed payments as follows:

For unsecured loans and other credit accommodations:

No. of Days Unpaid/with missed payments	Classification	ACL
1 - 30 days	Especially Mentioned	2%
31 - 60 days/1st restructuring	Substandard	25%
61 - 90 days	Doubtful	50%
over 90 days/2nd restructuring	Loss	100%

For secured loans and other credit accommodations:

No. of Days Unpaid/With Missed Payments	Classification	Allowance for Credit Losses (ACL)	
		Other types of collateral	Secured by real estate
31 - 90 days	Substandard	10%	10%
91 - 120 days	Substandard	25%	15%
121 - 360 days	Doubtful	50%	25%
361 days - 5 years	Loss	100%	50%
Over 5 years	Loss	100%	100%

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 is treated as if these are unsecured.

Unclassified loans and receivables-General loan loss provision

For unclassified loans:	
Unclassified restructured loans	5% of the borrower's outstanding loan
Unclassified other than restructured	1% of the borrower's outstanding loan

Outstanding loans that were already subjected to specific provisioning were no longer included in the general loan loss provisioning as shown above.

**Other Risk Assets**

Other risk assets such as accounts receivable are also given allowance after considering the nature of the transaction and the degree of collectibles of the accounts.

Provisions for losses (expense account) on the above cited risk assets are determined by the required allowance at the end of the year less the beginning allowance for a particular year adjusted by write-off and recovery, if any.

**3.2b Useful lives of Premises, Furniture, Fixtures & Equipment**

The estimated useful lives of the Bank's premises, furniture, fixtures, and equipment are based on the period over which the assets are expected to be available for use, and on the collective assessment of the industry practice, internal technical evaluation and experience with similar assets. The estimates are reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits in the use of the premises, furniture, fixtures and equipment. A reduction in the estimated useful lives of the property and equipment would increase the expenses and decrease the non-current assets Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is computed using straight line method over the estimated useful lives of the assets or the term of the lease contract whichever comes shorter.

**3.2c Useful life of Depreciable Investment Property**

The assumptions and estimates used by the Bank in the useful life of Investment Property are made to objectively determine the productivity or use of the assets. The BSP however in its Circular 494 provided that Investment Property -building and Investment Property -Other Non-Financial Assets specifically those that were accounted for as Investment Property under PAS 40 shall be depreciated only for a period of not more than 10 and 3 years respectively reckoning from the date of foreclosure. Thus, the lower between the estimate of the Bank and BSP regulation shall prevail.

**3.2d Residual Value of Depreciable Assets**

The residual value of an asset is the estimated amount that an entity would obtain from the disposal of the asset, after deducting the estimated costs of disposal. The management's estimate on the residual values of its assets is based on a conservative approach where residual values assigned to each asset are nil.

**3.2e Estimate Used in Determining Fair Value of Financial Assets**

Reasonable estimate of the management on the fair value of the financial instrument is the responsibility of the management when reference costs and/or values is not quoted in the stock market.

An entity shall assess at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. The threshold and materiality level in PAS 36 and 39 to impair a financial asset is provided on a non-quantitative basis thus, the use of judgments in objectively examining the financial asset is required. In such case, the top management of the Bank shall be responsible for the reasonable judgment pertaining to the valuation of this financial instrument.

**3.2f Allowance for Doubtful Accounts**

The Bank assesses whether objective evidence of impairment exist for receivables and due from related parties that are individually significant. Allowance for doubtful accounts is maintained at a level considered adequate to provide for potentially uncollectible receivables.

**3.2g Contingencies**

The adoption of accounting for contingencies in the PAS 37 requires management's prudent judgment and expectation on the outcome of particular contingencies. The relevance of this item becomes paramount significant when it will materially affect the financial standing of the Bank.

**4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Bank's principal financial instruments consist of cash and cash equivalents, receivables and payables which arise from operations, and long-term investments. The Bank's activities are principally related to the profitable use of financial instruments. Risks are inherent in these activities but are managed by the Bank through a rigorous, comprehensive and continuous process of identification measurement, monitoring and mitigation of these risks, partly through the effective use of risk and authority limits, process controls and monitoring, and independent controls. The Bank has placed due importance to expanding and strengthening its risk management process and considers it as a vital component to the Bank's continuing profitability and financial stability. Central to the Bank's risk management process is its adoption of a risk management program intended to avoid unnecessary risks, manage and mitigate unavoidable risks and maximize returns from taking acceptable risks necessary to sustain its business validity and good financial position in the market.

The inherent risks which can arise from the Bank's financial instruments are credit risk, market risk (i.e. interest rate risk, currency risk and price risk) and liquidity risk. The Bank's risk management objective is primarily focused on controlling and mitigating these risks. The Board of Directors reviews and agrees on policies for managing each of these risks and are summarized as follows:

**1 Credit Risk**

Credit risk is the risk of financial loss due to the other party's failure to discharge an obligation cited in a binding financial instrument. The Bank faces potential credit risks every time it extends funds to borrowers, commits funds to counterparties, guarantees the paying performance of its clients, invests funds to issuers and enters into either market-traded or over-the-counter derivatives, through implied or actual contractual agreements. The Bank manages the level of credit risks it accepts through comprehensive credit risk policy setting assessment and determination of what constitutes credit risk for the Bank; setting up exposure limits by each counterparty or group of counterparties, geographical and industry segments; guidelines on obtaining collateral guarantees; reporting of credit risk exposures and breaches to the monitoring authority; monitoring compliance with credit risk policy and review of credit risk policy for pertinence and changing environment.

Additionally, the tables below show the distribution of maximum credit exposure by industry sector of the Bank as at December 31, 2018 and 2017:

Industry	2018			
	Loans Receivable	Due from BSP and Other Banks	HTM Investments	Total
Wholesale and retail trade and household goods	129,521,879			129,521,879
Agriculture, hunting and forestry	39,720,527			39,720,527

Construction	28,170,731			28,170,731
Education	1,478,929			1,478,929
Financial Institutions		240,265,315		240,265,315
Government		46,300,179	290,479,380	336,779,559
Real estate activities	593,743,168			593,743,168
Household Consumption	40,565,240			40,565,240
Transportation and storage	3,485,631			3,485,631
Electricity, Gas, Steam and Air Conditioning	6,801,470			6,801,470
Manufacturing	71,526,919			71,526,919
Mining	19,404,217			19,404,217
Accommodation and food service activities	54,256,468			54,256,468
Financial and insurance activities	12,739,534			12,739,534
Administrative and support service activities	636,922			636,922
Arts, entertainment and recreation	1,133,722			1,133,722
Water supply, sewerage, waste management, and remediation activities	2,333,875			2,333,875
Human Health and Social work activities	50,044,498			50,044,498
Other services	25,634,564			25,634,564
<b>Total</b>	<b>1,081,198,297</b>	<b>286,565,494</b>	<b>290,479,380</b>	<b>1,658,243,171</b>

2017				
Industry	Loans Receivable	Due from BSP and Other Banks	HTM Investments	Total
Wholesale and retail trade and household goods	146,484,187			146,484,187
Agriculture, hunting and forestry	47,022,298			47,022,298
Education	2,444,401			2,444,401
Manufacturing	71,604,550			71,604,550
Financial Institutions		203,043,372		203,043,372
Government		41,363,706	175,815,622	217,179,328
Construction	42,184,772			42,184,772
Mining	49,115,108			49,115,108
Real estate activities	363,290,996			363,290,996
Arts	5,273,362			5,273,362
Accommodation	74,273,524			74,273,524
Household consumption				
Transportation and Storage	8,970,246			8,970,246

Electricity, Gas, Steam and Air Conditioning	11,765,019			11,765,019
Public Administration	1,790,743			1,790,743
Health and Social work	49,965,276			49,965,276
Other service activities	138,954,533			138,954,533
<b>Total</b>	<b>1,013,139,013</b>	<b>244,407,078</b>	<b>175,815,622</b>	<b>1,433,361,715</b>

*Credit quality per class of financial assets*

The tables below show the credit quality per class of financial assets (gross of allowance for credit and impairment losses) as at December 31, 2018 and 2017:

**2018**

Financial Assets	Neither Past Due nor impaired	Past due but not impaired	Past due and impaired	Total
Due from BSP	46,300,179			46,300,179
Due from other banks				
HTM investments	290,479,380			290,479,380
Loans & Receivables	966,791,163	64,227,557	50,179,578	1,081,198,297
	1,303,570,721	64,227,557	50,179,578	1,417,977,856

**2017**

Financial Assets	Neither Past Due nor impaired	Past due but not impaired	Past due and impaired	Total
Due from BSP	41,363,706			41,363,706
Due from other banks				
HTM investments	175,815,622			175,815,622
Loans & Receivables	923,640,301	85,609,230	3,889,482	1,013,139,013
	1,140,819,629	85,609,230	3,889,482	1,230,318,341

*Aging analysis of past due but not impaired loans and receivables*

The following tables show the total aggregate amount of loans and receivables as at December 31, 2018 and 2017.

2018							
	>30 days	31-60	61-90	91-180	181-360	Beyond 1 year	TOTAL
Loans Receivable	25,430,554	31,754,931	15,889,686	16,791,117	5,552,176	18,988,671	114,407,135
Sales Contract Receivables	5,203,347	496,572		665,711	533,266	2,967,224	9,866,120
	30,633,901	32,251,503	15,889,686	17,456,828	6,085,441	21,955,895	124,273,255

2017							
	>30 days	31-60	61-90	91-180	181-360	Beyond 1 year	TOTAL
Loans Receivable	12,585,793	6,341,820	19,775,787	2,879,670	7,270,629	40,645,013	89,498,712
Sales Contract Receivable			828,684	1,836,016	2,075,657	11,084,623	15,824,980
	12,585,793	6,341,820	20,604,471	4,715,686	9,346,286	51,729,636	105,323,692

The Bank is not currently engaged in the trading of its financial instruments so that the Bank's exposure to market risk is low

#### **Interest rate risk**

The Bank's receivables earn interest rates ranging from 6% to 18% for loans in 2018. The shortest term of loan is three months while the longest term is 25 years. The Bank earns 2.125% to 6.125% from its investment in HTM.

#### **Fair Value Interest Rate Risk**

Fair value interest rate risk is the risk that the value of the financial instruments will fluctuate because of changes in interest rates. The Bank's cash equivalents are mostly invested in fixed interest rates on its duration and therefore exposed to fair value interest rate risk but not to cash flow interest rate risk.

Loan receivables and interest-bearing liabilities are sized as to interest rate and maturity to make a reasonable analysis of the degree of risk associated with lending and borrowings.

#### **Cash Flow Interest Rate Risk**

This is the risk that future cash flows of the financial instrument will fluctuate because of changes in market interest rates. In the case of a floating rate debt instrument. Fluctuation results in a change in effective interest rate of a financial instrument usually without a corresponding change in its fair value.

#### **Liquidity Risk**

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligations when they come due without incurring unacceptable losses or costs. It may result from either inability to sell financial assets quickly at their fair values; or counterparty failing on repayment of contractual obligation; or inability to generate cash inflows as anticipated.

The Bank monitors its cash flow position and overall liquidity position in assessing its exposure to liquidity risk. The Bank maintains a level of cash deemed sufficient to finance operations and to mitigate the effects of fluctuations in cash flows and a balance between continuity of funding and flexibility through the use of short-term debt and advances from related parties and an arrangement for a stand-by credit line facilities with any reputable bank and in case of emergency. Interest rate and maturity matching analysis is used to quantify monitoring of liquidity position.

2018	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	TOTAL
Due from BSP	46,300,179					46,300,179
Due from other banks	240,265,315					240,265,315
HTM Investments		104,649,122		5,030,672	180,799,585	290,479,380
Loans receivables		28,519,039	27,325,459	45,214,187	939,318,759	1,040,377,442

2017	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	Total
Due from BSP	41,363,706					41,363,706
Due from other banks	203,043,372					203,043,372
HTM Investments		11,983,754		4,519,211	159,312,657	175,815,622
Loans receivable		40,956,713	56,108,369	233,016,487	635,959,196	966,040,765

The above table showed a huge gap in the time bucket of 30 days with the effect reaching over 1 year to 3 years which means that financial assets that are available might not be enough to settle maturing liabilities. However, as of December 31, 2018 the bank has a credit line with Land Bank of the Philippines amounting to P 450 M in which it can be used when they become short of funds.

#### Operational Risks

Operational risk is the risk of direct and indirect loss arising from a wide variety of causes associated with the Bank's involvement in financial instruments, personnel, technology and infrastructure and external factors other than market and liquidity risk such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. The Bank's objective is to manage operational risks so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

## **5. RISK MANAGEMENT PLAN**

### ***Governance Framework***

The primary objective of governance framework is to establish a risk management function with clear terms of reference and with the responsibility of developing policies on risk management. It also supports the effective implementation of the policies. The policies define the Bank's identification of risks and its interpretation, limit structure to ensure the appropriate quality and diversification of assets to the corporate goals and specify reporting requirements.

### ***Regulatory Qualifying Capital***

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

BSP Circular No. 688, Revised Risk-Based Capital Adequacy Framework for stand-alone thrift banks, rural banks and cooperative banks which took effect on January 1, 2012 represents BSP's commitment to align existing prudential regulations with international standards, which is consistent with the BSP's goal of promoting the soundness and stability of individual banks and of the banking system as a whole. BSP Circular No. 688 replaced BSP Circular No. 280 which is primarily based on Basel 1.

Under current banking regulations, the combined capital accounts of each bank should not be less than an amount equal to ten percent (10.00%) of its risk assets. The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio to total equity excludes:

- unbooked valuation reserves and other capital adjustments as may be required by the BSP;
- total outstanding unsecured credit accommodations to directors, officers, stakeholders and related interests (DOSRI);
- deferred tax asset or liability; and
- other regulatory deductions.

Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board of the BSP.

Under BSP Circular No. 688 dated 26 May 2010 which took effect on 1 January 2012, the risk-based capital adequacy ratio (CAR) is to be inclusive of a market risk charge. BSP Circular No. 560 dated January 31, 2007, which took effect on February 22, 2007, requires the deduction of unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates from capital accounts for purposes of computing CAR.

On October 9, 2014, BSP issued the Circular No. 854, which states that rural banks with up to 10 branches outside the National Capital Region are required to comply with the minimum capital requirement of P 40 million. As at December 31, 2018 and 2017, the Bank is in compliance with the capitalization requirement.

The Capital Adequacy Ratio (CAR) as of December 31, 2018 is as follows:

	2018	2017
<b>Tier 1 Capital</b>	<b>274,903,793</b>	286,291,163
<b>Tier 2 Capital</b>	<b>12,674,886</b>	7,429,399
<b>Total Qualifying Capital</b>	<b>287,578,679</b>	293,720,562
<b>Risk Weighted Assets</b>	<b>1,547,733,749</b>	1,440,524,944
<b>Tier 1 Capital Ratio</b>	<b>17.76%</b>	19.87%
<b>Tier 2 Capital Ratio</b>	<b>0.82%</b>	0.52%
<b>Capital Adequacy Ratio (CAR)</b>	<b>18.58%</b>	20.39%

NOTE: CALCULATION OF RISK-BASED CAPITAL ADEQUACY RATIO (in absolute amounts)

Item	Nature of Item	Account Code	Amount
<b>A.</b>	<b>Calculation of Qualifying Capital</b>		
A.1	Net Tier 1 Capital	395000000000710000	274,903,793.27
A.2	Net Tier 2 Capital	395000000000720000	12,674,886.13
A.3	Total Qualifying Capital [Sum of A.1 and A.2]	395000000000700000	287,578,679.40
<b>B.</b>	<b>Calculation of Risk-Weighted Assets</b>		
B.1	Total Credit Risk-Weighted Assets [B.1(d) minus B.1(h)]	195931000000000000	1,384,512,903.48
(a)	Risk-Weighted On-Balance Sheet Assets	100000000000811000	1,384,512,903.48
(b)	Risk-Weighted Off-Balance Sheet Assets	400000000000812000	0.00
(c)	Counterparty Risk-Weighted Assets	110100000000813000	0.00
(d)	Total Credit Risk-Weighted Assets [Sum of B.1(a), B.1(b) and B.1(c)]	100000000000810000	1,384,512,903.48
(e)	Deductions from Total Credit Risk-Weighted Assets		
(f)	General Loan Loss Provision (in excess of the amount permitted to be included in upper Tier 2 capital) [Part III, Item G.(1)(b) minus Part II, Item B.1 (7)]	175150500000000000	0.00
(g)	Unbooked valuation reserves and other capital adjustments affecting asset accounts based on the latest report of examination as approved by the Monetary Board	365052000000711000	0.00
(h)	Total Deductions [Sum of B.1(f) and B.1(g)]	165000000000810000	0.00
B.2	Total Operational Risk-Weighted Assets	195000000000830000	163,220,845.20
B.3	Total Market Risk-Weighted Assets	100000000000820000	
B.4	Total Risk-Weighted Assets [Sum of B.1, B.2 and B.3]	100000000000800000	1,547,733,748.68
<b>C.</b>	<b>RISK-BASED CAPITAL ADEQUACY RATIO [A.3 divided by B.4 multiply by 100]</b>	990000000000000000	<b>18.58</b>

## 6 Cash & Cash Equivalents

As of December 31, 2018, this account is consist of the following:

	2018	2017
Cash on Hand	<b>P 15,614,387</b>	<b>P 15,419,642</b>
<b>Total</b>	<b>P 15,614,387</b>	<b>P 15,419,642</b>

## 7. Due from BSP and other Banks

As of December 31, 2018, this account is consist of the following:

	2018	2017
Due from Bangko Sentral ng Pilipinas	<b>P 46,300,179</b>	<b>P 41,363,706</b>
Due from Other Banks	<b>240,265,315</b>	<b>203,043,372</b>
<b>Total</b>	<b>P 286,565,494</b>	<b>P 244,407,078</b>

The balance of Due from BSP account serves as the Bank's reserve for its deposit liabilities. Under the Manual of Regulations for Banks, a Bank is required to maintain its reserve requirements for its deposit liabilities in the form of deposits with the BSP amounting to P 44,038,888.92. Section 252 of MORB further provides that such deposit account with the BSP is not considered as a regular current account. Drawings against such deposits shall be limited to: (a) settlement of obligations with the BSP; and, (b) withdrawals to meet cash requirements. As at December 31, 2018 and 2017, the balance of Due from Bangko Sentral are P 46,300,179 and P 41,363,706, respectively.

The Due from Other Banks account represents deposits with other local banks which are being used for its daily operations. Breakdown of this account follows:

Name of Banks	2018	%	2017	%
AUB	<b>P 84,601,078</b>	<b>35%</b>	<b>P 77,301,062</b>	<b>38%</b>
BDO	<b>5,410,925</b>	<b>2%</b>	<b>4,097,815</b>	<b>2%</b>
BOC	<b>19,054,157</b>	<b>8%</b>	<b>4,011,207</b>	<b>2%</b>
BPI	<b>10,748,016</b>	<b>4%</b>	<b>7,811,644</b>	<b>4%</b>
BPI Savings	<b>1,323,077</b>	<b>1%</b>	<b>1,310,863</b>	<b>1%</b>
CBS	<b>2,223,320</b>	<b>1%</b>	<b>4,625,998</b>	<b>2%</b>
CBS Savings	<b>4,871,580</b>	<b>2%</b>	<b>5,172,427</b>	<b>3%</b>
DBP	<b>3,412,844</b>	<b>1%</b>	<b>3,163,301</b>	<b>2%</b>
EWB	<b>11,598,315</b>	<b>5%</b>	<b>7,452,265</b>	<b>4%</b>
LBP	<b>29,949,216</b>	<b>12%</b>	<b>18,136,700</b>	<b>9%</b>
Malayan Bank	-	<b>0%</b>	<b>1,000,000</b>	<b>0%</b>
Maybank	<b>1,626,817</b>	<b>1%</b>	<b>2,547,598</b>	<b>1%</b>
MBTC	<b>3,665,859</b>	<b>2%</b>	<b>6,318,425</b>	<b>3%</b>
PNB	<b>2,643,844</b>	<b>1%</b>	<b>3,368,850</b>	<b>2%</b>
Planters Bank	<b>542,982</b>	<b>0%</b>	<b>542,982</b>	<b>0%</b>
PR Bank	<b>500,000</b>	<b>0%</b>	<b>500,000</b>	<b>0%</b>
PR Savings	<b>90,631</b>	<b>0%</b>	<b>72,228</b>	<b>0%</b>
PS Bank	-	<b>0%</b>	<b>3,083,396</b>	<b>2%</b>

RBA	5,094,613	2%	73,654	0%
RCBC	4,164,164	2%	4,108,976	2%
RCBC Savings	307,248	0%	306,406	0%
Robinson's Bank	-	0%	995,271	0%
Security Bank	221,450	0%	43,950	0%
UCPB	48,215,179	20%	46,998,354	23%
<b>Total</b>	<b>P 240,265,315</b>	<b>100%</b>	<b>P 203,043,372</b>	<b>100%</b>

General	12,674,886	7,429,399
Total	1,027,702,557	958,611,365
Add: Sales contract receivable	34,213,136	43,087,413
Unamortized discount and other deferred credits	0	
Allowance for credit losses	3,826,934	7,864,503
<b>Total Carrying Amount</b>	<b>P 1,058,088,759</b>	<b>P 993,834,275</b>

Under Sec. 362 of the Manual of Regulations for Banks, loans and other credit accommodations as well as deposits and usual guarantees by a bank to any other bank whether locally or abroad shall be subject to the Single Borrower's Limit of 25% of the Net worth as herein prescribed or P100 Million whichever is higher. Provided that the lending bank shall exercise proper due diligence in selecting a depository bank and shall formulate appropriate policies to address the corresponding risks involved in the transactions. As per BSP Manual of Regulations, banks are exempted on the ceiling of single borrower's limit (SBL) on deposit/investment placements to government banks, however excess of SBL on private banks are being considered if the accounts are used for clearing operation.

The Bank's SBL as of December 31, 2018 was registered at P 70,069,090.19.

The Interest Income received on Due from Other bank for the year ended December 31, 2018 and December 31, 2017 are P 729,816 and P 617,594, respectively.

#### 8. Held to Maturity Financial Assets

This account consists of:

	2018	2017
Investment in HTM Financial asset- Government	P 287,800,646	P 172,861,482
Add: Unamortized Premium- HTM	3,684,790	3,831,347
Less: Unamortized Discount- HTM	1,006,056	877,208
<b>Total</b>	<b>P 290,479,380</b>	<b>P 175,815,622</b>

The interest income from investment for the year ended December 31, 2018 and 2017 is P 6,262,793 and P 5,788,095, respectively. The interest rates for investment in HTM is from 2.125% to 6.125%.

#### 9 Loans and Receivables, Net

The loan receivables are stated at outstanding balances, net of estimated allowance for credit losses and unearned income/discounts, broken down as follows:

This account consists of:

	2018	%	2017	%
Current Loans	P 966,791,162	89%	P 923,640,301	91%
Past Due Loans	114,407,135	11%	85,609,230	8%
Items in Litigation	0	0%	3,889,482	0%
<b>Total</b>	<b>1,081,198,297</b>	<b>100%</b>	<b>1,013,139,013</b>	<b>100%</b>
Less: Unearned Income and Discounts	4,450,703		4,160,916	
<b>Total, net of discount</b>	<b>1,076,747,594</b>		<b>1,008,978,097</b>	
Less: Allow for Credit Losses Specific	36,370,151		42,937,333	

The total Allowance for Credit Losses of P 49,045,037 which composed the general and specific loan loss provisions amounting to P 12,674,886 and P 36,370,151, respectively. The bank is required to set-up loan loss provision in accordance with BSP Manual of Regulations (Circular 855).

The composition of and movements in this account follow:

	2018	2017
<b>Balance at beginning of year</b>		
Loans and receivables	P 50,366,732	P 40,486,198
Sales contract receivables	7,864,503	7,229,555
Accounts receivables		2,502,741
AFS investments		0
Non-current assets held for sale		561,255
	<b>58,231,235</b>	<b>50,779,749</b>
Impairment loss charged to operations	8,937,302	17,520,366
Recovery from impairment		(1,871,616)
Write-off/Adjustments to ROPA	(14,296,566)	(6,733,268)
<b>Balance at end of the year</b>		
Loans and receivables	49,045,038	50,366,732
Sales contract receivables	3,826,934	7,864,503
Accounts receivables		902,741
AFS investments		
Non-current assets held for sale		561,255
	<b>P 52,871,972</b>	<b>P 59,695,232</b>

Classification of loans:

As to Maturity:

	2018	%	2017	%
Due within one (1) year	P 111,034,845	10.27%	P 393,601,727	38.85%
Due beyond one (1) year	970,163,452	89.73%	619,537,286	61.15%
<b>Total Loan Portfolio</b>	<b>P 1,081,198,297</b>	<b>100%</b>	<b>P 1,013,139,013</b>	<b>100%</b>

As to Security:

	2018	%	2017	%
Unsecured	P 5,406,104	0.50%	P 5,080,457	0.50%
Secured by real estate mortgage	1,066,185,237	98.61%	1,004,509,673	99.24%
Secured by other type of securities	9,606,956	0.89%	3,548,883	0.26%
<b>Total Loan Portfolio</b>	<b>P 1,081,198,297</b>	<b>100.00%</b>	<b>P 1,013,139,013</b>	<b>100.00%</b>

**As to Concentration of Credits to Certain Industry/Economic Sector:**

	2018	%	2017	%
Wholesale and Retail Trade, Repair of Motor Vehicles, Motorcycle	130,176,112	12.04%	146,484,187	14.46%
Construction	28,170,731	2.61%	42,184,772	4.16%
Real Estate Activities	593,743,168	54.92%	363,290,996	35.86%
	39,808,611			
Agriculture, Forestry, And Fishing		3.68%	47,022,298	4.64%
Household Consumption	19,990,546	1.85%	10,975,203	1.08%
Transportation and Storage	5,931,026	0.55%	8,970,246	0.89%
Electricity, Gas, Steam and Air Conditioning	6,801,470	0.63%	11,765,019	1.16%
Education	1,739,139	0.16%	2,444,401	0.24%
Manufacturing	71,527,472	6.62%	71,604,550	7.07%
Mining	19,702,422	1.82%	49,115,108	4.85%
Accommodation and food service activities	54,256,468	5.02%	74,273,524	7.33%
Financial and insurance activities	12,739,534	1.18%	12,868,718	1.27%
Administrative and support service activities	636,923	0.06%	1,790,743	0.18%
Human Health and Social work activities	50,139,996	4.64%	49,965,276	4.93%
Arts, entertainment and recreation	1,133,722	0.10%	5,273,362	0.52%
Water supply, sewerage, waste management, and remediation activities	2,333,875	0.22%	4,316,427	0.43%
Other service activities	42,367,081	3.92%	110,794,186	10.94%
	<b>1,081,198,297</b>	<b>100.00%</b>	<b>1,013,139,013</b>	<b>100.00%</b>

The BSP considers that loan concentration exists when total loan exposure to a particular economic sector exceeds 30% of the total loan portfolio. BSP Memorandum Circular no. 212 series of 1999 (section 1 disclosure requirements in the notes to the audited financial statements). As of December 31, 2018, exposure to Real Estate Activities of Bank's loan portfolio is 54.92%

**9.2 Sales Contract Receivables**

Sales contract receivable represents assets acquired in settlement of loans through foreclosure or dacion en pago subsequently sold on installment basis whereby the title to the property is transferred to the buyers only upon full payment of the account.

This account consists of:

	2018	2017
Performing	P 24,347,015	P 27,262,434
Non-performing	9,866,120	15,824,980
Total	34,213,136	43,087,413
Less: Unamortized discount		
Net of Unrealized Profit on Asset Sold	34,213,136	43,087,413
Less: Allowance for Credit Losses	3,826,934	7,864,503

**Sales Contract Receivable-net**

**P 30,386,202**      **P 35,222,910**

Sale contract receivables amounting to in P 30,386,202 in 2018 and P 35,222,910 in 2017, net of realizable profits on assets sold/exchange represents contractual commitments of buyers in the acquisition of foreclosed properties of the bank. SCRs shall be also subject to impairment provision of PAS 39.

See note 9 for the movement in allowance for sales contract receivable

Reclassification	Balance at end of year	14,429,929	17,975,188	3,621,064	39,775,506	3,729,958	5,815,979	23,132,517	108,480,141	(95,372)
Accumulated Depreciation and Amortization	Balance at beginning of year	-	11,249,382	2,722,112	34,107,658	1,487,370	5,914,022	12,709,260	68,189,804	
Depreciation and amortization	Disposals	-	370,228	251,000	2,532,928	509,741	673,325	2,080,162	6,417,384	(2,033,332)
Reclassification		-	-	29165	(218,189)	587,606	241,752	(1,089,899)	(449,565)	
Balance at end of year	Net Book Value	14,429,929	11,619,609	3,002,278	36,422,396	2,584,718	4,795,767	13,699,524	72,124,292	
		14,429,929	6,355,579	618,785	3,353,110	1,145,240	1,020,212	9,432,993	36,355,849	

2017

Cost	Land	Building	Building Improvement	Furniture, Fixtures and Equipment	IT equipment	Transportation Equipment	Leasehold Improvement	Total
Balance at beginning of year	14,429,929	17,975,188	3,365,662	38,944,363	2,609,180	7,305,279	19,156,845	103,786,446
Additions	-	-	319,818	894,276	1,089,600	806,073	1,181,339	4,291,106
Disposals	-	-	(114,416)	(2,455,125)	(1,419,704)	-	(739,545)	(4,728,790)
Reclassification	-	-	-	-	-	-	-	-
Balance at end of year	14,429,929	17,975,188	3,571,064	37,383,514	2,279,076	8,111,352	19,598,639	103,348,762

10. Bank Premises, Furniture, Fixtures and Equipment

The reconciliation of the changes in this account from January 1 – December, 2018 follows:

	Land	Building	Building Improvement	Furniture, Fixtures and Equipment	IT equipment	Transportation Equipment	Leasehold Improvement	Total
December 31, 2018	14,429,929	17,975,188	3,621,064	39,775,506	3,729,958	5,815,979	23,132,517	108,480,141
Cost	14,429,929	17,975,188	3,621,064	39,775,506	3,729,958	5,815,979	23,132,517	108,480,141
Accumulated Depreciation and Amortization	0	11,249,382	3,002,278	36,422,396	2,584,718	4,795,767	13,699,524	72,124,292
Net carrying amount	14,429,929	6,355,579	618,785	3,353,110	1,145,240	1,020,212	9,432,993	36,355,849
December 31, 2017	14,429,929	17,975,188	3,571,064	37,383,514	2,279,076	8,111,352	19,598,639	103,348,762
Cost	14,429,929	17,975,188	3,571,064	37,383,514	2,279,076	8,111,352	19,598,639	103,348,762
Accumulated Depreciation and Amortization	0	11,249,382	2,722,112	34,107,658	1,487,370	5,914,022	12,709,260	68,189,804
Net carrying amount	14,429,929	6,725,806	848,952	3,275,856	791,706	2,197,330	6,889,379	35,158,958

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

	2018							
Cost	Land	Building	Building Improvement	Furniture, Fixtures and Equipment	IT equipment	Transportation Equipment	Leasehold Improvement	Total
Balance at beginning of year	14,429,929	17,975,188	3,571,064	37,383,514	2,279,076	8,111,352	19,598,639	103,348,762
Additions	-	-	50,000	2,391,992	1,450,882	-	3,533,878	7,426,751
Disposals	-	-	-	-	-	(2,200,000)	-	(2,200,000)

Accumulated Depreciation and Amortization Balance at beginning of year	10,879,154	2,900,712	33,893,620	1,661,537	5,496,608	11,825,778	66,657,409
Depreciation and amortization Disposals Reclassification	370,228	421,049	2,672,242	1,087,329	417,414	2,213,026	7,181,288
Balance at end of year	11,249,382	2,722,112	34,107,658	1,487,370	5,914,022	12,709,260	68,189,804
Net Book Value	14,429,929	6,725,806	848,952	3,275,856	791,706	2,197,330	6,889,379
							35,158,958

The value of the Bank premises, furniture, fixtures and equipment of P 36,378,849 net of accumulated depreciation as of December 31, 2018.

## 11. Investment Properties

Non-current Assets held for sale represents foreclosed properties by the Bank from its delinquent borrowers in settlement of the unpaid loan obligations. In consonance with BSP circular 520 and PFRS 5, the Bank had classified to this account its Investment Property in accordance with the Bank's intention of disposing-off these properties within a year period.

This account is consists of:

	2018	2017
Land	P 45,457,231	P 37,501,690
Improvements	14,099,538	14,093,330
Total	59,556,768	51,595,020
Less: Accumulated Depreciation	6,205,790	5,891,785
Net Amount	53,350,978	45,703,235
Less: Allowance for Credit Losses	516,680	561,255
<b>Net Carrying Amount</b>	<b>P 52,834,298</b>	<b>P 45,141,980</b>

The movement in Accumulated depreciation is as follows:

	2018	2017
Balance at beg. of the year	P 5,891,785	P 6,033,850
Additions	1,442,056	1,790,406
Disposal	(1,128,051)	(1,932,471)
Balance at end of the year	<b>P 6,205,790</b>	<b>P 5,891,785</b>

## 12. Other Assets

This account is consists of:

	2018	2017
<b>Financial Assets</b>		
Accounts Receivable	P 1,433,175	P 1,738,624
Accrued interest Receivable	465,507	
<b>Non-Financial Assets</b>		
Stationery & Supplies Unissued	1,329,500	807,677
PLDT 350 Shares	3,500	3,500
Prepaid Rent and other prepayments	412,687	671,951
Miscellaneous Assets-RBPI Mortgage Fund	81,432	81,432
Other Assets - Healthcare Fund	4,652,583	4,297,689
Petty Cash Fund	66,000	66,000
Retirement Benefit Asset	13,336,891	10,987,058
Total	21,781,275	18,653,930
Less: Allowance for Credit Losses	902,741	902,741
<b>Net Other Assets</b>	<b>P 20,878,534</b>	<b>P 17,751,189</b>

The movements in allowance for credit losses on receivable from customers follow:

	2018	2017
Balance at beginning of year	902,741	2,502,741
Provision for credit losses		
Write-off		(1,600,000)
Balance at end of year	902,741	902,741

### 13 Deposit Liabilities

This account consists of:

	2018		2017	
	P	%	P	%
Time Deposit	378,750,147	28%	370,098,243	31%
Savings	757,387,814	57%	647,303,894	54%
Demand Deposit	199,095,002	15%	187,842,348	16%
Total Deposit Liabilities	P 1,335,232,963	100%	P 1,205,244,485	100%

Savings Deposits are composed of regular savings accounts which are withdrawable upon demand and those with special terms and withdrawable at certain period of time. Time Deposits have different maturity dates maximum of which is five (5) years term/maturity and bear different interest rates based on the amount of deposits and term of placements. Time deposits with term of five (5) years or more are exempt from tax in accordance with BIR regulation. Total deposits for the year increased by P 129,988,478.43 or 10.79% over the figures of 2017.

### 14 Bills Payable

This account consists of:

	2018	2017
Land Bank of the Philippines	P 100,000,000.00	P 20,000,000

Interest rates are 5.91% and 4.0% for 2018 and 2017, respectively

### 15 Other Liabilities

This account consists of:

	2018	2017
Accounts Payable	P 18,520,477	P 2,230,223
Withholding Tax Payable	399,893	1,487,192
Dividends Payable	25,983,940	
Accrued Interest Payable - Time Deposit	1,097,797	1,487,192
Accrued Expense payable	360,506	
Premium Payable	157,279	490,360
Special Guarantee Fund LOI 1242	19,976	19,976
Miscellaneous payable		5,356,513
Due to the Treasurer of the Philippines	134,831	134,831
Total	P 46,674,699	P 11,206,287

Accounts Payable represents various liabilities incurred by the bank for its own account and the third parties arising from short term indebtedness/obligations still outstanding at the cut-off/ reporting date.

### 16 Share Capital

The Capital Stock of said corporation is Two hundred fifty million Pesos (P 250,000,000.00) and said capital stock are common shares divided into 2,500,000 common shares with a par value of P100 each share.

Under Circular 854 dated October 29,2014, Rural Banks with 1-10 branches in all other areas outside NCR are required to comply with the minimum capital of P40 Million within five (5) years. A capital build up program is also required to be submitted to the BSP within one (1) year from date of the circular's effectivity.

Total subscribed and paid-up ordinary shares amounted to P 225,947,300 or 2,259,473 shares

	2018		2017	
	Shares	Amount	Shares	Amount
Common stock - P100 par value, 2,500,000 authorized shares				
Common stock at the beginning of the year	2,259,473	P 225,947,300	2,054,073	P 205,407,300
Stock dividends declared and recorded-2017	0	0	205,400	20,540,000
Common stock at the end of the year	2,259,473	225,947,300	2,259,473	225,947,300
<b>TOTAL</b>	<b>2,259,473</b>	<b>225,947,300</b>	<b>2,259,473</b>	<b>225,947,300</b>

### Retained Earnings - Free

	2018		2017	
Balance, Beginning	P	76,286,435	P	99,121,499
Net Income		20,693,894		15,857,728
Provision and Adjustments		(18,389,397)		(6,855,427)
Dividend Declared during the year		(25,983,940)		(31,837,365)
<b>Balance, Ending</b>	<b>P</b>	<b>52,606,991</b>	<b>P</b>	<b>76,286,435</b>

### Retained Earnings-Appropriated

This account represents appropriation for contingencies particularly for accounts under health care fund and defined benefit cost- OCI amounting to P 7,022,194 and P 5,300,119, respectively.

### Capital Management

The primary objectives of the Bank's capital management are to ensure that it complies with externally imposed capital requirements and that it maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value. The Bank maintains sufficient capital necessary to support its primary purpose and/or undertakings which it has initiated and promoted. The Bank management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the Bank's business operations of unanticipated events created by consumer behavior or capital market conditions.

The Bank manages its capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

#### Regulatory Qualifying Capital

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

BSP Circular No. 688, Revised Risk-Based Capital Adequacy Framework for stand-alone thrift banks, rural banks and cooperative banks which took effect on January 1, 2012 represents BSP's commitment to align existing prudential regulations with international standards, which is consistent with the BSP's goal of promoting the soundness and stability of individual banks and of the banking system as a whole. BSP Circular No. 688 replaced BSP Circular No. 280 which is primarily based on Basel 1.

Under current banking regulations, the combined capital accounts of each bank should not be less than an amount equal to ten percent (10.00%) of its risk assets. The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio to total equity excludes:

- unbooked valuation reserves and other capital adjustments as may be required by the BSP;
- total outstanding unsecured credit accommodations to directors, officers, stakeholders and related interests (DOSRI);
- deferred tax asset or liability; and
- other regulatory deductions.

Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board of the BSP.

On October 9, 2014, BSP issued the Circular No. 854, which states that rural banks with head offices in areas outside the National Capital Region and with up to ten branches are required to comply with the minimum capital requirement of P 40 million.

#### **17 Interest Income**

This account consists of the following:

	2018	2017
Interest Income on Loans and Discounts & SCR	P 107,371,591	P 102,572,247
Interest on investment	6,262,794	617,594
Interest on deposit	729,815	5,788,095
<b>Total Interest Income</b>	<b>P 114,364,200</b>	<b>P 108,977,936</b>

#### **18 Interest Expenses**

This account consists of the following:

	2018	2017
On Savings Deposit	P 1,812,989	P 1,632,522
On Demand Deposit	475,709	420,306
On Time Deposits	7,021,730	6,897,792
On Bills Payable LBP	747,875	291,667
<b>TOTAL</b>	<b>P 10,058,303</b>	<b>P 9,242,287</b>

#### **19 Other Income**

This account consists of the following:

	2018	2017
Recovery on Charge Off Assets	P 193,463	P 1,871,616
Gain on Sale - Transportation & Equipment	599,999	488,333
Gain on Sale - ROPA	27,227,659	22,210,204
Other Income - Income from Rental of ROPA	50,000	332,650
Fees and commission income	3,964,296	4,393,406
Miscellaneous Income	2,117,167	3,273,519
<b>TOTAL</b>	<b>P 34,152,584</b>	<b>P 32,569,727</b>

#### **20 Compensation & Fringe Benefits**

This account consists of the following:

	2018	2017
Salaries and Wages	P 28,680,854	P 23,077,165
Other Compensation / Fringe benefits	8,062,793	6,298,533
Directors and Committee Members' Fee	2,640,000	2,836,400
Bank's Contribution to Retirement Fund	3,182,794	193,073
SSS / Pag- Ibig Premium Contribution	2,007,881	2,015,623
<b>Total</b>	<b>P 44,574,320</b>	<b>P 34,420,795</b>

#### **21 Retirement Plan**

This account consists of the following:

The reconciliation of the present value of the defined benefit obligation and the fair value of the plan assets to the recognized liability under the "Retirement benefit asset" account in the statement of financial position is as follows:

	2018	2017
Present value of defined benefit obligation	P 15,524,084	P 11,640,274
Fair value of plan assets	(35,507,687)	(27,276,479)
Asset ceiling	6,646,713	4,649,147
<b>Net defined benefit liability (asset)</b>	<b>P (13,336,890)</b>	<b>P (10,987,058)</b>

The movement in the defined benefit obligation is shown below:

	2018	2017
Present value of defined benefit obligation, beginning	P 11,640,274	P 9,385,387
Interest expense	663,496	504,934
Current service cost	1,066,248	756,763
Benefit paid from Plan assets		(713,008)
Actuarial (gains) losses- changes in financial assumptions	1,657,485	2,010,758
Actuarial (gains) losses- experience	462,680	(304,560)

Present value of defined benefit obligation, ending	P 15,490,183	P 11,640,274
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The movement in the plan assets is shown below:

	2018	2017
Fair value of plan assets, beginning	P 27,276,479	P 24,346,652
Interest income	1,638,825	1,360,756
Contributions	2,949,674	2,605,446
Benefit paid from plan assets		(713,008)
Remeasurement gain (loss) - return on plan assets	3,642,709	(323,367)
	<b>P 35,507,687</b>	<b>P 27,276,479</b>

The defined benefit cost recognized in the profit or loss statement consists of:

	2018	2017
Current service cost	P 1,066,248	P 756,763
Interest cost	(710,328)	(563,690)
	<b>P 355,920</b>	<b>P 193,073</b>

The defined benefit cost recognized in the other comprehensive income:

	2018	2017
Accumulated comprehensive income, beginning	P 5,056,197	P 4,099,572
Actuarial (gains) losses- DBO	2,154,066	1,706,198
Remeasurement (gain) loss- plan assets	(3,642,709)	323,367
Remeasurement (gain) loss- changes in the effect of the asset ceiling	1,732,565	(1,072,940)
Defined benefit cost in OCI- Expense (Income)	243,922	956,625
Accumulated comprehensive income, ending	<b>P 5,300,119</b>	<b>P 5,056,197</b>

The principal assumption used to determine retirement benefit obligation of the company are as follows:

	2018	2017
Discount rate	7.53%	5.70%
Salary increase rate	8%	5%

The summary of movements in the net defined benefit liability (asset) is as follows:

	2018	2017
Beginning Net defined liability (Asset)	P (10,987,058)	P (9,531,310)
Defined benefit cost recognized in P&L	355,920	193,073
Defined benefit cost recognized in OCI	243,922	956,625
Contributions	(2,949,674)	(2,605,446)
Closing Net defined liability (asset)	<b>P (13,336,890)</b>	<b>P (10,987,058)</b>

Sensitivity Analysis, Year-end defined benefit obligation (DBO)

	2018	2017
a. 1. Decrease in DBO due to 100 bps increase in discount rate	(1,411,876); (9.1%)	(1,085,463); (9.3%)
2. Increase in DBO due to 100bps decrease in discount rate	1,642,327; 10.6%	1,276,999; 11%
b. 1. Increase in DBO due to 100bps increase in salary increase rate	1,618,444; 10.4%	1,157,041; 9.9%
2. Decrease in DBO due to 100bps decrease in salary increase rate	(1,418,358); (9.1%)	(1,006,394); (8.6%)
c. Increase in DBO, no attrition rates	8,627,299; 55.6%	6,342,637; 54.5%

Allocation of plan assets

	2018	2017
Cash and cash equivalents	92%	91%
Loans	8.45%	8.99%

## 22 Other operating expenses

This account consist of the following:

	2018	2017
Management & Prof. Fee	P 907,025	P 1,399,831
Supervision and Examination Fee	307,044	275,325
Litigation and Asset Acquired	3,184,628	3,971,855
Stationery and Supplies	987,179	845,873
Travelling	1,716,895	1,768,002
Documentary Stamps	134,477	206,439
Rental	7,345,551	5,629,206
Membership Fees and Dues	49,130	49,480
Representation and Entertainment	1,962,245	1,002,264
Information Technology	0	
Publicity and Advertisement	1,214,889	1,923,722
Donation	141,198	132,343
Fines and Penalties	252,384	
Security and Messengerial Services	2,479,201	2,381,780
Power Light Water	2,210,420	4,352,946
Postage, Telephone & Telegram	2,524,901	
Fuel Lubricant	1,178,350	912,503
Repair Maintenance	5,152,432	1,635,775
Periodicals and Magazines	41,583	46,337
Insurance expense- pdic	1,322,188	3,363,120
Insurance expense- others	3,180,278	
Commission fees		831,000
Miscellaneous	21,994,060	29,299,181
Advertising and Publicity expense	2,341,247	
Professional fees	180,772	
Medical, Dental, and Hospitalization	486,195	368,762
<b>Total</b>	<b>P 61,294,272</b>	<b>P 60,395,744</b>

### 23 Depreciation/Amortization

This account is consists of:

	2018	2017
Depreciation on FFE	P 2,532,927	P 2,672,242
Depreciation on Building	621,227	791,277
Depreciation on leasehold improvement	2,080,162	2,213,026
Depreciation on Transportation Equipment	673,325	417,414
Depreciation on Information Equipment	509,741	1,087,329
Depreciation on ROPA	1,442,056	1,790,406
Impairment loss on ROPA	136,425	0
<b>Total</b>	<b>P 7,995,864</b>	<b>P 8,971,694</b>

### 24 Commitments and Contingencies

#### Other commitments and contingencies

- The bank is a plaintiff to various cases arising from the collection suits pending in courts for claims against delinquent borrowers of the bank. The final decision of which cannot be determined at present.
- The bank has no pending legal cases arising from its normal operation that will put the bank as defendant as a result of violation of transactions against its clients/ depositors.
- The bank had no outstanding issuances of bank guarantee and other similar credit instruments that will put the bank into obligation in case of non-compliance by the buyer.
- The bank had no outstanding outward and inward bills for collection at the end of the year.

### 25 Related Party Transactions

The compensation of key management personnel included under 'Compensation and benefits' in the statement of income are as follows:

	2018	2017
Basic Salary of Key personnel	5,568,635	4,248,127
Other Staff benefits	2,378,335	2,062,579
	<b>7,946,970</b>	<b>6,310,706</b>

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

The bank has a long-term lease agreement with Priser Trading Corporation for the rentals of the following branches:

BRANCH (LOCATION)	Lease Term	Consummation date - Expiration Date	Rental Fees, 2018	Rental Fees, 2017
Porac Branch (Cangatba, Porac)	1 year	01/01/2018 - 12/31/2018	P 878,460	P 878,460
Angeles-Plaridel Branch (Angeles)	25 years	10/01/2018 - 09/30/2035	460,606	418,733
Head Office (Angeles)	12 years	4/1/2018 - 03/31/2030	1,189,656	1,149,846

Corporate Office (Angeles)	15 years	02/01/2015 - 01/31/2030	3,504,836	2,299,692
<b>TOTAL</b>			<b>P 6,933,558</b>	<b>P 4,746,730</b>

All rental fees shall be increased by 10% every year beginning from the date of consummation

In the ordinary course of business, the Bank has loan transactions with certain directors, officers, stockholders and related interest (DOSRI). Under existing policies of the Bank, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risk. The amount of individual loans to DOSRI, of which seventy (70%) must be secured, should not exceed the amount of his deposits and book value of his paid-in capital in the Bank. In the aggregate, loans to DOSRI should not exceed the Bank's total capital funds or fifteen percent (15%) of the Bank's total loan portfolio, whichever is lower.

	2018	2017
<b>A. Aggregate Ceiling</b>		
1. Total Loan Portfolio	P 1,081,198,297	P 1,013,139,013
2. 15% of #1	162,179,745	151,970,852
3. Adjusted Capital per FRP	288,374,249	294,302,457
4. Item A.2 or A.3 whichever is lower	<b>P 162,179,745</b>	<b>P 151,970,852</b>
<b>B. Ceiling on Unsecured Loans</b>		
1. Secured DOSRI loans	P 13,274,597	P 18,439,820
2. Unsecured DOSRI loans		
3. Total	13,274,597	18,439,820
4. 30% of Item A.4	48,653,923	45,591,256
5. 30% of B.3	3,982,379	5,531,946
6. Item B.4 or B.5 whichever is lower	<b>P 3,982,379</b>	<b>P 5,531,946</b>
<b>C. Compliance with Aggregate Ceiling (Item A.4 -B.3)</b>	<b>P 148,905,148</b>	<b>P 133,531,032</b>
<b>D. Compliance with Ceiling on Outstanding Unsecured Loans (Item B.6-B.2)</b>	<b>P 3,982,379</b>	<b>P 5,531,946</b>
<b>E. Percent of DOSRI loan to total loan portfolio</b>		
DOSRI loan	P 13,274,597	P 18,439,820
Total loan portfolio	P 1,081,198,297	P 1,013,139,013
	1.23%	1.82%
<b>F. Percent of unsecured DOSRI loans to total DOSRI loans</b>		
Unsecured DOSRI loan	P -	P -
Total DOSRI loan	P 13,274,597	P 18,439,820
	0.00%	0.00%

**G. Percent of past due DOSRI loans to total DOSRI loans**

Past Due DOSRI loan	P	-	P	1,273,340
Total DOSRI loan	P	13,274,597	P	18,439,820
		0.00%		6.91%

**H. Percent of non-performing DOSRI loans to total DOSRI loans**

Non-performing DOSRI loan	P	-	P	1,000,000
Total DOSRI loan	P	13,274,597	P	18,439,820
		0.00%		5.42%

**26 Income Taxes**

The accounts consists of the following:

Provision for income tax consists of:

	2018		2017	
Current:				
RCIT	(P	1,344,981)	P	2,171,625
Final tax		1,748,152		243,339
	P	403,173	P	2,414,964

The reconciliation between the statutory income tax and effective income tax follow:

	2018		2017	
Statutory income tax	P	19,348,914	P	22,534,128
Income tax effects of:				
Interest income subject to final tax		(6,992,609)		(6,405,689)
Nondeductible expenses		2,884,451		2,642,347
Limit- 1% representation				4,908
Interest income from HGC		(1,815,450)		(1,152,519)
Provision for impairment				(1,871,616)
Provision for income tax		13,425,306		15,751,559
Effect of Timing (Temporary) differences				(2,412,373)
Taxable Income	P	13,425,306	P	13,339,186

**Deferred Tax Asset**

The composition of and movements in this account follow:

	2018		2017	
Beginning balance	P	17,908,570	P	15,233,925
Additions		0		5,256,110
Reversal		(12,535,999)		(2,581,465)
	P	5,372,571	P	17,908,570

Under the Philippine tax laws, the bank is subject to percentage and other taxes as well as income taxes. Percentage and other taxes paid consist primarily of gross receipts tax (GRT) and documentary stamp tax (DST).

**Computation of Income Tax:**

	2018	
Net Income per books	P	19,348,914
Add: Non-deductible Expenses/Taxable Other Income		
Provision for Credit Losses on Loans and Receivables		
Interest expense reduced by 33% income subject to final tax		2,884,451
Total		22,233,365
Less: Non-taxable Income and Income Subjected to Final Tax		
Interest Income Subject to Final Tax		6,992,609
Interest Income under HGC		1,815,450
Total		13,425,306
Net Taxable Income (Loss)		13,425,306
Tax Rate		30%
Normal Corporate Income Tax		4,027,591
Minimum Corporate Income Tax		1,762,935
Income Tax Due		4,027,591
Less: Payments/Tax Credits		2,629,824
<b>Income Tax Still Due/(Overpayment)</b>	<b>P</b>	<b>1,397,766</b>

**Minimum Corporate Income Tax**

	2018	
Revenue	P	114,364,200
Cost of Revenue		53,377,406
Gross income		60,986,794
Add: Other Income		34,152,584
Less: Interest income subject to final tax		6,992,609
Total Gross income		88,146,768
MCIT rate		2%
Minimum Corporate income tax	P	1,762,935

In computing the MCIT of the bank, cost of services of the bank comprises of interest expense & direct operating expenses.

**Percentage Taxes (Gross Receipt Tax)**

Under Section 121 of the National Internal Revenue Code, there shall be tax on gross receipts derived from all sources within the Philippines by all banks and non-bank financial intermediaries in accordance with the following rates:

- a.) On interest commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipt is derived:

Maturity period of five (5) years or less	5%
Maturity period is more than five (5) years	1%

- b.) On dividends.....0%
- c.) On royalties, rentals of property, real or personal,  
Profit from exchange and all other items treated  
As gross income under Section 32 of the NIRC.....7%
- d.) On net trading gains within the taxable year on  
Foreign currency, debt securities, derivatives and  
Other similar financial instruments .....7%

**Documentary Stamp**

Pursuant to revenue regulation No. 13-2004 dated December 23, 2004 " Implementing provisions of Republic Act No.9243, an act rationalizing the provisions of the documentary stamp tax of the Internal Revenue Code of 1997 (as amended), below are some of the circular affecting the operation of bank and non-bank financial intermediaries:

**Section 174: New Rate of DST on Original Issuance of Shares of Stock**

There shall be two pesos (P2.00) on each two hundred pesos (P 200.00) or fractional part thereof of the par value of such shares of stock. Provided that in case of original issue of shares of stocks without par value, the amount of documentary stamp herein prescribed shall be based upon the actual consideration for the issuance of such shares of stocks. Provided further that in the case of stock dividends, or the actual value represented by each share.

**Section 179: New Rate of DST on all Debt Instruments (Documents, Loan Agreements, Instruments and Papers)**

One peso and fifty centavos (P1.50) on each two hundred pesos (P 200.00) or any fractional part thereof of the issue price of any such debt instrument. If the debt instrument has a maturity date of less than one (1) year, the DST due shall be computed based on the number of days the instrument is outstanding as a fraction of 365 days.

**Taxes and Licenses**

This includes all other taxes, local and national, incurred in 2018 and lodged under the " Taxes and Licenses" account in the statement of income, as follows:

		2018	
<b>Local</b>	Business permit	529,589.76	
	Others	215,577.42	P 745,167
<b>National</b>	Percentage Tax	4,494,444.44	
	Annual Registration Fee	5,500.00	4,499,944
<b>Total</b>			<b>P 5,245,111</b>

The Bank does not have any outstanding tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR at December 31, 2018

**27 Other Matters**

**1. Anti-Money Laundering Act (AMLA)**

Overall the Bank has completely satisfied the prevention risk management, control framework, and the reporting requirements as required by the Bangko Sentral ng Pilipinas (BSP) and RA 9160 as amended by RA 9194 otherwise known as the Anti-Money Laundering Act 2001.

**2. Corporate Governance**

As of December 31, 2018, all of the bank's directors had undergone the requirements for corporate governance as confirmed by the Monetary Board as mandated by MORB Subsec. X147.4.

**28 Aggregate Amount of Secured Liabilities and Assets Pledged**

As of December 31, 2018, the bank has no secured liabilities and assets pledged.

**29 Financial Performance Ratios**

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

	2018	2017
Return on Average Equity	7.08%	5.19%
Return on Average Assets	1.25%	1.06%
Net Interest Margin	6.84%	6.65%
Tier 1 Capital Ratio	17.76%	19.87%
Tier 2 Capital Ratio	0.82%	0.525
Capital Adequacy Ratio	18.58%	20.39%

- End of Report -

**RURAL BANK OF PORAC (PAMPANGA), INC. (THE "BANK")**  
**COMPARATIVE FINANCIAL HIGHLIGHTS**

	2018	2017	Increase (Decrease)
<b>FOR THE YEAR</b>			
TOTAL INCOME	148,516,784	141,547,663	6,969,121
TOTAL EXPENSES	129,167,874	119,013,535	10,154,339
NET INCOME	19,348,914	22,534,128	(3,185,219)
<b>EARNINGS PER SHARE</b>			
Ordinary Shares	9.16	7.02	2.14
RETURN ON AVERAGE EQUITY	7.08%	5.19%	1.89%
RETURN ON AVERAGE ASSETS	1.25%	1.06%	0.19%
NET INTEREST MARGIN	6.84%	6.65%	0.19%
<b>AT YEAR END</b>			
TOTAL ASSETS	1,766,189,271	1,545,437,313	220,751,957
LOANS AND RECEIVABLES (NET)	1,058,088,759	993,834,275	64,254,483
LIQUID ASSETS	592,659,261	435,642,342	157,016,918
FIXED ASSETS	36,355,849	35,158,956	1,196,893
DEPOSIT LIABILITIES & DUE TO BSP	1,335,232,963	1,205,244,485	129,988,478
OTHER LIABILITIES	45,576,901	11,206,286	34,370,615
EQUITY ACCOUNTS	280,276,366	304,199,732	(23,923,366)
<b>BOOK VALUE PER SHARE</b>			
Ordinary Shares	123.28	133.76	-10.48
CAPITAL ADEQUACY RATIO	18.58%	20.39%	-1.81%
PAST DUE RATIO	10.58%	8.83%	1.75%
RATIO OF LIQUID ASSETS OVER DEPOSIT LIABILITIES & DUE FROM BSP	44.39%	36.15%	8.24%
RATIO OF LIQUID ASSETS OVER DEPOSIT LIABILITIES & DUE FROM BSP OTHER LIABILITIES	42.92%	35.81%	7.11%
DEBT TO EQUITY RATIO	5.43:1	4.08:1	.03:1
RATIO OF TOTAL FIXED ASSETS OVER EQUITY ACCOUNTS	12.97%	11.56%	1.41%

(See Notes to Financial Statements)

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics				
PFRSs Practice Statement Management Commentary				
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓			
PFRS 8	Operating Segments			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PFRS 9*	Financial Instruments	✓		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
PFRS 10*	Consolidated Financial Statements			✓
PFRS 11*	Joint Arrangements			✓
PFRS 12*	Disclosure of Interests in Other Entities			✓
PFRS 13*	Fair Value Measurement			✓
<b>Philippine Accounting Standards</b>				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Balance Sheet Date	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures			✓
PAS 19 (Amended)	Employee Benefits	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates			✓
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements			✓
PAS 28 (Amended)*	Investments in Associates and Joint Ventures			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 31	Interests in Joint Ventures			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
Amendment to PAS 39: Eligible Hedged Items			✓	
PAS 40	Investment Property	✓		
PAS 41	Agriculture			✓
<b>Philippine Interpretations</b>				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease			✓
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 8	Scope of PFRS 2			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives			✓
SIC-21	Income Taxes – Recovery of Revalued Non-Depreciable Assets			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓