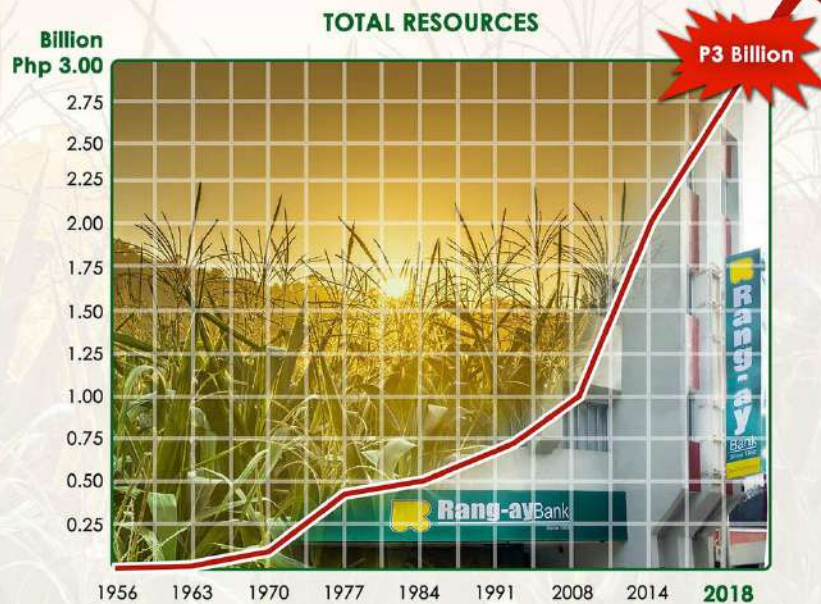


ANNUAL REPORT 2018



WWW.RANGAYBANK.COM
[FACEBOOK.COM/RANGAYBANK](https://www.facebook.com/RANGAYBANK)
 (072) 242 - 5661 TO 63/FAX (072) 242 - 56660
 NISCE - QUEROL BUILDING, #67 LUNA STREET
 SAN FERNANDO CITY, LA UNION


Rang-ayBank
 Since 1956

MISSION

To hasten progress in the communities of the Ilocos Region and the Cordilleras through accessible and affordable banking services.

Papardasen ti panagdur-as dagiti komunidad iti Kailokuan ken Cordillera babaen kadagiti nadaras a sagrapen ken nalaka a magtengan a serbisio ti panagibanko.

Pabilisin ang progreso sa mga komunidad ng Ilocos Region at Cordillera Administrative Region sa pamamagitan ng pagbibigay ng abot-kayang mga serbisyong pagbabangko.

VISION

Empowering North Luzon with globally competitive banking services.

Pabilegen ti Amianan a Luzon kadagiti serbisio ti panagibanko a di maartapan kadagiti global a kompetision.

Palakasin ang Hilagang-Luzon sa pamamagitan ng pandaigdalang pakikipagtagisan ng kakayahan sa serbisyo ng pagbabangko.

BREACHING Php3 BILLION



With the cooperation and dedication of all officers and staff, Rang-ay Bank continues to maintain its status as the biggest rural bank in the Ilocos and Cordillera Regions and breached the P3 Billion mark in total resources as of December 31, 2018

TABLE OF CONTENTS

I. CORPORATE POLICY	
• Vision & Mission	
• About Rang-ay Bank	01
II. FINANCIAL HIGHLIGHTS	
• A two (2) year comparative presentation	03
III. FINANCIAL CONDITION AND RESULTS OF OPERATION	
• Statement of Condition	04
• President's Report	05
- Operational Highlights	06
- Corporate Social Responsibility	16
IV. RISK MANAGEMENT FRAMEWORK	
• Risk Management General Policy	20
• Anti-Money Laundering Governance & Culture	21
V. CORPORATE GOVERNANCE	
• Corporate Governance Structure	22
• Board of Directors	23
• Education Program for Directors & Senior Management	26
• Performance Assessment Program	29
• Trainings & Seminars for Officers & Staff	30
• Retirement & Succession Policy	31
• Remuneration Policy	33
• Related Party Transactions Policy	34
• Dividends Policy	34
• Self-Assessment Function	35
• Consumer Protection Practices	37
• Consumer Assistance Report	38
VI. CORPORATE INFORMATION	
• Organizational Structure	39
• Products & Services Offered	40
• Branch Network	41
• List of Banking Units	46
VII. LIST OF STOCKHOLDERS	
• Common Stockholders	47
• Preferred Stockholders	49
VIII. AUDITED FINANCIAL STATEMENTS (AFS) WITH AUDITORS OPINION	
• Statement of Financial Position	51
• Statement of Income & Expense	52
• Capital Structure & Adequacy	53
• Audited Financial Statements (attachment)	

ABOUT RANG-AY BANK

Rang-ay Bank, established under then Republic Act 720, otherwise known as the Rural Bank Act was established to promote comprehensive rural development with the end in view of attaining equitable distribution of opportunities, income and wealth; a sustained increase in the amount of goods and services produced by the nation and expanding productivity as a key in raising the quality of life for all, especially the underprivileged. The bank was established for the purpose of providing adequate credit facilities to farmers and merchants, cooperatives of such farmers and merchants and in general, the people of rural communities on reasonable terms.

Rang-ay Bank, continues to be the biggest rural bank in the Ilocos, Pangasinan and the Cordillera provinces playing a vital role in the local economy by serving farmers, fisherfolks, micro entrepreneurs and all those who seek to improve their lives by engaging in productive endeavors. It has consistently provided affordable and accessible credit to the agricultural sector, MSMEs and consumer loans. It offers borrowers a transparent application process with one of the lowest interest rates and fees in the market. Any project or business venture is qualified, be it for business, agriculture, housing, renovation, purchase of vehicle, education, consumption or placement fees. The bank even accepts tax declarations as collateral. As a countryside financial institution, the bank can accept properties covered only by tax declarations as a security in lieu of titled properties should a borrower have no titled properties. Rang-ay Bank also has access to specialized funds for agricultural, industrial and commercial loans for an lending to agri-business and micro, small and medium enterprises. The bank understands the unique situation of local businesses and borrowers since Rang-ay Bank is based in the province. Processing of housing, business and agricultural loans do not need to be sent to Manila and can take as short as 5 working days.

If one has no collateral, he may avail of the several collateral free-loan programs of the bank. It has various salary, teachers, pensioners, micro-finance and micro-agriculture loan programs available for qualified applicants. The bank is one of the first Accredited Lending Partners of the Department of Education Automatic Payroll Deduction System (APDS). For salary loan programs, barangay loan programs and pensioner programs, loans can be released within 1-day.

Rang-ay Bank is compliant to Republic Act no. 9501, otherwise known as "Magna Carta for Micro, Small and Medium Enterprises (MSMEs)" and BSP Circular No. 625 dated 14 October 2008. Mandatory allocation of credit resources for micro and small enterprises (MSEs) shall be at least eight percent (8%) and two percent (2%) for medium enterprises of the total loan portfolio.

Likewise, the Bank is compliant with Republic Act 10000 "Mandatory Credit Allocation for Agriculture and Agrarian Reform Credit". All banking institutions, whether government or private, shall set aside at least twenty-five percent (25%) of their total loanable funds for agriculture and fisheries credit in general, of which at least ten percent (10%) of the loanable funds shall be made available for agrarian reform beneficiaries.

Compliance with Magna Carta for Micro, Small and Medium Enterprises under R.A No. 6977

Compliance with Prescribed Allocation of Loan Portfolio to:	Universal & Commercial Banks (Dec-18)	Thrift Banks (Dec-18)	Rural & Cooperative Banks (Dec-18)	Rang-ay Bank (Dec-18)
A. Micro & Small Enterprises (8% of total loan portfolio net of exclusion)				
Percentage of Compliance	2.53%	4.90%	24.01%	57.47%
B. Medium Enterprises (2% of total loan portfolio net of exclusion)				
Percentage of Compliance	4.39%	5.01%	10.62%	13.10%

TOTAL MSME: 10% 9.91% 9.91% 34.63% 70.57%

Source: Supervisory Data Center, Financial Supervision Sector
Updated as of 29 March 2019

Compliance with Agri-Agra Reform Credit Act of 2009 (R.A No. 1000)

Compliance with AGRA (10% of Loanable Funds Generated)	Universal & Commercial Banks (Dec-18)	Thrift Banks (Dec-18)	Rural & Cooperative Banks (Dec-18)	Rang-ay Bank (Dec-18)
Percentage of Compliance vs. Required 10% for AGRA	0.99%	1.27%	11.18%	17.98%
Compliance with AGRI (15% of Loanable Funds Generated)				
Percentage of Compliance vs. Required 15% for AGRI	13.18%	7.48%	24.03%	25.79%

TOTAL AGRI AGRA 25% 14.17% 8.75% 35.21% 43.77%

Source: Supervisory Data Center, Financial Supervision Sector
Updated as of 28 March 2019

FINANCIAL HIGHLIGHTS

(Audited Financial Statements)

	2018	2017
Profitability		
Total Net Interest Income	P 141,849,254	P 122,947,039
Total Non-Interest Income	46,058,880	56,996,656
Total Non-Interest Expenses	136,592,737	133,897,316
Pre-provision profit	51,315,397	46,046,379
Allowance for Credit Losses	5,133,815	1,785,335
Net Income Before Income Tax	46,181,582	44,261,044
Income Tax	3,536,631	3,500,312
Net Income After Income Tax	42,644,951	40,760,732
Selected Balance Sheet Data		
Liquid Assets	P 2,920,191,170	2,485,812,724
Gross Loans	2,030,028,992	1,656,079,526
Total Assets	3,035,162,344	2,601,464,071
Deposits	2,313,406,139	2,021,880,913
Total Equity	516,553,161	477,155,882
Selected Balance Sheet Data		
Return on average equity	P 8.85%	8.89%
Return on average assets	1.62%	1.64%
Capital Adequacy Ratio	19.47%	21.29%
Per common share data		
Book Value	101.16	107.47
Other		
Cash dividends declared	P 7,771,659	6,262,149
Headcount	241	226
Officers	36	35
Staff	205	191

28 April 2019

OUR DEAR STOCKHOLDERS,

The year 2018 has just been concluded. On this occasion, we are glad to inform you of the performance and results of operation during the year of RANG-AY BANK (A Rural Bank), Inc.

STATEMENT OF CONDITION

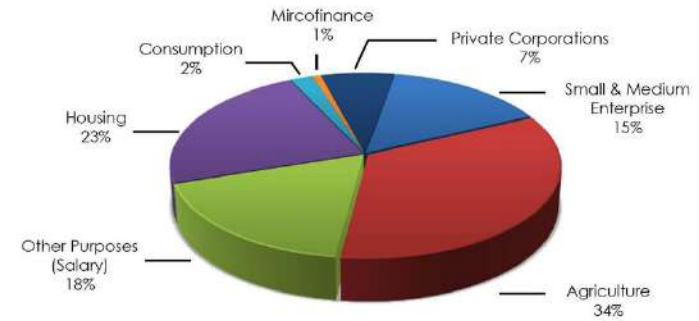
Rang-ay Bank continues to maintain its status as the biggest bank in its class in the entire Ilocos and Cordillera Regions and reached another landmark by breaching the P3 Billion mark in total resources as of December 31, 2018. Compared to the previous year, the bank posted a growth of 17% in total assets to reach this new plateau. As of year-end, the total resources of the bank stood at P3.051 Billion.

The milestone is attributed to the increase in total loan portfolio of P377 million from the previous year, a growth of more than 22%. Likewise, Rang-ay Bank's total deposits grew by P292 million or a 14% rise compared to the previous year. Growth in deposits shows the continuing trust and confidence of the depositing public. At present, the bank offers regular and special savings deposit accounts, time deposits, and demand deposits to its clientele. Growth in loan portfolio was driven by the thrust of the bank to reach out not only to businesses and industries but also to address the credit needs of SMEs, micro-entrepreneurs, public & private employees and farmers in areas where its 29 branches are located.

Loans were extended to 7,748 borrowers for the entire year and aggregated more than P3.083 billion and distributed to the following endeavors:

PURPOSE	NUMBER OF ACCOUNTS	AMOUNT OF LOANS GRANTED	%
Agriculture	2,642	1,099,543,290.00	35.66%
Small & Medium Enterprises	1,175	1,017,144,080.00	32.99%
Private Corporations	537	503,254,900.00	16.32%
Housing	1,783	186,571,600.00	6.05%
Other Purposes (Salary)	1,384	170,263,260.00	5.52%
Consumption	166	104,017,800.00	3.37%
Microfinance	61	2,354,000.00	0.08%
TOTAL	7,748	3,083,148,930.00	100.00%

PIE CHART AS TO NUMBER OF ACCOUNTS:



DIVIDENDS

The Board of Directors in Resolution 2019-40 declared cash dividends to stockholders on record as of December 31, 2018. The following is a summary of the said declaration:

a. 3% cash dividends to common stockholders (P251,585,000.00 X .03)	P 7,547,550.00
b. 3% cash dividends to private preferred stockholders (P7,470,300.00 X .03)	224,109.00
TOTAL	<u>P 7,771,659.00</u>

The total cash dividends declared for the year is higher than the previous year by P1,509,510 or a 24% increase in total cash payout.

OPERATIONAL HIGHLIGHTS

BSP RENEWS ACCREDITATION OF RANG-AY BANK AS RFI

The Bangko Sentral ng Pilipinas (BSP) once again reaffirmed 8 rural banks accredited as rural financial institutions (RFIs) and announced the 21 cooperative groups which were also given the go-signal to act as RFIs. The RFIs were established as part of the implementation of the Agri-Agra Reform Credit Act of 2009.

BSP's list of rural banks approved as RFIs have been listed since 2012. The list serves as guide to inform the public of which banks to approach for agri-agra credit. The banks are RANG-AY BANK, Rural Bank of Kiamba (Sarangani), Producers Bank, Rural Bank of Sta. Catalina, Rural Bank of Pilar, Common Wealth Rural Bank, Rural Bank of Bay and Rural Bank of Angeles.



DEPED RENEWS RANG-AY ACCREDITATION



The partnership of Department of Education and the bank continues more than a decade of cooperation to uplift the socio-economic condition of public school teachers & support personnel by providing them financial assistance for income generating activities, housing and house renovations, consumer or emergency needs through its Salary Loan Facility.

The Department of Education has re-approved Rang-ay Bank's accreditation under Automatic Payroll Deduction System (APDS) Program with APDS Code No. 0300. The Terms and Conditions of the Automatic Payroll Deduction System (APDS) Accreditation (TCAA) for Loans were signed 24 May 2018 at the Department of Education's Employee Account Management Division, Office of the Undersecretary for Finance, DepEd Complex, Pasig City. This allows the bank to offer its salary loan program for DepEd personnel in the Ilocos and Cordillera regions where Rang-ay has 29 banking offices. The re-accreditation of Rang-ay is an indication of the bank's continued compliance with all the regulations and guidelines set by the Department of Education. In accordance with DepEd Order No. 18, Series of 2018, new and improved guidelines of Teachers Loans were instituted for the extension of loans to DepEd personnel.

MICROINSURANCE

The Bank offers micro insurance which provides affordable life and accident insurances with a premium less than Php 500 a year. Clients may avail family package for married or single principal members for death benefits, accidental death & permanent disability, accidental medical reimbursement, daily confinement benefits for maximum of 30 days, and instant abuloy. Maximum of eight (8) units per person may be availed for a bigger insurance coverage.

Presentation to Barangay Officials

The Bangar, La Union branch marked its 6th Anniversary on March 6, 2018 by hosting a meeting of barangay officials. The branch presented the 'CB Kalinga Micro-Insurance' and other Rang-ay Bank products and services to the Liga ng Barangay headed by ABC President Hon. Edgar Ferido.



Presentation to DENR Bangui

Rang-ay Bank Bangui Branch presented the bank's Microinsurance Program and Salary Loan Program to the local officers of Department of Environment and Natural Resources (DENR)-Bangui February 5, 2018 at Brgy. Manayon, Bangui, Ilocos Norte.



The bank offers micro-insurances, providing cheap and affordable life and accident insurances with a premium lower than Php500 a year. Partnered with the Country Bankers Life Insurance Corporation (CB Kalinga), the bank hopes that CB Kalinga can provide people in the community added protection from accidents and sicknesses.

TWO NEW BRANCHES

The homegrown Rang-ay Bank expanded its branch network to serve more and more clients. Rang-ay Bank, the widest-area rural bank in the Ilocos and Cordillera Region secured BSP authority to open branches for a total of 29 branches in the Rang-ay Bank Network. Since these will be full service branches, it caters to all banking services from deposits, payments of SSS premiums and receipts of SSS pensions, instant salary loans and remittance services, among others.

San Fernando City (L.U.) Highway Branch Inauguration

Rang-ay Bank inaugurated its San Fernando Highway (La Union) Branch on January 16, 2018 and held a reception at One Nisce Place Events Hall, ONP Building, City of San Fernando, La Union.

The inauguration started with the blessing of the new branch office officiated by Rev. Father Roberto Collado. Cutting the ceremonial ribbon were La Union Governor Francisco Emmanuel Ortega III, Mrs. Geraldine Ortega, Rang-ay Bank President & CEO Ives Nisce and Vice-President Ives Jesus Nisce II.



San Fernando Highway Branch is the 11th banking office of Rang-ay Bank in the province of La Union and 28th overall. The opening of San Fernando Highway Branch is in line with the bank's mission and vision of hastening the wheels of progress in the countryside by bringing the benefits of modern banking to more localities in Northern Luzon.

◆ Rosario (L.U.) Branch Inauguration and Blessing

The formal opening of Rang-ay Bank Rosario (La Union) Branch was held last April 18, 2018. The inauguration started with the cutting of the ceremonial ribbon led by Provincial Board Member Bellarmin Flores II and former PRC Board of Dentistry Chair Dr. Rose Canlas-Nisce, with Bank President and CEO Ives Nisce and Vice-President Ives Jesus Nisce II, together with business partners, stakeholders and staff. Rev. Father Noel Peter Lazo officiated the blessing.



► STRATEGIC PLANNING

Rang-ay Bank conducted its 2019 Strategic Planning in a 2 day workshop amidst the pine trees of Baguio City on October 20 & 21, 2018. The workshop was attended by members of the bank's Board of Directors, Senior Management, Consultants and other Top Rated Officers. The objective of the workshop is to prepare for the coming year and strategize by working as a team to achieve its targets for 2019.



The planning workshop is an annual exercise of management and its corps of officers in a concerted effort to realize the bank's vision of "Empowering North Luzon with globally competitive banking services" and achieve its mission "To hasten progress in the communities of the Ilocos and Cordillera region through accessible and affordable banking services".

► SUPPORTING GOVERNMENT INITIATIVES

◆ SSS 2018 Best Collecting Partner Bank

The *Balikat ng Bayan Awards*, established in 1995, is the annual recognition program of the Social Security System (SSS) for partners who have helped achieve its mandate. It is the SSS's way of acknowledging the value of its partnerships with other sectors for their unwavering support to the programs of the government body.

The 2018 *Balikat ng Bayan Best Collecting Partner Rural Bank* is awarded to Rang-ay Bank, for being the nation's top rural bank with the highest collections while processing a large volume of SSS transactions throughout its wide area network.



The National Award was presented by SSS President and CEO Emmanuel Dooc, Sen. Richard Gordon, SSS Commissioner Gonzalo Duque and Incoming SSS Chair Aurora Cruz Ignacio to Rang-ay Bank Vice-President Ives Jesus Nisce II during the SSS 61st Anniversary Celebration and National Awarding held at SSS Building, East Avenue, Diliman, Quezon City last September 21, 2018.

Rang-ay Bank offers Pensioner Deposit accounts for SSS pensioners with their pensions directly deposited to their respective accounts. The bank also accepts SSS contributions and loan payments in all of its 29 branches. The bank can also retrieve and generate payment reference number (PRN) for SSS Members as part of SSS new Electronic Payment Collection. As an additional service, pensioner depositors can get instant emergency loans from the bank.

◆ Supporting OFW Families

Rang-ay Bank supported the Overseas Workers Welfare Administration (OWWA) in celebrating the 2018 OFW Family Day in the province of La Union held at Father Burgos Gymnasium of Saint Louis College, City of San Fernando La Union on December 2, 2018.

The event was held in recognition of the Overseas Filipino Workers as the country's modern day heroes and the government's partner in nation building. It was a day of fun and entertainment that included fun games, presentations, raffles for vacationing OFWs and Balik – Manggagawa (OFW returnees), and their families.



◆ Support to Bureau of Fisheries

Rang-ay Bank supported the 38th Industry Forum of the Bureau of Fisheries and Aquatic Resources Regional Field Office No. 1 (BFAR-RFO1) for the Fishery Stakeholders September 25, 2018 at Hotel Consuelo, Lingayen, Pangasinan and conducted Market Matching last November 27, 2018 at the Office of the Provincial Agriculturist (OPAG), Laoag City, Ilocos Norte.

The meeting aimed to address sustainability of supply of raw materials vital for the continuous business operation of GAD-assisted fish processors/ association to further market their products.



◆ Let's Protect and be ECO-nneted

Laoag (Ilocos Norte) branch staff, led by Senior Manager Jeanette Racoma conducted a coastal clean-up drive and donated garbage cans to Brgy. Lapaz, Laoag City, Ilocos Norte with the theme "Let's Protect and be ECO-nneted" in coordination with Ilocos Norte Regional School of Fisheries. The project aims to help the province in the restoration of our natural resources.



Barangay Chairman Estelito Antonio together with the Officer in Charge (OIC) Barangay Chairman Ronie Alejandro, SK Chairman John Paul Piñera, Pantawid Familyang Pilipino Program (4Ps) head of Brgy. La Paz Noralyn Ventura and Mio Owners Republic Laoag Chapter President Rafael Ragasa expressed their appreciation to Rang-ay Bank for working with them in implementing the clean-up project.



► EDUCATION

◆ Agoo, La Union

Rang-ay Bank Agoo (La Union) Branch donated instructional materials to Special Education (SPED) Department of Rosario Integrated School headed by Ms. Leticia Aprecia, Principal. SPED is the program of educating students with special educational needs in a way that addresses their individual differences and needs.



◆ Balaoan, La Union

Rang-ay Bank Balaoan (La Union) Branch donated a water system to Santol Central School last March 26, 2018. Santol Central School is a public elementary school located at the municipality of Santol, La Union. This project aims to provide the teachers and students with proper water facilities which promote cleanliness and orderliness of the school. With the help of the water system, teachers and students will have a healthier life. Principal Arsenio Obejas expressed his appreciation in behalf of the Santol Central School.



◆ Bacnotan, La Union

Rang-ay Bank's Bacnotan (La Union) Branch donated bags, school supplies and provided snacks to the pupils of Day Care and Arosip Elementary School in the mountain barangay of Arosip, Bacnotan, La Union last July 10, 2018. This program provided bags and school supplies to the children which they need in learning. The bank reached the remote barangay found in the hills east of the town with the assistance of PNP Bacnotan, Day Care Teacher Editha Gadoy and Principal Ludivina Almodovar who expressed their appreciation in behalf of the pupils of Day Care and Arosip Elementary School.



◆ **Luna, La Union**

Rang-ay Bank Luna (La Union) Branch provided umbrellas and school supplies to the pupils of Day Care and Kinder pupils of Cabalitocan Elementary School last August 3, 2018. The project aims to provide the pupils their basic needs in learning and to educate them together with their parents and teachers the importance of savings. Day Care Teacher Juvelyn Lopez and Principal Marilou Cacdac expressed their appreciation in behalf of the Day Care and Cabalitocan Elementary School pupils.



◆ **Magsingal, Ilocos Sur**

Rang-ay Bank Magsingal (Ilocos Sur) Branch donated sporting equipment such as basketballs, volleyballs, sepak takraw balls and badminton rackets to the Magsingal National High School last August 23, 2018. Magsingal National High School Principal George Turbio expressed appreciation to Rang-ay Bank for choosing them as their beneficiary for this project.



◆ **Brigada Eskwela**

The Department of Education launched the nationwide 2018 Brigada Eskwela from May 28 to June 2, 2018 with the theme "Pagkakaisa Para sa Handa, Ligtas at Matatag na Paaralan tungo sa Magandang Kinabukasan". Education for the youth is one of the advocacies of Rang-ay Bank and believes that a conducive learning environment is essential to good education. The bank not only endeavors to provide affordable credit to public school teachers but also supports schools through direct involvement in DepEd community programs.



In Pudoc Elementary School headed by Principal Benilda Canonizado and located at San Vicente, Ilocos Sur, Vigan Branch celebrated its 14th anniversary by joining the last day of Brigada Eskwela. Vigan Officers and Staff headed by Rowena Rosales, Area Manager for North Branches led the CSR project by donating cleaning materials such as dust bins, dustpans, "walis ting-ting" and "walis tambo". The bank staff also took time to educate the children on how to segregate waste and clean their surroundings.



In Balaoan, La Union, the Balaoan Central School by Principal Evelyn Valdez was the beneficiary of Balaoan Branch. Rang-ay Balaoan headed by Leah Mantilla donated cash to be used in the repainting of classrooms, repairing furniture and for cleaning the school in order to prepare the institution for the coming school year.



Candon Branch also supported Brigada Eskwela by giving financial assistance to Dr. Ricardo Gacula Memorial National High School in Candon, Ilocos Sur. The donation will be used in maintaining and repairing of classrooms to ensure that the school is ready and safe for the students before classes open. On hand for the donation was Rang-ay Candon Senior Branch Manager Jennelyn Anchea.

South Central Integrated School headed by Principal Brenda Sabado, located at Tanqui, San Fernando City, La Union was another beneficiary of the bank to be one of the partners of this activity. Rang-ay Bank San Fernando Main Branch provided financial assistance for the expansion and cementing of the school grounds for a more spacious play area for the students. Books and cleaning materials were also donated. Representing the bank were Director Flora Ignacio, Area Manager Central Branches Thelma Evelyn Tabafunda and the bank's Marketing team.



► **PROMOTING MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs)**

◆ **mSMED Council in action**

Rang-ay Bank continues to support the region's Micro, Small, and Medium Enterprises (mSMEs) by participating in the La Union mSMED Council Environment Month activities. Leticia Asenci, represented Rang-ay Bank in the La Union (mSMED) Council's 2nd Regular Meeting on June 14, 2018 at the Agoo-Damortis Protected Landscape and Seascape Area, Sta. Rita, Agoo, La Union.



One of the activities of the meeting was tree planting, part of the celebration of "Environment Month". Ms. Josephine Ople, from the Provincial Environment and Natural Resources Office (PENRO) introduced the developed area and updated the body on their 10 priority programs: clean water, clean air, solid waste management, geo-hazard assessment, water assessment, responsible mining, continuing forest protection, biodiversity management, titling and enhanced greening program in relation to sustainability and development of mSMEs. The Agoo-Damortis Seascape area is already operational as one of the new eco-tourism sites in the province of La Union.

◆ **mSMED Week Celebration**

Rang-ay Bank attended the mSME Development Week financing forum held every July to institute continuing awareness of the primary role of small business in nation building and espouse the commitment of the State in the development of mSMEs. This year's theme is "Accelerating Mindset Change, Mastery, Mentoring, Money, Machine, Market Access and Models of Negosyo (7Ms) for Competitive mSMEs".



Bank officers were presentors in the financial forum on July 17, 2018 at Liga ng mga Barangay Hall, City of San Fernando La Union. The bank presented the micro, small and medium (mSME) Business Loan Program. This loan program is available to any businessmen or would-be entrepreneurs looking for additional capital. This quick affordable loan program has very flexible rates to accommodate any business or commercial endeavor from start-up capital to revolving inventory loans to credit lines.

◆ Supporting mSMEs with DTI

Rang-ay Bank continues to support activities of the Department of Trade and Industry (DTI) as active participant in financing fora for Micro, Small & Medium Enterprises (mSME) organized by DTI - La Union.

Rang-ay Bank participated in the financing forum held last September 11, 2018 at the LGU Conference Hall of Balaoan La Union to promote mSME growth and development by providing business registration facilitation, advisory services and business development assistance.



DTI La Union also conducted a Financing Forum last September 19, 2018 at the 4th floor of the e-Library, Agoo, La Union. Rang-ay Bank and various Micro-Small and Medium (mSME) entrepreneurs from the different municipalities in the Second District of La Union participated in the said forum.

Throughout its more than 6 decades in countryside service, Rang-ay Bank supports the mSMEs by extending affordable Agri-business and SME Business loans to local businessmen. The bank continuously develops new loan programs that cater to mSMEs thereby promoting growth and development in the communities. In 2018 alone, the bank extended P1.7Billion to mSMEs in new loans ranging from small sari-sari stores, backyard piggeries and market vendors; to subdivision developments, contract growers and building construction.

► HEALTH ADVOCACY

◆ Tagudin (Ilocos Sur) Branch

Rang-ay Bank Tagudin, Ilocos Sur Branch in coordination with the Local Government Unit of Tagudin and Municipal Health Unit celebrated its 10th Anniversary by donating medical equipment to ten (10) rural barangays of the municipality last November 15, 2018. The recipients of the medical packages are the following Barangays: Pudoc West, Cabulanglangan, Las-ud, Libtong, Malacañang, Dardarat, Quirino, Rizal, Salvacion and Pacac.



Rang-ay Bank Vice-President Ives Jesus Nisce II together with Bank Director Jose Osias, Area Manager Rowena Rosales, Candan Manager Rosemarie Rigos, Tagudin Manager Janice Peralta and Marketing Team led the turnover of the medical equipment to the leaders of each barangay. Each medical equipment package is comprised of a nebulizer, blood pressure monitor and a weighing scale. Municipality of Tagudin headed by Hon. Mayor Roque Verzosa, Municipal Health Officer Dr. Aly John S. Lopez and the Barangay Officials expressed their gratitude to Rang-ay Bank for the early Christmas gifts.

◆ La Trinidad (Benguet) Branch

Rang-ay Bank, La Trinidad (Benguet) Branch celebrated its 11th Anniversary by conducting an outreach program to the orphans at the Reception and Study Center located at Puguis, La Trinidad Benguet last January 8, 2018. The center is headed by Ms. Nelly Mason. The project sought to address some of the basic needs of the children such as diapers, blankets, tissue paper and milk.



◆ Dagupan (Pangasinan) Branch

Rang-ay Bank - Dagupan Branch celebrated its 23rd Anniversary by conducting an outreach program for the children at DSWD-Haven Regional Center located at Bonuan Binloc, Dagupan City, Pangasinan. The center is the home of abused children from the city. Managing the home are Ms. Rosemarie V. Rosales, Center Head and Mr. Nelson Nisperos, Manpower Development Officer I. A short program was held for the children and all were given hygiene kits.



◆ Rosales (Pangasinan) Branch

Rang-ay Bank Rosales (Pangasinan) Branch celebrated its 9th Anniversary by supporting the Mini Buntis Congress conducted by the Rural Health Unit (RHU) held at Alcala Public Auditorium, Alcala, Pangasinan last October 8, 2018. Alcala is a 3rd class municipality located at the southern part of Pangasinan.

Rang-ay Bank donated maternal kits and provided snacks to indigent pregnant women from different barangays of Alcala. Consultant on Local Administration Eufrocino Catalan, Municipal Health Officer Dr. Shirante Parayno and the beneficiaries expressed their thanks and appreciation to Rang-ay Bank.



CORPORATE SOCIAL RESPONSIBILITY

(Community Projects Mark Branch Anniversaries)

◆ **Tagudin (Ilocos Sur) Branch**

Rang-ay Bank, Tagudin (Ilocos Sur) Branch celebrated its 9th anniversary by donating irrigation hoses to Brgy. Borono Farmers Association, Tagudin, Ilocos Sur; headed by their President Efren Ultindo on January 11, 2018. Rang-ay Bank supports local farmers by not only providing unsecured agricultural loans but also by supporting community development.



◆ **San Juan (La Union) Branch**

Rang-ay Bank - San Juan Branch, the 25th branch among the 28 branches of the biggest Rural Bank in the Ilocos Region, celebrated its 5th Anniversary last January 16, 2018. The event was marked with a thanksgiving mass, followed by the donation of Monoblock chairs to the St. John, the Baptist Parish headed by Rev. Fr. Mario Valdez.



◆ **Bangar (La Union) Branch**

The Bangar (La Union) Branch of Rang-ay Bank celebrated its 6th Anniversary by distributing grocery packs to a group of loom weavers of Brgy. Alzate, Bangar, La Union April 6, 2018. Loom weaving is a cultural heritage and it remains as source of livelihood of the residents as they continuously encourage and train the young generation. The loom weavers keep the traditional hand-woven Ilocano 'inabel' tradition alive, which makes the town of Bangar the 'abel' capital of the province.



◆ **Narvacan (Ilocos Sur) Branch**

To celebrate the 9th anniversary of Rang-ay Bank Narvacan Branch, the officers and staff launched a "Handog Tsinelas Program" in which fifty-four (54) children of Brgy. Cosocos, Nagbukel, Ilocos Sur received pairs of slippers on April 27, 2018.



The project reached out to children living in the outskirts of the Poblacion and provided decent pairs of footwear. Several activities and parlor games were prepared by Area Manager Rowena Rosales, Narvacan Branch Manager Dennis Dosono and Marketing Officer Florence Licudine.

◆ **Burgos (Ilocos Sur) Branch**

Rang-ay Bank Burgos (Ilocos Sur) Branch celebrated its 14th anniversary last August 17, 2018 by giving "Alkansya Lata" to 110 pupils of Burgos Central School. The "Ipon ko, Bangko ko" project aims to educate the pupils on the importance of savings and to motivate them to keep earning for their future needs.



The pupils were introduced the Kiddie Savers Program of Rang-ay Bank, which requires only a 2x2 picture plus current school ID or birth certificate for account opening. With only Php100, children 7 to 12 years of age can already start saving and open their Kiddie Savers Deposit Account. Principal Darwine Almazan together with the teachers and pupils of Burgos Central School thanked Rang-ay Bank for the alkansya lata and the opportunity for the children to start saving at their very young age.

◆ **Naguilian (La Union) Branch**

Rang-ay Bank Naguilian (La Union) Branch marked its 12th year of service by donating relief goods to indigent families who were affected by the Typhoon Ompong last October 10, 2018 at Brgy. San Antonio, Naguilian, La Union. Area Manager for Central Branches Thelma Tabafunda together with Naguilian Branch Manager Karen Valdez and Head Office Marketing staff reached the remote barangay of San Antonio with the assistance of the Municipal Social Welfare Development Office of LGU Naguilian and the Barangay Officials of San Antonio. Barangay Chairman Cristan Nisperos expressed gratitude to Rang-ay Bank in behalf of the families that were benefited by the project.



◆ Tubao (La Union) Branch

Rang-ay Tubao, La Union Branch celebrated its 36th Anniversary last November 23, 2018 by handing out long-sleeved Kamisa de Chino and tumblers to members of Tubao Amianan Agao La Union Tricycle Operators and Drivers Association (TAATODA) for their use as protection from the heat of the sun.



Officers of the bank introduced Rang-ay Bank and discussed various bank's products and services such as Tricycle Loan Program for the purchase and upgrade for their existing tricycle, Kiddie Saver's for their little ones and Micro-Insurance for themselves and their families.

◆ Bangued (Abra) Branch

To mark its 11th anniversary, Rang-ay Bangued (Abra) Branch hosted a Christmas Party for the children of Bahay Pag-asa in Brgy. Calaba, Bangued last December 4, 2018.



Bangued Branch started its operations on November 27, 2007 and for eleven years now has been continuously providing quality banking products and services to the people of Abra. Rang-ay Bankers gave away gifts and food as well as sponsored games and entertainment to the youth ages 12 to 17 housed in Bahay Pag-asa. As appreciation the children shared their talents through songs and dances. Area Manager Rowena Rosales thanked the Head of the Provincial Social Welfare Development, Ms. Decimia Cabang, for allowing Rang-ay Bank to contribute in the rehabilitation process of these children. She also gave an inspirational message to the young offenders. In turn, the children expressed their gratitude with a song entitled "Sana Ngayong Pasko".

◆ Baguio (Benguet) Branch

Rang-ay Baguio (Benguet) Branch marked its 26th anniversary by donating trash bins to Barangay Mines View last November 13, 2018 at their barangay hall in Baguio City. Mines View Park is one of the most known and visited tourist attractions in the City of Pines.



The project aims to promote the cleanliness and orderliness of the park by giving trash bins for proper segregation of waste to protect our Mother Earth and become a better place for tourists. Rang-ay Bank team turned over the trash bins to Brgy. Kagawad Reydiolo Rastado & Kagawad Lester Bolwa who expressed their appreciation in behalf of their barangay.

◆ Rotary PDG Rudy Nisce Foundation

The Board of Trustees of the Rotary PDG (Past District Governor) Rudy Nisce Foundation Inc. hosted the Rotary Club of SFLU meeting held at Oasis, SFLU on May 29, 2018. Three scholars of the foundation and one graduate were invited to talk namely: Venus Fabro, Alexis Alibayan and Ryan Gerard Alcantara who expressed their thanks to the Rotarians for making their dreams become a reality and for providing them a brighter future. Dr. Rodel Viduya, now a veterinarian, described how his college scholarship lightened his family's financial burden which allowed him to focus on the more important aspect of school, learning. It also inspired him to help others and give back to the community.



The foundation is a tribute to the civic-consciousness and professional excellence of Rang-ay Bank's first president, the late Rotary Past District Governor Atty. Rodolfo "Rudy" M. Nisce. The Rotary Club dedicates the week of May 23 (his birthday) as PDG Rudy Nisce Week. Rang-ay Bank is a major contributor to the foundation, which has produced a total of 34 graduates from different courses, some of whom are now successful professionals in their own field of excellence.

CONCLUSION

The existing landscape may sometimes look hostile to rural banks, what with the ever increasing competition from commercial and thrift banks; unregulated lending business of NGOs, lending investors and pawnshops; burdensome BSP regulations; aggressive BIR collection strategies; and the emerging e-money commerce which look to bypass banks entirely; countryside banks are in a challenging environment. However, with the continuing trust of our depositors & clients, the dedication and diligent efforts of our officers & staff and the steadfast support of our directors & stockholders, we stand ready to squarely face the challenges of a rapidly evolving economic milieu as we craft & implement plans and strategies to remain relevant and ensure the robustness of our banking institution.

Mabuhay ang Rang-ay Bank! Agbiag ti Rang-ay Bank!

Ives Q. Nisce
IVES Q. NISCE
President & CEO

RISK MANAGEMENT FRAMEWORK

RISK MANAGEMENT - GENERAL POLICY

It is the thrust of the Rang-ay Bank (A Rural Bank), Inc. (RBI) to promote the adoption of effective risk management systems to sustain its safe and sound operations. Cognizant that risk is inherent in all activities, products and services, and is closely tied in with other types of risks (e.g., credit, liquidity and market risks), RBI sets the guidelines to clearly set and define the minimum prudential requirements on risk management.

The policy document outlines guidelines mandated by the Board of Directors in the identification, evaluation, measurement, monitoring and reporting of all risks associated with the activities conducted by the Bank's organization. These guidelines align existing regulations to the extent possible, with international standards and best practices in the industry.

Risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems; or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Risk is inherent in all activities, products and services, and cuts across multiple activities and business lines within the RBI.

The Bank's risk management focuses on proactive measures in order to ensure business continuity as well as the accuracy of information used internally and reported externally, a competent and well-informed staff, and its adherence to established rules and procedures as well as on security arrangements to protect the physical and IT infrastructure of the Bank.

Roles and Responsibilities of Board of Directors (Risk Management)

The duties and responsibilities of the Board of Directors in relation to the effective management of risk include the establishment of a comprehensive and effective risk management framework as part of the enterprise-wide risk management system.

Roles and Responsibilities of the President and Senior Management (Risk Management)

Senior management led by the President shall be responsible for the implementation and consistent adherence by all personnel to the operational risk management framework approved by the board of directors.

ANTI-MONEY LAUNDERING GOVERNANCE AND CULTURE

The bank's Compliance Department has clear guidelines to ensure not only compliance to AMLC policies, but more so to ensure that the bank is not used by criminal elements for money laundering purposes. The Money Laundering Prevention Program (MLPP) is embodied in the Anti-Money Laundering Manual, Eighth Edition approved under Board Resolution No. 73 dated April 7, 2018. The AMLA Manual was subsequently enhanced to consider the uniform and consistent adoption of approved risk profiling methodology as presented in Compliance Memo No. 2018-04: Revised AMLA Risk Rating Scorecard issued August 16, 2018.

To further strengthen the MLPP, the bank regularly holds trainings and seminars to ensure that each and every employee is aware of Money Laundering and ways to prevent it. All new employees undergo AMLA seminars. The bank also sends its officers and staff to trainings and seminars to further enhance their Anti-Money Laundering skills. Below is the list of AMLA seminars for bank staff for the year 2018:

DATE	SEMINAR/ORIENTATION	CONDUCTED BY	ATTENDEES
24 January 2018	AMLA Seminar on BSP Circular No. 950 - Updated AML Rules and Regulations	Rural Bankers Research and Development Foundation, Inc.	1
24 February 2018	AMLA Orientation	Rang-ay Bank Compliance Department	25
13 April 2018	AMLA Seminar on BSP Circular No. 950 - Updated AML Rules and Regulations	Rural Bankers Research and Development Foundation, Inc.	2
25 August 2018	AMLA Orientation	Rang-ay Bank Compliance Department	21
22 September 2018	GCash Refresher Course and AMLA Seminar	GCash Training and Development, Inc.	16
22 October 2018	AMLA Seminar on BSP Circular No. 950 - Updated AML Rules and Regulations	Rural Bankers Research and Development Foundation, Inc.	6

To ensure that all rules and guidelines with regards to AMLC are complied with, the Compliance Department is an active participant in weekly Management Team Meetings. Relevant information to update the employees on AMLA and other compliance matters are cascaded through these weekly discussions. These are documented in the minutes of each meeting and further emphasized in Compliance Memos. This is on top of the regular visits of the Compliance Department to branch units. Below is the list of Compliance Department Memoranda for 2018.

COMPLIANCE MEMO	DESCRIPTION	DATE
2018 - 01	Annual Examination of Officers	20 June 2018
2018 - 02	BSP Circular Letter CL 2018-044	25 June 2018
2018 - 03	AMLC Transaction Codes	27 June 2018
2018 - 04	Revised AMLA Risk Rating Scorecard	16 August 2018
2018 - 05	Revised Covered Transaction Reporting Format	8 November 2018

To improve and effectively monitor the MLPP, the Compliance Department approaches and deals with Money Laundering thru a holistic approach. Money Laundering will be an issue that is the responsibility of all members of the bank from the board to the rank and file. AMLA now covers more facets of the bank's operations. Specifically, the Compliance Department looks to review and monitor other transactions of the bank to guard against possible money laundering activities. The enhanced MLPP now covers the following items:

1. Close coordination with branches and Head Office Support Units to report to Compliance Department all CTRs/STRs for prompt submission of reports to AMLC.
2. Preparation of Monthly Summary of CTRs/STRs by Compliance Associate and checked by Compliance Officer.
3. Regular update of PEP listing by branches.
4. The register of Manager's checks is used to determine CTRs/STRs.
5. The Remedial Management Unit in charge of ROPA transactions reports to the Compliance Department. A monthly summary of ROPA sales is prepared.
6. Risk ranking of branches was prepared under Compliance Memo No. 2017-01 to determine the frequency of Compliance testing visits. Part of the testing program is AMLA as to compliance to KYC requirement and reporting of CTRs. AMLA exceptions are given weight in the risk ranking of branches.
7. The roles of the Internal Audit Department and the Compliance Department are complementary in the MLPP. Internal Audit reports are reviewed by the Compliance Officer whose observations/suggestions are taken up in the Board Audit Committee meetings.

The AMLA Manual, Eighth Edition was approved by the Board of Directors under Board Resolution No. 73 dated April 7, 2018.

CORPORATE GOVERNANCE STRUCTURE

OVERALL CORPORATE GOVERNANCE STRUCTURE AND PRACTICES

The Board of Directors values the principles of good corporate governance. In carrying out its advocacy of good corporate governance, Rang-ay Bank implements a structure consisting of: (1) Board of Directors and Board-level Committees as primarily responsible for approving and overseeing the implementation of the Bank's strategic objectives, risk strategies, organization, financial soundness and governance; (2) Executive Management, responsible for the implementation of the strategies and initiatives approved by the Board; (3) Internal Audit & Compliance Departments, responsible for the implementation of key control functions, such as risk management, compliance and internal audit.

The Bank's Board of Directors and Management, officers and staff consistently adhere to the best practices of good governance principles of fairness, accountability, independence and transparency.

SELECTION PROCESS FOR THE BOARD AND SENIOR MANAGEMENT

The Board of Directors are elected by the stockholders during the annual stockholders' meeting. The Senior Management includes the President and CEO, the Vice President for Admin and Accounting, the Vice President/Chief Compliance Officer and the Area Managers (Central, South and North Clusters). The Senior Management are appointed by the Board of Directors in coordination with the Human Resource Department to ensure the application of fit and proper standards.

BOARD'S OVERALL RESPONSIBILITY

The Board of Directors is primarily responsible for the governance of the Bank, ensuring that it runs in a prudent and sound manner under high standards of honesty, integrity and best practice. The Board approves and oversees the Bank's implementation of strategies to achieve corporate objectives; its risk governance, sound corporate governance and corporate values, taking into account its vision and mission, long-term financial interest, its level of risk tolerance and its ability to manage risk effectively.

CHAIRMAN OF THE BOARD

The Chairman of the Board of Directors is responsible for ensuring the effective functioning of the Board, maintaining a relationship of trust with Board members. The Chairman makes sure that a sound decision making process is in place by encouraging critical discussions, with dissenting views expressed and discussed, and independent views given due respect and consideration.

INDEPENDENT DIRECTOR

The Bank's Independent Director possesses a level of integrity and broad range of expertise that is valuable in sustaining and upholding good corporate governance practices. The Independent Director acts in a prudent manner and exercises independent judgment while encouraging transparency and accountability.

BOARD LEVEL COMMITTEES

To aid the Bank in complying with the principles of good governance, two (2) Board-level committees are constituted to set the tone for the corporate governance practices in the Bank, namely: Audit Committee and Credit Committee.

The authority, duties and responsibilities, as well as the frequency of the Board-level Committee meetings are stated in their respective charters. Each Board-level Committee has an appointed secretariat responsible for ensuring the preparation of the notice and agenda of the meetings, and that resource persons are informed and provided with presentation materials prior to meetings. The Committee secretariat prepares the minutes of the Board-level committee meetings for endorsement and confirmation by RBI's Board, and records the attendance of the Board-level Committee members.

BOARD OF DIRECTORS



*Standing left to right: Director Ives Jesus C. Nisce II, Director Jose Z. Osias, Director Reynaldo Q. Nisce
Seated left to right: Director Ivy Rose N. Martinez, Chairman Ives Q. Nisce and Director Flora M. Ignacio*

IVES Q. NISCE

Chairman

Board Position: Director since August 15, 1973; President & Chief Executive Officer from October 1, 1976 to December 30, 2018 and Chairman of the Board since August 13, 2008

No. & Percentage of Shares:

Common: 1,464,758 (29.1106%)
Preferred: 52,460 (35.1124%)

Board Committee:

Chairman of the Credit Committee

Current Positions: Chairman of One Nisce Foods Corporation & Eso-Nice Realty Dev't, Inc., President of Nisce Northern Ventures Corp., Niscan Foods Inc. and Niscan Development Corporation and Trustee of St. Louis College.

Age & Nationality: 65 years old; Filipino

JOSE Z. OSIAS, MBM

Director (Independent)

Board Position: Independent Director since March 24, 1977.

No. & Percentage of Shares:

Common: 58 (0.0012%)

Board Committee: Chairman of the Audit Committee

Current Positions: President of Gising Barangay Movement Volunteers, Inc.; Convener of Balik Probinsya Inc., Director of Philippine Craft Distillers, Inc., Nayan1 Automation, Inc. and Isonym Philippines, Inc., Member of Corinthian Coffee Clutch, Philippine Venture Capital Investment Group and God's Little Instruments ME Foundation, Inc.

Age & Nationality: 72 years old, Filipino

FLORA M. IGNACIO, CPA, MBA

Director (Non-Executive)

Board Position: Director since 1995, Vice President/Chief Compliance Officer from March 2015 up to September 30, 2017 and Audit Consultant since January 2018.

No. & Percentage of Shares:

Common: 2,964 (0.0589%)
Preferred: 125 (0.0837%)

Past Positions: Part Time Faculty Member of Saint Louis College (2015-March 31, 2017), Full time Faculty Member and MBA Coordinator of SLC (2003-March 31, 2010), Alumni and External Affairs Office of SLC (June 2006-2008), MBA Coordinator of SLC (2003-May 31, 2006), SLC Dean of CSA (1994-2003), Director of SLC Employees Credit Cooperative (1994-1996) and Director of Felkris Grade School (1985-1991)

Age & Nationality: 69 years old, Filipino**IVY ROSE N. MARTINEZ, MD, FPCP, FPSEM**

Director (Non-Executive)

Board Position: Non-Executive Director since 2014.**No. & Percentage of Shares:**

Common: 254,185 (5.0517%)
Preferred: 2,654 (1.7764%)

Board Committee:

Member of the Audit Committee

Current Positions: Active Medical Staff of Lorma Medical Center & Bethany Hospital and Director of Niscan Development Corporation, One Nisce Foods Corp and Nisce Northern Ventures Inc.

Age & Nationality: 38 years old, Filipino**REYNALDO Q. NISCE**

Director (Non-Executive)

Board Position: Non-Executive Director since March 2009.

No. & Percentage of Shares:

Common: 256,141 (5.0905%)
Preferred: 8,732 (5.8445%)

Board Committee:

Member of the Audit Committee

Current Positions: President of Eso-Nisce Realty Development, Inc., Chairman & CEO of Nisce Enterprises, Proprietor of Nisce Realty, President of Chamber of Real Estate and Builders Association (CREBA)-La Union Chapter, National Director of CREBA Philippines, Licensed Real Estate Appraiser (PRC License No. 00071901) and Licensed Real Estate Broker (PRC License No. 0007720)

Age & Nationality: 61 years old, Filipino**IVES JESUS C. NISCE II**Director (Executive)
President & CEO

Board Position: Director since February 2007; Vice-President for Operations from April 2010 to December 31, 2018 and President & CEO since January 1, 2019.

No. & Percentage of Shares:

Common: 256,013 (5.0880%)
Preferred: 2,654 (1.7764%)

Board Committee: Member of the Credit Committee

Current Positions: Director of Niscan Development Corporation and One Nisce Foods Corp.; President of La Union Chamber of Rural Banks, Treasurer of Chamber of Real Estate Brokers Association-La Union Chapter and Member of Real Estate Brokers Association of the Phils.-La Union Chapter; Licensed Real Estate Appraiser (PRC License No. 0007104) and Licensed Real Estate Broker (PRC License No. 0025366)

Age & Nationality: 36 years old, Filipino**BOARD-LEVEL COMMITTEES INCLUDING MEMBERSHIP & FUNCTION**







CREDIT COMMITTEE	POSITION	FUNCTION
IVES Q. NISCE	Chair	The members of the credit committee shall process, scrutinize and approve loan applications within its authorized limit as set by the Board. For loan amounts in excess, the credit committee shall process, evaluate and recommend the approval and rejection of application for loan to the Board of Directors.
IVES JESUS C. NISCE II	Member	
WINNIE A. MINGARACAL	Non-BOD Member	
ROWENA L. ROSALES	Non-BOD Member	
THELMA EVELYN A. TABAFUNDA	Non-BOD Member	

AUDIT COMMITTEE	POSITION	FUNCTION
JOSE Z. OSIAS	Chair	The audit committee provides oversight of the institution's internal and external auditors. It is responsible for taking and recommending action on reports of the internal auditor as well as the independent external auditor. It shall monitor and evaluate the adequacy and effectiveness of the internal control system.
IVY ROSE N. MARTINEZ	Member	
REYNALDO Q. NISCE	Member	






BOARD & COMMITTEE ATTENDANCE
For the One (1) Year Period: April 01, 2018 to March 31, 2019

NAME OF DIRECTORS	BOARD NUMBER OF MEETINGS		AUDIT COMMITTEE MEETINGS		CREDIT COMMITTEE MEETINGS	
	ATTENDED	%	ATTENDED	%	ATTENDED	%
IVES Q. NISCE	24	100.00%			24	100.00%
IVES JESUS C. NISCE II	24	100.00%			24	100.00%
FLORA M. IGNACIO	22	91.66%	11	91.66%		
REYNALDO Q. NISCE	24	100.00%	12	100.00%		
IVY ROSE N. MARTINEZ	24	100.00%	12	100.00%		
JOSE Z. OSIAS	23	95.83%	11	91.66%		
Total Number of Meetings Held During the Year	24		12		24	


EDUCATION PROGRAM FOR DIRECTORS AND SENIOR MANAGEMENT

	BOARD OF DIRECTORS	MOST RECENT RELEVANT SEMINARS ATTENDED
 IVES G. NISCE	Chairman of the Board Filipino, 65 years old Bachelor of Arts - Economics Management Development Program	Advanced Corporate Governance Course Enterprise Risk Management Corporate Governance and Risk Management Workshop on Rural Financial Markets Seminar on Professionalization of Rural Bank Management
 FLORA M. IGNACIO	Member Filipino, 69 years old B.S. in Business Administration Master in Business Administration	Customer Service Excellence Program Orientation on Anti-Money Laundering Act Corporate Governance & Risk Management Leadership and Supervisory Training and Workshop Training on Financial Consumer Protection
 IVY ROSE N. MARTINEZ	Member Filipino, 38 years old B.S. Biology Doctor of Medicine	Internal Audit & Compliance Training: Moving Forward Basic Course on Corporate Governance for Bank Directors AMLA Law Updated, UARR and AML Risk Rating System Strategic Planning Workshop Accounting for Non-Accountants
 IRIS JESIE C. NISCE II	Member Filipino, 36 years old Bachelor of Arts - Social Sciences Diploma Course in Banking	1st Information Technology Summit Regional Workshop on Risk Management of Small and Medium Enterprise Lending Advanced Corporate Governance Course (Condensed Professional Directors Program for Rural Banks) Credit Information System Act (CISA) Orientation Leadership and Supervisory Training Workshop
 RAFAEL G. NISCE	Member Filipino, 61 years old B.S. Business Management	Seminar on Implementing Rules & Guidelines Governing REM/IPZ Projects & Registration of Brokers/Salesman/Dealers Continuing Professional Development CPE, Real Estate Broker Corporate Governance and Risk Management for Rural Bank Directors
 JOSE F. ORLAS	Member Filipino, 72 years old Bachelor of Arts - Economics Master in Business Management	Advanced Corporate Governance Course (Condensed Professional Directors Program for Rural Banks) Corporate Governance and Risk Management Seminars on Bamboo Production & Processing Seminars on Coconut Production & Processing Seminars on Fimrêch

EDUCATION PROGRAM FOR DIRECTORS AND SENIOR MANAGEMENT

	SENIOR MANAGEMENT	MOST RECENT RELEVANT SEMINARS ATTENDED
 MARLYN W. IBALDO	VP for Admin and Accounting Department Filipino, 60 years old B.S. Commerce - Accounting	Understanding 2018 tax amnesty The 14th Philippine Tax Summit: Everything New on the Tax Menu Bank Forum on Achieving the Credibility of Reporting Compliance to Bangko Sentral ng Pilipinas Closing the Taxable Year: A Comprehensive Seminar on Year-End Tax Operational Risk Management Training
 WINIE A. MINGARACAL	Area Manager, South Branches Filipino, 56 years old B.S. Commerce - Accounting	Roundtable Discussion for Collection Strategies BDO Refresher Course In House Training on Small Claims Case and Civil Case Leadership and Supervisory Training and Workshop Strategic Planning and Performance Management Seminar
 PORRIA L. FOSALIS	Area Manager, North Branches Filipino, 42 years old B.S. Accountancy	Briefing on Insurance Products Roundtable Discussion for Collection Strategies In House Training on Small Claims Case and Civil Case BDO Remit Refresher Course Internal Audit and Compliance Training: Moving Forward
 THEMA EVELYN A. TABARINDA	Area Manager, Central Branches Filipino, 57 years old Diploma in Secretarial Science II	Effective Marketing and Selling of Bank Products and Services Roundtable Discussion for Collection Strategies BDO Remit Refresher Course RMU Collection Updates and Roundtable Discussion Seminar on Internal Controls, Procedures and Guidelines
 JANET E. ZAMBRANO	Senior Audit Manager Filipino, 44 years old B.S. Accountancy	Briefing on Insurance Products Roundtable Discussion for Collection Strategies In-House Training on Small Claims Case and Civil Case Fundamentals of Information Systems Audit RMU Collection Updates and Roundtable Discussion

EDUCATION PROGRAM FOR DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT		MOST RECENT RELEVANT SEMINARS ATTENDED
 GIORA M. ALCANTARA	Compliance Officer Filipino, 53 years old B.S. Commerce - Accounting	Seminar on Risk Based Compliance Program In-House Training on Small Claims Case and Civil Case Compliance Management System Assessment Operational Risk Management Training RMLU Collection Updates and Accountable Discussion
 FRANCIS MICHAEL A. DE LOS SANTOS	Senior IT Manager Filipino, 45 years old Bachelor of Laws B.S. Computer Science	1st Information Technology Summit Petnet Western Union Refresher Bank Security and Protection Seminar 2nd Data Privacy Compliance Seminar Privacy Fundamentals
 NINA FRANCISCA I. PALABAY	Senior Remedial Management Officer Filipino, 60 years old B.S Commerce - Accounting	LRA Title Upgrade Program: Implementation of MGA-Based Conversion Symposium Internal Credit Risk Rating System Workshop Seminar on Understanding Property Titles & Mortgage Rules Seminar on Internal Controls, Procedures and Guidelines Seminar on AMILA - Circular 706: Updated Rules and Regulations
 MELANIE O. DE LOS SANTOS	Senior Manager for People & Organization Filipino, 44 years old B.S. Commerce - Banking & Finance	Discussions on Current Issues Prevailing in the Labor Sector and Areas Relevant to Employment Learning Session on Managing Millennials: Maximizing Productivity and Engagement Wage Orientation on Wage Order RB-CAR19 Basic Tax Seminar (Tax Base) In House Training on Small Claims Case and Civil Case

PERFORMANCE ASSESSMENT PROGRAM

It is the primary responsibility of the Board of Directors to appoint competent management team at all times, monitor and assess the performance of the management team based on established performance standards that are consistent with the bank's policies. An employee to become an officer of the bank, is assessed through his/her performance. A Performance Evaluation Report is accomplished annually considering the following performance factors:

a. Job Knowledge	20%
b. Job Output	30%
c. Audit/Compliance Rating	20%
d. Work Attitude	15%
e. Disciplinary Record	15%
Total	100%

The Performance Evaluation Report is discussed by the rater and the ratee to determine the fairness of the evaluation and to serve as a motivation for the staff to maintain or further enhance their strengths and minimize their weaknesses.

The Board created an internal self-rating system and procedures to determine and measure compliance with good governance principles and practices: (i) Each Director self-rates and collectively rates the Board, the President and the Chairman, (ii) Board-level Committees rate themselves. For performance assessment of the Board, a Corporate Governance Scorecard (Self-assessment for Individual Directors) is accomplished by the Board of Directors.



TRAININGS AND SEMINARS

The bank continues to upgrade the skills of its officers and staff not only by conducting in-house seminars and trainings but also by sponsoring their participation in seminars and workshops outside the province and in Manila.

	No. of Seminars/ Trainings	No. of Officers Attended	No. of Employees Attended	Total
I. Seminars/Trainings within La Union				
a. Conducted by RBI (in-house)	23	303	295	598
b. Conducted by other agencies	11	27	6	33
II. Seminars/Trainings outside La Union	9	44	4	48
III. Seminars/Trainings in Manila	48	52	37	89
	<u>91</u>	<u>426</u>	<u>342</u>	<u>768</u>

► Orientation and AMLA Seminar 2018



An orientation and AMLA Seminar for new Rang-ay Bankers was held at One Nisce Place (ONP) Events Hall, City of San Fernando, La Union on August 25, 2018. The orientation aims to reinforce the bank's mission "To hasten progress in the communities of the Ilocos Region and Cordillera through accessible and affordable banking services" to the new generation of Rang-ay Bankers. Financial Consumer Protection and Anti-Money Laundering Act were also extensively discussed.

► Leadership Skills Development Program

Thirty (30) of Rang-ay Bank's young officers attended the "Leadership Skills Development Program" last November 25, 2018 at One Nisce Place Events Hall, coordinated by the Human Resource Department and conducted by ARIVA Academy.

Mr. Howell Mabalot, a Fellow of Royal Institute of Management Singapore, with twenty years of experience in leadership training and development, tackled the fundamentals of leadership namely: planning, organizing, controlling and leading. The program will guide the bankers to make the transition from being individual contributors to first-line leaders.



RETIREMENT POLICY

Rang-ay Bank established a retirement trust fund which provides retirement, death, disability and severance benefits for all eligible employees of the bank. .

POLICY GUIDELINES

- I. **Eligibility for Membership**
All Officers and employees of Rang-ay Bank who are considered having regular employment status shall automatically be a member of Retirement Plan.
- II. **Qualifications**
 - a. The retiring employee should give management at least ninety (90) days advance notice in writing and during the said 90 day period, employee should serve in full and without absence.
 - b. Failure to meet the required ninety (90) days notice automatically nullifies any application for retirement benefits.
- III. **Normal Retirement**
 - a. The normal retirement date of an employee shall be the first day of the month coincident with or next following his/her sixtieth (60th) birthday provided he/she has served the bank for at least five (5) years of credited service.
 - b. The normal retirement benefit shall be a sum equal to 100% of the employees' salary for every year of credited service.

IV. Early Retirement

- a. With the consent of the management, an employee may elect to retire prior to his/her normal retirement date provided he/she has completed at least fifteen (15) years of credited service.
- b. The employees' Early Retirement Benefit shall be a sum equal to a Percentage of the employees' salary for every year of credited service in accordance with the vesting schedule:

Years of Service	Percentage
Less than 15 years	0.00%
15 but less than 20	37.50%
20 but less than 22	50.00%
22 but less than 30	60.00%
30 years and over	70.00%

V. Late Retirement

- a. An employee who is allowed by the management to continue to work on a case to case and yearly extension basis beyond his/her normal retirement date up to age sixty-five (65) shall continue to be a member of the plan up to his/her late retirement date. The late retirement date of an employee shall be the first day of any month after attaining his/her normal retirement date.
- b. The employees' late retirement benefit shall be the sum equal to 100% of the employees salary for every year of credited service, including the extension of service.

VI. Disability Benefit

- a. In the event that an employee is retired by the bank due to permanent total incapacity or disability, as determined by the bank's physician, his/her disability retirement benefit shall be a single sum equal to 100% of employees' salary for every year of credited service.

VII. Severance Benefit

- a. An employee who is involuntarily separated by the bank due to a retrenchment program or redundancy or for causes not due to his/her own fault, misconduct, or material neglect shall be entitled to a benefit determined in accordance with the Termination Pay provision under the Labor Code or similar legislation on involuntary termination or is applicable, the amount of retirement benefits due to the employee.

VIII. Dismissal for Cause

- a. An employee who is dismissed by the bank for cause shall not be entitled to any benefits under the Retirement Plan.

IX. Death Benefit

- a. In the event that an employee dies from any cause except self-inflicted injuries, his beneficiaries shall be entitled to receive a death benefit in a lump sum equal to 100% of employees' salary for every year of credited service.

SUCCESSION POLICY

Rang-ay Bank's management establishes an effective strategic manpower planning to ensure that there would be adequate and right manpower complement to meet the strategic goals and operational plans of Rang-ay Bank.

Rang-ay Bank's Succession Plan is designed for the purpose of ensuring a smooth and speedy transition during instances when an employee resigns or can no longer fulfill his/her role as employee. This is designed as a guideline to pinpoint potential promotions and review the bank's organizational structure.

The bank's policy to promote from its own rank is the core of the bank's Succession Plan. This is in order to build an organic culture within the bank as well as create opportunities for growth for each bank employee. With the bank's continued and rapid growth, it is now more important to have clear guidelines of the existing policy of growth.

REMUNERATION POLICY

Rang-ay Bank subscribes to the principles of equal pay for equal work and of the relative work for individuals. The bank shall within its financial capability, maintain a compensation policy that takes into consideration the relative importance of the employee's job in the organization, contributions to bank goals and the prevailing rates of comparable jobs in other similarly situated organizations in the region. Remuneration is provided monetarily to employees for their work performance. The bank has a fair salary structure using an approved salary scale.

The management gives more than the required minimum wage and additional benefits than those required by the Department of Labor and the National Wages and Productivity Board. The bank also gives system-wide increases to employees whenever there are minimum wage adjustments, especially when the management sees that economic conditions have increased cost-of-living. This is especially true for employees who receive lower salaries because they are most affected by economic changes.

Officers and staff of Rang-ay Bank are annually assessed through a Performance Evaluation. This tool is used to assess the employee's work performance (in a fiscal year), and to reward its employees who were able to perform well during the fiscal period, through an annual increase. The annual increase is based on the result of each employee's evaluation.

In addition, Service Achievement Awards are also in place to recognize the employees and officers who have dedicated years of service to the bank. This is given to recognize and thank the employees for their years of service, dedication and loyalty with the bank. In addition to this award are incentives given monthly/quarterly or semestraly to ensure that employees are rewarded accordingly and to keep them motivated to continue to be more productive at work.

RELATED PARTY TRANSACTIONS POLICY

Rang-ay Bank's Policy on Related Party Transactions (RPT) aims to recognize that transactions between and among related parties create financial, commercial and economic benefits to individual institutions and to Rang-ay Bank. It is generally allowed, provided this is done on an arms length basis. It also aims to exercise appropriate oversight and implement effective control systems for managing said exposures as these may potentially lead to abuses that are disadvantageous to the bank and its depositors, creditors and other stakeholders. The policy will ensure that every RPT is conducted in a manner that will protect Rang-ay Bank from conflict of interest which may arise between the bank and its related parties and guarantee proper review, approval and disclosure of transactions between Rang-ay Bank and the related party as required by the regulatory bodies.

The Board assures that all terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement, contracts) of related party transactions are within the allowed standards as if they were applied to non-related parties. The members of the board, stockholders and management shall disclose to the Board whether they directly, indirectly or on behalf of third parties, have a financial interest in any transaction or matter affecting the bank. Directors and officers with personal interest on the related party transactions shall abstain from the discussion, approval and management of such transaction or matter affecting the bank.

The Board of Directors shall have the overall responsibility in ensuring that transactions with related parties are handled in a sound and prudent manner, with integrity and in compliance with applicable laws and regulations to protect the interest of depositors, creditors and other stakeholders.

All RPTs with materiality threshold amounting P100,000.00 and above are brought to the Board for discussion and eventual decision. Important facts about the nature, terms and conditions, original and outstanding individual and aggregate balances, justifications and other details that would allow directors to make informed judgment as to the reasonableness of the transaction, are to be clearly disclosed during the Board of Directors' meetings and duly reflected in the minutes of the said board meetings.

DIVIDENDS POLICY

Rang-ay Bank recognizes the importance of providing a stable and sustainable dividend stream consistent with its commitment to stockholders. The bank has been paying regular cash dividends and will endeavor to do so while maintaining financial stability.

The Board of Directors may, after careful consideration and depending on the business results for the year and capital needs of the business, declare and approve the distribution of dividends to all stockholders.

Pursuant to Monetary Board Resolution No. 1516 dated 17 September 2015, Rang-ay Bank adopts these rules and regulations governing the declaration of dividends. Rang-ay Bank complies with the requirements on the declaration of dividends as follows:

- 1) Clearing account with the Bangko Sentral is not overdrawn;
- 2) Liquidity floor requirement for government funds is met;
- 3) Minimum capitalization requirement and risk-based capital ratios as provided under applicable and existing capital adequacy framework;

- 4) Capital conservation buffer;
- 5) Higher loss absorbency requirement; and
- 6) No unsafe or unsound banking practice.

Rang-ay Bank ensures full compliance with the minimum capital requirements and risk-based capital ratios even after the dividend distribution. The declaration of dividends is reported to the Supervisory and Examination Sector (SES) within ten (10) banking days after date of its declaration submitting the following requirements:

- 1) Duly notarized certification signed by the President
- 2) Report on Dividends Declared

SELF-ASSESSMENT FUNCTION (Internal Audit and Audit Committee)

Internal Audit

The Internal Audit Department has the full authority and independence to perform examinations, audits and investigations of all financial records, operations, activities and affairs of Rang-ay Bank at the direction of and reporting to, the Board Audit Committee in discharging their duties and responsibilities. It shall have full access to all Bank's records, properties and personnel relevant to the subject under review. It is free to review and appraise policies, plans, procedures and records.

The degree of independence which the Internal Audit Department enjoys is determined by the position it occupies in the entire bank organization. The department is under an official with high organizational status in the Bank to assure a broad scope of activities and adequate consideration of an effective action on the findings or recommendations made by the department. In view of this, the Internal Audit Department is placed directly under the Board of Directors.

The Internal Auditor is responsible to the Board of Directors through the Audit Committee to ensure that, to the extent possible, current audit techniques are being considered in order to more efficiently and effectively accomplish the overall responsibilities and objectives of the internal audit function.

A very important aspect of the Bank internal audit function is to communicate audit findings to both Management and the Board of Directors. It is a policy for the Internal Auditor to issue written audit reports to Management after audits are completed. These reports frequently contain recommendations for improving internal controls and responses are required. Internal Audit Reports are provided to the Audit Committee via email prior to the scheduled monthly joint meeting of the Internal Audit Department and Audit Committee. The Internal Auditor reviews these responses and follow up strictly to ensure that the appropriate corrective action is taken along with their committed timeline.

In performing its functions, the Internal Audit Department has no direct responsibility for or authority over, any of the activities reviewed. Therefore, the internal audit review and appraisal do not in any way relieve the persons in the bank of the responsibilities assigned to them. The Internal Audit Department shall submit its report to the Audit Committee in such manner as the Board of Directors may prescribe.

The scope of Internal Auditing covers practically all phases of activities in the Bank. All processes, systems, units, and activities, including outsourced services, fall within the overall scope of the internal audit function. The scope of internal audit shall cover, among others, the following:

1. Evaluation of the adequacy, efficiency and effectiveness of internal control, risk management and governance systems in the context of current and potential future risks;
2. Review of the reliability, effectiveness and integrity of management and financial information systems, including the electronic information system and electronic banking services;
3. Review of the systems and procedures of safeguarding the bank's physical and information assets;
4. Review of compliance of trading activities with relevant laws, rules and regulations;
5. Review of the compliance system and the implementation of established policies and procedures; and
6. Review of areas of interest to regulators such as, among others monitoring of compliance with relevant laws, rules and regulations, including but not limited to the assessment of the adequacy of capital and provisions; liquidity level; regulatory and internal reporting.

Audit Committee

To aid in complying with the principles of good corporate governance, the Board constitutes the Audit Committee. The Audit Committee is composed of three (3) members of the Board of Directors, one (1) of whom is an independent director and also acts as the Audit Committee Chairman.

The Audit Committee is responsible for overseeing the senior management in establishing and maintaining an adequate, effective and efficient internal control framework. It ensures that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations, and safeguarding of assets. The Audit Committee is also responsible of the following:

1. Recommends the approval of the Internal Audit Charter.
2. Reviews and approves the audit scope and frequency, and the annual internal audit plan.
3. Recommends the appointment and/or grounds for approval of and/or grounds for approval of the internal audit head.
4. Through the Internal Audit (IA) Department, monitors and evaluates the adequacy and effectiveness of the corporation's internal control system, integrity of financial reporting, and security of physical and information assets.
5. Reviews and approves the Interim and Annual Financial Statements before their submission to the Board,
6. Performs oversight functions over the corporation's Internal and External Auditors.
7. Coordinates, monitors and facilitates compliance with laws, rules and regulations;

Classified as a "simple" bank; Rang-ay Bank does not have a Corporate Governance Committee, Risk Oversight Committee and/or Related Party Transactions Committee; hence, the Board as a whole performs the functions of said committees.

CONSUMER PROTECTION PRACTICES

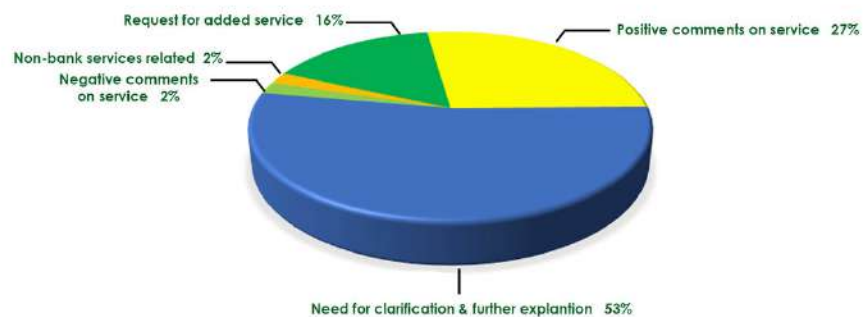
Rang-ay Bank recognizes the right of the consumer to avail of financial products and services. Rang-ay Bank aims to provide the highest quality service possible in order to protect the interests and to be responsive to the needs of its stakeholders while maintaining a high standard of accountability.

Rang-ay Bank's Consumer Protection Program is congruent to the approved Financial Consumer Protection Framework of the Bangko Sentral ng Pilipinas (BSP Circular No. 857: Financial Protection Framework) and embodies the following:

- Detailed procedures of the bank's compliance and implementation of the consumer protection standard, to wit:
 - (a) Disclosure and Transparency
 - Provides up to date information about its products and services that is accessible, clear, accurate, simple to understand, not misleading and include any potential risks for the clients.
 - (b) Protection of Client Information
 - Consumer's financial and personal information disclosed in the course of a transaction is protected through appropriate control and protection mechanisms which define the purposes for which the data may be collected, processed, held, used and disclosed.
 - The bank is guided by Republic Act No. 10173: "An act protecting individual personal information in information and communications systems in the government and the private sector, creating for this purpose a national privacy commission, and for other purposes", otherwise known as "[Data Privacy Act of 2012](#)" and the implementing rules and regulations of the National Privacy Commission promulgated August 24, 2016.
 - (b) Fair Treatment
 - Deal fairly, honestly and with professionalism with the clients at all stages of their relationship. Products are not disadvantageous to the clients.
 - (b) Financial Education and Awareness
 - Conduct Financial Literacy programs that give clients the knowledge, skills and confidence to understand and evaluate the information they receive and empower them to make informed financial decisions.
- An effective and periodic training program provided to responsible officers and employees, to equip them with knowledge on the structure and implementation of the consumer protection mechanism.
- An internal audit system. The Internal Audit function associated with consumer protection is conducted by qualified personnel who are independent of the office being audited.
- An independent audit program with written scope of audit that ensures the completeness and accuracy of the information given to clients, and the records retained in compliance with Consumer Protection standards as well as adequacy and effectiveness of training program to protect client's right.
- Designation of Consumer Assistance Officer as lead implementer of the program responsible for monitoring of consumer assistance process and reporting to Senior Management.

- A regular conduct of customer satisfaction to determine whether the principles of consumer protection are observed, the clients' concerns are appropriately addressed, and problems are resolved in a timely manner.
- Regular and timely updates of the Financial Consumer Protection manual to incorporate changes in policies and procedures and latest pertinent BSP issuances.

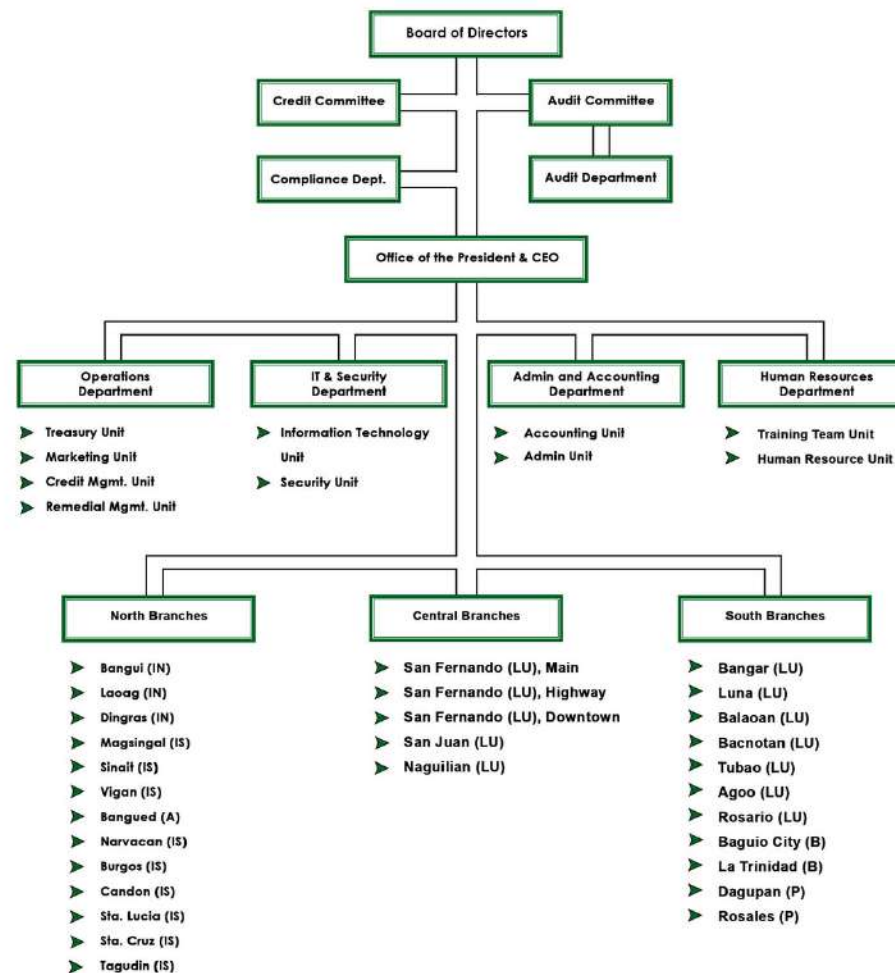
CONSUMER ASSISTANCE REPORT
Period Covered: January 1 - December 31, 2018



Nature of Feedback

Need for clarification & further explanation	53%
Positive comments on service	27%
Requests for added service	16%
Negative comments on service	2%
Non-bank services related	2%
	100%

ORGANIZATIONAL STRUCTURE



PRODUCTS AND SERVICES

DEPOSIT SERVICES



SAVINGS DEPOSIT

- Savings
- Microfinance
- SSS Pensioner
- Kiddie Savers



TIME DEPOSIT

- Regular Time Deposit
- Special Savings Deposit
- Gold Saver 5



CHECKING ACCOUNT

- Regular
- Premium

LOAN PRODUCTS



SMALL & MEDIUM ENTERPRISE



PABAHAY & HOME RENOVATION



MOTOR VEHICLE ACQUISITION



INSTANT SALARY LOANS



DepEd TEACHERS LOANS



BARANGAY & MICRO-BUSINESS ENTERPRISE PROGRAM



SSS PENSIONER LOANS



OFW PROGRAMS



AGRICULTURE & FISHERIES



SMALL FARMERS PROGRAM



MICROFINANCE

REMITTANCES



WESTERN UNION

- Foreign
- Domestic



GLOBE GCASH



BDO REMIT

OTHER SERVICES



CB KALINGA MICROINSURANCE



BILLS PAYMENT SERVICES



SSS COLLECTING AND PAYING AGENT

BRANCH OFFICERS & DIRECTORY



CENTRAL BRANCHES OFFICERS AND STAFF

CENTRAL BRANCHES

Nisce-Querol Bldg., #64 Gov. Luna St., San Fernando City, La Union
Telefax No. (72) 607-8392
Mobile No. (0917)802-7982



Quezon Avenue, San Fernando City, La Union
Telefax No. (72) 205-0185
Mobile No. (0945) 483-5351



Rang-ay Bank Bldg., #61 Ortega St., San Fernando City, La Union
Telefax No. (72) 607-8392
Mobile No. (0917)802-7982



Rang-ay Bank Bldg., #29 National Road Naguilian, La Union
Telefax No. (72) 807-1199
Mobile No. (0917) 870-0435



G/F Public Market Ili Sur, San Juan, La Union
Telefax No. (72) 607-4196
Mobile No. (0917) 870-2960



OFFICERS & DIRECTORY

NORTH BRANCHES OFFICERS AND STAFF



NORTH BRANCHES

2/F Laoag Commercial Complex, Cor Avadilla, Laoag City, Ilocos Norte
 Telefax No. (77) 770-3808
 Mobile No. (0917)802-7978



G/F Tiendaan ti Bangui, National Highway, Ilocos Norte
 Telefax No. (77) 600-2591
 Mobile No. (0945) 405-3010



Old Public Market, Brgy. Albano, Dingras, Ilocos Norte
 Telefax No. (77) 601-0001
 Mobile No. (0917)870-2959



Rang-ay Bank Bldg., Taff Cor. Manzano St., Bangued, Abra
 Telefax No. (74) 752-7554
 Mobile No. (0917) 807-0956



Florentino St., Plaza Burgos, Vigan City, Ilocos Sur
 Telefax No. (77) 722-4471
 Mobile No. (0917)802-7987



G/F Public Market, Sinait, Ilocos Sur
 Telefax No. (77) 674-1965
 Mobile No. (0917) 400-5485



New Public Market, Brgy. San Lucas, Magsingal, Ilocos Sur
 Telefax No. (77) 726-3725
 Mobile No. (0917) 802-5689



G/F Narvacan Mall, Sitio Limmansangan, Narvacan, Ilocos Sur
 Telefax No. (77) 732-5869
 Mobile No. (0917) 870-1151



Poblacion Norte, Burgos, Ilocos Sur
 Telefax No. (77) 637-0150
 Mobile No. (0917) 564-2007



Rang-ay Bank Bldg., National Highway, Candon City, Ilocos Sur
 Telefax No. (77) 644-0400
 Mobile No. (0917) 802-7986



National Highway, Brgy., Barongbong, Sta. Lucia, Ilocos Sur
 Telefax No. (77) 644-0022
 Mobile No. (0917) 870-2598



National Highway, Poblacion Este, Sta. Cruz, Ilocos Sur
 Telefax No. (77) 674-7227
 Mobile No. (0917) 802-7989



Rang-ay Bank, National Highway Cor. San Jose St. Tagudin Ilocos Sur
 Telefax No. (77) 652-2080
 Mobile No. (0917) 802-6036



SOUTH BRANCHES OFFICERS AND STAFF

SOUTH BRANCHES

G/F 7N Bldg., Burgos St., Dagupan City, Pangasinan
 Telefax No. (75) 522-0075
 Mobile No. (0917)802-7958



Petron Square Complex, Mac Arthur Highway, Rosales, Pangasinan
 Telefax No. (75) 632-1304
 Mobile No. (0917)870-2101



G/F Maharlika Complex, Magsaysay Ave., Baguio City, Benguet
 Telefax No. (74) 442-8142
 Mobile No. (0917)802-7984



Pelizzioy Centrum Bldg., La Trinidad, Benguet
 Telefax No. (74) 442-5536
 Mobile No. (0917)870-0463



Rang-ay Bank Bldg., Consolacion, Agoo, La Union
 Telefax No. (72) 607-1751
 Mobile No. (0917)802-7988



Poblacion East, National Highway, Rosario, La Union
 Telefax No. (72) 687-2507
 Mobile No. (0945) 726-79883790



#1 Verseles St., Poblacion, Tubao, La Union
 Telefax No. (72) 687-0077
 Mobile No. (0917)802-7983



National Highway, Brgy. Antonio, Balaoan, La Union
 Telefax No. (72) 607-0017
 Mobile No. (0917)870-0433



National Highway, Central East No. 1, Bangar, La Union
 Telefax No. (72) 607-0006
 Mobile No. (0917) 870-0957



Luna Sports Center, Brgy. Alcala, Luna, La Union
 Telefax No. (72) 607-3508
 Mobile No. (0917)870-1781



Public Market, National Highway, Bacnotan, La Union
 Telefax No. (72) 607-4179
 Mobile No. (0917)870-0434



CONSULTANTS

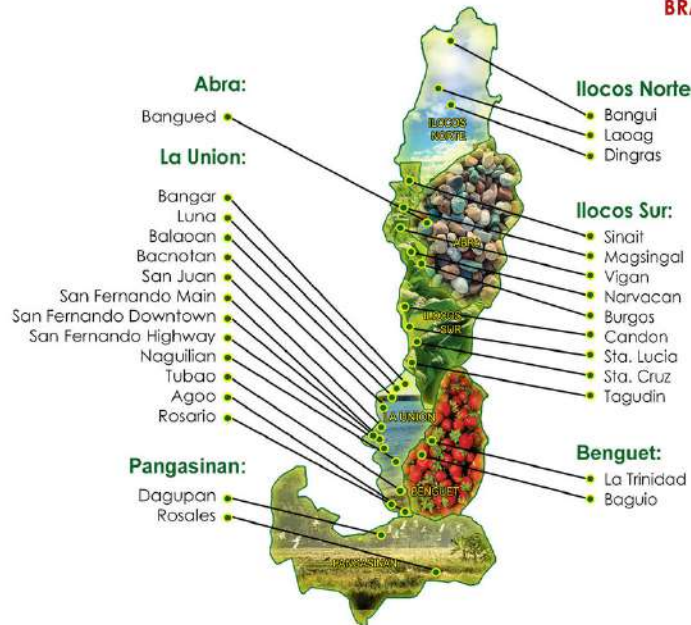


ERNESTO B. CASISON
 Loans Consultant



FLORA M. IGNACIO
 Audit & Compliance Consultant

BRANCH NETWORK



COMMON STOCKHOLDERS

Name of Stockholder	Nationality
1. ABUDA, Nestor Jr., N.	Filipino
2. ABUDA, Silvestre N.	Filipino
3. ASPIRAS, Amparo M.	Filipino
4. BEJAR, Rafael M.	Filipino
5. BUENAVENTURA, Christian P.	Filipino
6. BUENAVENTURA, Elisa P.	Filipino
7. ESTEBAR, Rosemarie P.	Filipino
8. FLORENTINO, Mariano Z.	Filipino
9. FLORENTINO, Mediatrix F.	Filipino
10. FLORES, Domiciano O.	Filipino
11. FLORES, Jose Dante DG	Filipino
12. GALVEZ, Mario P.	Filipino
13. GOCHUICO, Reyllita K.	Filipino
14. IGNACIO, Flora M.	Filipino
15. KAGAOAN, Elizabeth N.	Filipino
16. KAGAOAN, Floraa N.	Filipino
17. KAGAOAN, Terisita N.	Filipino
18. LIGOT, Ma. Rosario K.	Filipino
19. MACEDA, Manuel F. II	Filipino
20. MARQUEZ, Terisita F.	Filipino
21. MARTINEZ, Ivy Rose N.	Filipino
22. Niscan Dev. Corp.	Filipino owned
23. Nisce Northern Ventures Corp.	Filipino owned
24. NISCE, Anna Maria Z.	Filipino
25. NISCE, Augusto Q.	Filipino
26. NISCE, Ives Jesus C.II	Filipino
27. NISCE IVES Q.	Filipino

COMMON STOCKHOLDERS

Name of Stockholder	Nationality
28. NISCE, Michael Ross C.	Filipino
29. NISCE, Mikael Querol C.	Filipino
30. NISCE, Pancracio Q.	Filipino
31. NISCE, Ramon M..	Filipino
32. NISCE, Reynaldo Q.	Filipino
33. OSIAS, Jose Z.	Filipino
34. PAGTAKHAN, Ma. Cristina K.	Filipino
35. RETUTA, Romelia P.	Filipino
36. ZANDUETA, Ramon Jr. L.	Filipino
37. ZANDUETA, Rene Oscar L.	Filipino

STOCKHOLDERS OF THE BANK OWNING MORE THAN FOURTEEN PERCENT (14%)

Stockholders	Percent of Shares
Ives Q. Nisce, Filipino	29%
Niscan Development Corporation, 100% Filipino owned Domestic Corporation	22%

PREFERRED STOCKHOLDERS

Name of Stockholder	Nationality
1. ABUDA, Nestor Jr., N.	Filipino
2. ABUDA, Silvestre N.	Filipino
3. ASPIRAS, Amparo M.	Filipino
4. BEJAR, Rafael M.	Filipino
5. BUENAVENTURA, Christian P.	Filipino
6. BUENAVENTURA, Elisa P.	Filipino
7. EKEBRINK, Antonia N.	Filipino
8. ESTEBAR, Rosemarie P.	Filipino
9. FLORENTINO, MarianoZ.	Filipino
10. FLORENTINO, Mediatrix F.	Filipino
11. FLORES, Domiciano O.	Filipino
12. FLORES, Jose Dante DG	Filipino
13. GOCHUICO, Reylita K.	Filipino
14. IGNACIO, Flora M.	Filipino
15. KAGAOAN, Elizabeth N.	Filipino
16. KAGAOAN, Flora N.	Filipino
17. KAGAOAN, Terisita N.	Filipino
18. LIGOT, Ma. Rosario K.	Filipino
19. MACEDA, Manuel F. II	Filipino
20. MARQUEZ, Terisita F.	Filipino
21. MARTINEZ, Ivy Rose N.	Filipino
22. Niscan Dev. Corp.	Filipino owned
23. Nisce Northern Ventures Corp.	Filipino owned
24. NISCE, Anna Maria Z.	Filipino
25. NISCE, Augusto Q.	Filipino
26. NISCE, Ives Jesus C.II	Filipino
27. NISCE IVES Q.	Filipino

PREFERRED STOCKHOLDERS

Name of Stockholder	Nationality
28. NISCE, Jose Ma. Q.	Filipino
29. NISCE, Michael Ross C.	Filipino
30. NISCE, Mikael Querol C.	Filipino
31. NISCE, Pancraccio Q.	Filipino
32. NISCE, Ramon M.	Filipino
33. NISCE, Reynaldo Q.	Filipino
34. PAGTAKHAN, Ma. Cristina K.	Filipino
35. RETUTA, Romelia P.	Filipino
36. ZANDUETA, Ramon Jr. L.	Filipino
37. ZANDUETA, Rene Oscar L.	Filipino

STATEMENT OF FINANCIAL POSITION

	December 31		Increase/ Decrease	Percentage
	2018	2017		
ASSETS				
Cash and Other Cash Items	30,420,046	16,622,802	13,997,264	84%
Due from BSP and Other Banks	780,140,645	716,550,970	63,609,675	9%
Loans and Receivable, Net	1,970,096,123	1,606,163,741	363,942,382	23%
Held to Maturity Investment	139,314,336	146,485,211	(7,170,875)	(5%)
Bank Premises, Furniture, Fixtures and Equipment, Net	81,246,631	76,229,399	5,017,232	7%
Investment Property, Net	24,464,930	28,074,521	(3,609,591)	(13%)
Deferred Tax Assets				
Other Assets	9,259,612	11,347,426	(2,087,814)	-
TOTAL ASSETS	3,035,162,343	2,601,444,070	433,698,273	17%
LIABILITIES & SHAREHOLDERS' EQUITY				
LIABILITIES				
Deposit Liabilities	2,313,406,139	2,021,880,913	291,525,226	14%
Bills Payable	140,495,873	62,716,705	77,779,168	124%
Accrued Interest, Taxes and Other Expenses Payable	8,431,094	3,420,836	5,010,258	146%
Income Tax Payable	1,574,161	1,519,917	54,244	4%
Treasury/Cashier's/Manager's and Gift Checks	32,637	32,637	-	-
Other Liabilities	54,649,278	34,737,181	19,932,097	57%
TOTAL LIABILITIES	2,518,609,182	2,124,308,189	394,300,993	19%
SHAREHOLDERS' EQUITY				
Share Capital				
Common	251,585,000	201,248,000	50,317,000.00	-
Preferred	7,470,300	7,470,300	-	-
Additional Paid-in Capital	85,146,459	85,146,459	-	-
Surplus				
Reserve	20,000,000	20,000,000	-	-
Free	125,678,424	136,598,145	(10,919,721)	-8%
Appraisal Increment Reserve	24,672,978	24,672,978	-	-
TOTAL SHAREHOLDERS' EQUITY	516,553,161	477,135,882	39,397,279	8%
TOTAL LIABILITIES & EQUITY ACCOUNTS	3,035,162,343	2,601,444,071	433,698,272	17%
BOOK VALUE PER SHARE	101.16	107.47	(6.31)	-6%

Financial Statements audited by: Romeo G. Torno & Co., CPA's
CPA Reg. Cert. No. 0043083, PTR No. SF3351868, issued at San Fernando City, Pampanga on January 21, 2019, TIN 107-071-246
BOA Cert of Accreditation No. 4618 until June 15, 2020, BIR Accreditation No. 04-002375-001-2018, March 5, 2018 to March 5, 2021
BSP Accreditation (File/Ref. No. CFCDI-201710-0036-L-EX)

STATEMENT OF INCOME AND EXPENSE

	Year End December 31		Increase/ Decrease	Percentage
	2018	2017		
INTEREST INCOME				
Loans & Receivables	101,295,431	85,618,851	15,676,580	18%
Due from Other Banks	55,883,210	40,675,298	15,207,912	37%
Investments	11,840,724	10,751,745	1,088,959	10%
TOTAL INTEREST INCOME	169,019,365	137,045,914	31,973,451	23%
INTEREST EXPENSE				
Savings Deposits	9,739,738	5,626,603	4,113,135	73%
Time Deposits	14,839,391	7,642,664	7,196,727	94%
Demand Deposits	519,429	480,988	38,441	8%
Bills Payable	2,071,554	348,619	1,722,935	494%
TOTAL INTEREST EXPENSE	27,170,112	14,098,874	13,071,238	93%
NET INTEREST INCOME	141,849,253	122,947,040	18,902,213	15%
PROVISION FOR CREDIT LOSSES				
NET INTEREST INCOME AFTER PROVISION	136,715,439	121,161,705	15,553,734	13%
OTHER INCOME	46,058,800	56,976,656	(10,937,856)	(19%)
TOTAL INCOME BEFORE OPERATING EXPENSES	182,774,239	178,158,361	4,615,878	3%
OTHER OPERATING EXPENSE				
Compensation & Fringe Benefits	61,823,572	50,783,661	11,039,911	22%
Other Operating Expenses	51,053,645	47,754,917	3,298,728	7%
Taxes & Licenses	2,553,656	4,446,130	(1,892,474)	(43%)
Depreciation & Amortization	9,603,177	8,333,630	1,269,547	15%
Impairment Losses	1,617,804	1,617,804	0	0%
Bad Debts Written-Off	9,940,883	20,961,175	(11,020,292)	(53%)
	136,592,736	133,897,316	2,695,420	2%
	46,181,503	44,261,044	1,920,459	4%
NET INCOME BEFORE INCOME TAX				
INCOME TAX EXPENSE	3,536,631	3,500,312	36,319	1%
NET INCOME AFTER INCOME TAX	42,644,872	40,760,732	1,884,140	5%
EARNINGS PER SHARE	8.49	9.51	(1.02)	(11%)

Financial Statements audited by: Romeo G. Torno & Co., CPA's
 CPA Reg. Cert. No. 0043063, PTR No. SF3351868, issued at San Fernando City, Pampanga on January 21, 2019; TIN 107-071-246.
 BSA Cert of Accreditation No. 4618 until June 15, 2020; BIR Accreditation No. 04-002375-001-2018; March 5, 2018 to March 5, 2021
 BSP Accreditation (file/Ref. No. CPD1-201710-009e-L-EX)

CAPITAL STRUCTURE & ADEQUACY

PART 1 Calculation of Risk Based Capital Adequacy Ratio (in absolute amounts)

ITEM	NATURE OF ITEM	AMOUNT
A.	Calculation of Qualifying Capital	
A.1	Net Tier 1 Capital	493,889,470.87
A.2	Net Tier 2 Capital	52,256,741.78
A.3	Total Qualifying Capital [Sum of A.1 and A.2]	546,146,212.65
B.	Calculation of Risk-Weighted Assets	
B.1	Total Credit Risk-Weighted Assets	2,421,528,011.67
B.2	Total Operational Risk-Weighted Assets	224,552,348.63
B.4	Total Risk-Weighted Assets	2,646,080,360.29
C.	RISK-BASED CAPITAL ADEQUACY RATIO	19.47%

- Note: Minimum Capital Adequacy Ratio (CAR) as required by BSP Circular No. 280 Series of 2001 is 10% of Total Risk-Weighted Assets. Rang-ay Bank's CAR is almost double the required minimum.

PART 2 Qualifying Capital

ITEM	NATURE OF ITEM	AMOUNT
A	Tier 1 (Core plus Hybrid) Capital	
A.1	Core Tier 1 Capital	
[1]	Paid up common stock	251,585,000.00
[2]	Additional paid-in capital	85,146,459.44
[3]	Retained earnings	109,777,869.84
[4]	Undivided profits	47,407,730.48
[5]	Sub-total	493,917,059.76
A.2	Deductions from Core Tier 1 Capital	
[1]	Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI, net of allowance	27,588.89
[2]	Total Deductions	27,588.89
A.3	Total Core Tier 1 Capital	493,889,470.87
B	Tier 2 (Supplementary) Capital	
B.1	Upper Tier 2 Capital	
[1]	Paid-up perpetual and cumulative preferred stock	7,470,300.00
[2]	Appraisal increment reserve-bank premises, as authorized by the Monetary Board	26,672,978.07
[3]	General loan loss provision [limited to 1.00% of total credit risk-weighted assets]	18,113,463.71
	Sub-Total	52,256,741.78
C.	Gross Qualifying Capital	546,146,212.65
[1]	Total Tier 1 Capital	493,889,470.87
[2]	Total Tier 2 Capital	52,256,741.78
	Total Qualifying Capital	546,146,212.65

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR
FINANCIAL STATEMENTS**


The management of **RANG-AY BANK (A RURAL BANK), INC.** is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the fiscal year ended December 31, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation financial statements that are free from material misstatement, whether due to fraud or error.


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

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

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

ROMEO G. TORNO & CO., the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed its opinion on the fairness of presentation upon completion of such audit.


IVES Q. NISCE
Chairman of the Board and President & CEO


LETICIA O. ASENCI
Corporate Treasurer

Signed this 5th day of April, 2019



BRANCHES: La Union: San Fernando • Agoo • Tubao • Naguilian • Baenotan • Balaon
★ **Ilocos Norte:** Laoag ★ **Ilocos Sur:** Vigan • Candon • Sta. Cruz • Magsingal • Narvacan
Tagudin ★ **Pangasinan:** Dagupan • Rosales ★ **Benguet:** Baguio • La Trinidad ★ **Abra:** Bangued

Romeo G. Torno & Co.
Certified Public Accountants

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

email add: rnt_aps@yahoo.com
Tel. No. (045) 963-1775/963-6975
SEC Accreditation No. 0278-F

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders

Rang-Ay Bank (ARurak Bank), Inc.
G/F Nisce-Querol Bldg. 67 Gov. Luna St.
City of San Fernando, La Union

Report on the Audit of the Financial Statements

Opinion

I have audited the financial statements of **Rang-Ay Bank (A Rural Bank), Inc.** which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

My 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 my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in

Romeo G. Torno & Co.

Certified Public Accountants

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

email add: rgt_ops@yahoo.com
Tel. No. (045)963-1775/963-6975
SEC Accreditation No. 0278-F

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, I exercise professional judgment and maintain professional skepticism throughout the audit. I 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 exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I 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 I identify during my audit.

Report on Other Legal and Regulatory Requirements

Report on the Supplementary Information Required Under Revenue Regulation 15-2010 of the Bureau of Internal Revenue

My audit was conducted for the purpose of forming an opinion on the basic (separate) financial statements taken as a whole. The supplementary information on taxes, duties and license fees in Note 27 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as whole.

Romeo G. Torno & Co.

Certified Public Accountants

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

email add: rgt_ops@yahoo.com
Tel. No. (045)963-1775/963-6975
SEC Accreditation No. 0278-F

Statements Required by Rule 68, Part I Section 4 Securities Regulation Code (SRC), as Amended on October 20, 2011

I have audited the financial statements of as at and for the year ended December 31, 2018, on which I have rendered the attached report dated April 5, 2019. The supplementary information (Note 29) shown in the Schedule of Philippine Financial Reporting Standards effective as at December 31, 2018, as required by Part I, Section 4 of Rule 68 of the Securities Regulation Code is presented for the purpose of filing with the Securities and Exchange Commission and is not a required part of the basic statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in the audits of the basic financial statements. In our opinion, the supplementary information has been prepared in accordance with Part I, Section 4 of Rule 68 of the Securities Regulation Code.

Other Matters

The financial statements of **Rang-Ay Bank (A Rural Bank), Inc.** 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.

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, CPA

Managing Partner

CPA Certificate No. 0043083

Tax Identification No. 107-071-246

BIR Accreditation No. 04-002375-001-2018

March 5, 2018, valid until March 5, 2021

SEC No. 1678-A

May 3, 2018 valid until March 5, 2021

PTR No. SF3351868

January 21, 2019

City of San Fernando Pampanga

April 5, 2019

Romeo G. Torno & Co.

Certified Public Accountants

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

email add: rgt_ops@yahoo.com
Tel. No. (045)963-1775/963-6975
SEC Accreditation No. 0278-F

CERTIFICATION

KNOW ALL MEN BY THESE PRESENTS:

I, ROMEO G. TORNO, of legal age, Filipino, a Certified Public Accountant engaged in the practice of auditing with office address at 4th Block Dolores Homesite, City of San Fernando, Pampanga do hereby certify;

That we were engaged by the Board of Directors **RANG-AY BANK (A RURAL BANK), INC.** 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 5, 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 5, 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:


ROMEO G. TORNO
External Auditor

SUBSCRIBED AND SWORN to before me this 15th day of April 2019, affiant exhibited to me his BOA Cert. of Accreditation No. 4618.

Doc No. 86
Page No. 018
Book No. 096
Series of 2019


RONELLA M. BALBIN-CONCEPCION
NOTARY PUBLIC UNTIL DECEMBER 31, 2020
FOR SAN FERNANDO CITY, L.U. COMM. No. 06-2015
IS^N LIFETIME No. 04046; ROLL No. 46022
PTR No. 1343137, 01-03-19
GOV. LUNA ST., SAN FERNANDO CITY, LA UNION

Romeo G. Torno & Co.

Certified Public Accountants

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

email add: rgt_ops@yahoo.com
Tel. No. (045)963-1775/963-6975
SEC Accreditation No. 0278-F

CERTIFICATION

KNOW ALL MEN BY THESE PRESENTS:

I, ROMEO G. TORNO, of legal age, Certified Public Accountant and the External Auditor of **RANG-AY BANK (A RURAL BANK), INC.** do hereby certify that:


1. We were engaged to conduct an audit of the financial statements of **RANG-AY BANK (A RURAL BANK), INC.** 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).

IN WITNESS WHEREOF, I have hereunto affixed my signature this ___ day of _____ 2019 at _____.


ROMEO G. TORNO
External Auditor

SUBSCRIBED AND SWORN to before me this 15th day of April 2019, affiant exhibited to me his BOA Cert. of Accreditation No. 4618.

Doc No. 86
Page No. 018
Book No. 096
Series of 2019


RONELLA M. BALBIN-CONCEPCION
NOTARY PUBLIC UNTIL DECEMBER 31, 2020
FOR SAN FERNANDO CITY, L.U. COMM. No. 06-2015
IS^N LIFETIME No. 04046; ROLL No. 46022
PTR No. 1343137, 01-03-19
GOV. LUNA ST., SAN FERNANDO CITY, LA UNION

RANG-AY BANK (A RURAL BANK), INC.**FINANCIAL HIGHLIGHTS**

As at December 31, 2018 and 2017

(Amount in Philippine Peso)

	2018	2017	Increase (Decrease)
FOR THE YEAR			
TOTAL INCOME	215,078,246	194,042,570	21,035,676
TOTAL EXPENSES	172,433,295	153,281,838	19,151,457
NET INCOME	42,644,951	40,760,732	1,884,219
EARNINGS PER SHARE	8.48	10.13	(1.65)
Ordinary Shares			
RETURN ON AVERAGE EQUITY	8.27%	8.89%	(0.62%)
RETURN ON AVERAGE ASSETS	1.51%	1.64%	(0.13%)
NET INTEREST MARGIN	5.44%	5.38%	0.06%
AT YEAR END			
TOTAL ASSETS	3,035,162,344	2,601,464,071	433,698,273
LOANS AND RECEIVABLES (NET)	1,970,096,123	1,606,153,741	363,942,381
LIQUID ASSETS	2,920,191,170	2,485,812,724	434,378,446
FIXED ASSETS, Net	81,246,631	76,229,399	5,017,232
DEPOSIT LIABILITIES	2,313,406,139	2,021,880,913	291,525,227
EQUITY ACCOUNTS	516,478,161	477,155,882	39,322,279
BOOK VALUE PER SHARE	101.18	116.68	(15.50)
Ordinary Shares			
CAPITAL ADEQUACY RATIO	19.47%	21.29%	(1.82%)
PAST DUE RATIO	5.16%	2.27%	2.89%
RATIO OF LIQUID ASSETS TO DEPOSITS	126.23%	122.95%	3.28%
DEBT TO EQUITY RATIO	4.88:1	4.45:1	0.42
RATIO OF TOTAL FIXED ASSETS OVER EQUITY ACCOUNTS	15.73%	15.98%	(0.25%)

RANG-AY BANK (A RURAL BANK), INC.**STATEMENTS OF FINANCIAL POSITION**

	December 31	
	2018	2017
ASSETS		
Cash and Other Cash Items (Note 7.1)	P 30,620,066	P 16,622,802
Due from BSP and Other Banks (Note 7.2)	780,160,645	716,550,970
Investment in Securities at Amortized Cost (Note 8)	139,314,336	146,485,211
Loans and Receivable, Net (Note 9)	1,970,096,123	1,606,153,741
Bank Premises, Furniture, Fixtures and Equipment, Net (Note 10)	81,246,631	76,229,399
Investment Property, Net (Note 11)	24,464,930	28,074,521
Other Assets (Note 12)	9,259,612	11,347,426
TOTAL ASSETS	P3,035,162,344	P2,601,464,071
LIABILITIES & SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposit Liabilities (Note 13)	P2,313,406,139	P2,021,880,913
Bills Payable (Note 14)	140,495,873	62,716,705
Accrued Interest, Taxes and Other Expenses Payable (Note 15)	8,431,094	3,420,833
Income Tax Payable (Note 25)	1,574,161	1,519,917
Treasurer's/Cashier's/Manager's and Gift Checks	32,637	32,637
Other Liabilities (Note 16)	54,669,278	34,737,181
TOTAL LIABILITIES	2,518,609,183	2,124,308,189
SHAREHOLDERS' EQUITY		
Share Capital (Note 17)		
Common	251,585,000	201,268,000
Preferred	7,470,300	7,470,300
Additional Paid-in Capital	85,146,459	85,146,459
Surplus		
Reserve	20,000,000	20,000,000
Free	125,678,424	138,598,145
Appraisal Increment Reserve	26,672,978	26,672,978
TOTAL SHAREHOLDERS' EQUITY	516,553,161	477,155,882
TOTAL LIABILITIES & EQUITY ACCOUNTS	P3,035,162,344	P2,601,464,071
BOOK VALUE PER SHARE	101.18	116.68

See accompanying Notes to Financial Statements.



RANG-AY BANK (A RURAL BANK), INC.
STATEMENTS OF INCOME

	Years Ended December 31	
	2018	2017
INTEREST INCOME (Note 18)		
Loans & Receivables	P101,295,431	P85,618,851
Due from Other Banks	55,883,210	40,675,298
Investments	11,840,724	10,751,765
TOTAL INTEREST INCOME	169,019,366	137,045,914
INTEREST EXPENSE (Note 13 & 14)		
Savings Deposits	9,739,738	5,626,603
Time Deposits	14,839,391	7,642,664
Demand Deposit	519,429	480,988
Bills Payable	2,071,554	348,619
TOTAL INTEREST EXPENSE	27,170,113	14,098,875
NET INTEREST INCOME	141,849,254	122,947,039
PROVISION FOR CREDIT LOSSES (Note 9)	5,133,815	1,785,335
NET INTEREST INCOME AFTER PROVISION	136,715,439	121,161,704
OTHER INCOME (Note 19)	46,058,800	56,995,656
TOTAL INCOME BEFORE OPERATING EXPENSES	182,774,319	178,158,360
OTHER OPERATING EXPENSE		
Compensation & Fringe Benefits (Note 20)	61,823,572	50,783,661
Other Operating Expenses (Note 22)	51,053,645	47,754,917
Taxes & Licenses (Note 27)	2,553,656	4,446,130
Depreciation & Amortization (Note 23)	9,603,177	8,333,630
Impairment Losses	1,617,804	1,617,804
Bad Debts Written-Off	9,940,883	20,961,175
	136,592,737	133,897,316
NET INCOME BEFORE INCOME TAX	46,181,582	44,261,044
INCOME TAX EXPENSE (BENEFIT) (Note 25)	3,536,631	3,500,312
NET INCOME AFTER INCOME TAX	P 42,644,951	P 40,760,732
EARNINGS PER SHARE	8.49	9.51


See accompanying Notes to Financial Statements.

RECEIVED
 PABA NG KATA, ISANG TAPAT TAYO.
 SERBISYONG TAPAT,
 BUWIS NG SAPAT.
 DATE APR 15 2019
 COLLECTION SECTION
 BIR-0003, SAN FERNANDO CITY, L.U.

RANG-AY BANK (A RURAL BANK), INC.
STATEMENTS OF COMPREHENSIVE INCOME

	For the Years Ended December 31	
	2018	2017
PROFIT FOR THE YEAR	P42,644,951	P40,760,732
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified to profit or loss		
Items that may be subsequently reclassified to profit or loss		
TOTAL COMPREHENSIVE INCOME	P42,644,951	P40,760,732

See accompanying Notes to Financial Statements.

RECEIVED
 PABA NG KATA, ISANG TAPAT TAYO.
 SERBISYONG TAPAT,
 BUWIS NG SAPAT.
 DATE APR 15 2019
 COLLECTION SECTION
 BIR-0003, SAN FERNANDO CITY, L.U.

RANG-AY BANK (A RURAL BANK), INC.
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2018 and 2017

	SHARE CAPITAL - COMMON (Note 17)	SHARE CAPITAL - PREFERRED (Note 17)	ADDITIONAL PAID IN CAPITAL	SURPLUS RESERVE	SURPLUS FREE (Note 17)	APPRAISAL INCREMENT RESERVE	Total
Balance at January 1, 2018	P201,268,000	P7,470,300	P85,146,459	P20,000,000	P136,598,145	P26,672,978	P477,155,882
Issuance of Shares	50,317,000						50,317,000
Total comprehensive income for the year					42,644,951		42,644,951
Declaration of dividends					(56,579,149)		(56,579,149)
Net charges/Prior period adjustments					3,014,478		3,014,478
Balance at December 31, 2018	P251,585,000	P7,470,300	P85,146,459	P20,000,000	P125,678,424	P26,672,978	P516,553,161
Balance at January 1, 2017	P201,268,000	P7,470,300	P85,146,459	P20,000,000	P99,516,742	P26,672,978	P440,074,479
Total comprehensive income for the year					40,760,732		40,760,732
Declaration of dividends					(6,262,149)		(6,262,149)
Net charges/Prior period adjustments					2,582,820		2,582,820
Balance at December 31, 2017	P201,268,000	P7,470,300	P85,146,459	P20,000,000	P136,598,145	P26,672,978	P477,155,882

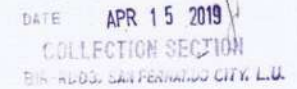
See accompanying Notes to Financial Statements.



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

	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before tax	P 46,181,582	P 44,261,044
Adjustment to reconcile Net Income to Net cash provided by operating activities:		
Depreciation/Amortization (Note 10 & 22)	9,603,177	8,333,630
Gain from Sale of Non-Financial Assets (Note 19)	(3,071,257)	(14,393,612)
Provisions (Note 9)	5,133,815	1,785,335
Interest income (Note 7, 8, 9 and 18)	(169,019,366)	(137,045,914)
Interest Expense (Note 13 & 14)	27,170,1135	14,098,875
Operating income before working capital adjustments	(84,001,937)	(82,960,643)
Decrease/(Increase) in:		
Loans & Receivables (Note 8)	(369,076,196)	(338,664,529)
Other Assets (Note 12)	1,700,529	(397,102)
Increase / (Decrease) in current liabilities		
Deposit liabilities (Note 13)	291,525,227	196,080,753
Accrued interest, taxes & other liabilities (Note 15)	(749,911)	(238,786)
Other liabilities (Note 16)	19,932,097	(3,411,755)
Income Taxes paid/withheld (Note 25)	(3,482,387)	(3,475,255)
Interest received (Note 7, 8, 9 & 18)	169,019,366	137,045,914
Interest paid	(21,409,943)	(15,873,942)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	3,456,845	(111,895,244)
CASH FLOW FROM INVESTING ACTIVITIES		
Net (Additions) Disposals of Investments (Note 8)	7,170,875	(25,011,466)
Cash payments on Investment Properties (Note 11)	(30,007)	(3,623,992)
Cash receipts from Investment Properties (Note 11)	6,646,397	27,707,450
Cash payments on Premises, Furniture, & Equip (Note 10)	(14,309,934)	(11,368,624)
Cash receipts from disposals of Premises, Furn and Equip (Note 10)	141,267	482,110
NET CASH PROVIDED (USED IN) BY INVESTING ACTIVITIES	(381,401)	(11,814,522)
CASH FLOW FROM FINANCING ACTIVITIES		
Cash Receipts from Bills Payable (Note 14)	77,779,168	9,750,436
Issuance of Shares (Note 17)	50,317,000	
Net Charges to Surplus/Prior Period Adjustments (Note 17)	3,014,477	2,582,820
Cash Disbursements on Cash Dividends (Note 17)	(56,579,149)	(6,262,149)
NET CASH PROVIDED (USED IN) BY FINANCING ACTIVITIES	74,531,496	5,071,107
NET (DECREASE) INCREASE IN CASH & CASH EQUIVALENTS	77,606,939	(117,638,659)
CASH & CASH EQUIVALENTS – BEGINNING	733,173,772	850,812,431
CASH & CASH EQUIVALENTS – ENDING (Note 7)	P810,780,711	P733,173,772

See accompanying Notes to Financial Statements.



RANG-AY BANK (A RURAL BANK), INC.
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2017 and 2016

1. CORPORATE INFORMATION

RANG-AY BANK (A RURAL BANK), INC. (the "Bank"), with Philippine Securities and Exchange Commission (SEC) Registry Number CS200520536, was organized under Rural Bank Act of 1952, as amended by Republic Act No. 7353) primarily to carry and engage in the business of extending rural credits to small farmers and tenants and to deserving rural industries or enterprises, to have and exercise all authorities and powers, to do and perform all acts, to transact all business which may legally be had or done by rural banks organized under and in accordance with the Rural Banks' Act, as it exists or may be amended; and to do all other things incident here to, necessary and proper in connection with the attainment of the purposes.

The Bangko Sentral ng Pilipinas (BSP) authorized the Bank pursuant to Republic Act 7353, on January 10, 2006 to operate as a Rural Bank.

The registered office of the Bank is located at the Nisce-Querol Building, 67 Gov. Luna St., City of San Fernando, La Union. The bank has three (3) on-site automated teller machine in partnership with Development Bank of the Philippines (DBP) wherein one is located each at Sta. Lucia Branch, Bangar Branch and Bacnotan Branch and currently has twenty nine (29) branches located at as follows:

La Union	
San Fernando	(Main Branch) 67 Gov. Luna Street, San Fernando, La Union
San Fernando Highway	Quezon Avenue National Highway
Rosario	Poblacion East Rosario
Agoo	Rang-ay Bank Bldg., National Highway, Consolacion, Agoo
Bacnotan	New Public Market, National Highway, Poblacion Bacnotan
Balaoan	G/F LULA Bldg., National Highway, Brgy. Antonio, Balaoan
Bangar	Cor. Bangar Luna Road, Central East No. 1, Bangar
Luna	Luna Commercial Center, Balaoan-Luna Provincial Road, Alcala
Naguilian	Rang-ay Bank Bldg., #29 Naguilian Road, Brgy. Ortiz, Naguilian
San Fernando	(Downtown) Rang-ay Bank Bldg., #61 Ortega St., San Fernando City
Tubao	No. 1 Verceles St. Poblacion, Tubao
San Juan	Public Market, Ili Sur, San Juan, La Union
Ilocos Sur	
Burgos	Poblacion Norte, Burgos
Candon	Rang-ay Bank Bldg., National Highway, Cor. Pascua, Candon City
Magsingal	New Public Market, Brgy. Lucas, Magsingal
Narvacan	G/F Narvacan Commercial Market, Public Market II, Brgy. Margaay
Sta. Cruz	National Highway, Poblacion Este
Sta. Lucia	ER Moreno Bldg., Barangobong, Sta. Lucia
Tagudin	Rang-ay Bank Bldg., Cor. San Jose St., Magsaysay, Tagudin
Sinait	GF Public Market, Brgy Macabiag, Sinait, Ilocos Sur
Vigan	Florentino St. Plaza Burgos, Vigan City
Ilocos Norte	
Dingras	Old Public Market, Brgy. Albano, Dingras
Bangui	Tiendaan Ti Bangui, San Lorenzo, Bangui, Ilocos Norte
Laoag	2/F Laoag Public Market, Castro Ave., Laoag City

Pangasinan	
Dagupan	G/F TN Bldg., Burgos St., Dagupan City
Rosales	Petron Square, Carmen Complex, MacArthur Highway, Rosales
Benguet	
Baguio	G/F Maharlika Livelihood Center, Brgy. Azcko, Baguio City
La Trinidad	Pelizloy Centrum Bldg., KM 5 Balili, La Trinidad
Abra	
Bangued	Taft Ave., Cor. Manzano Zone 5, Bangued

The Bank is Non-VAT registered and is subject to Internal Revenue Taxes such as Percentage Taxes, Income Tax and other taxes.

As a banking institution, the Bank is regulated by BSP. In this regard, it is required to comply with the rules and regulations of the BSP. The Bank is also subject to the provisions of Republic Act No. 8791, otherwise known as the "General Banking Law of 2000".

The **RANG-AY BANK (A RURAL BANK), INC.** Board of Directors is composed of Six (6) members; One (1) of them is independent directors.

Comparative Figures

The financial statements of Rang-ay Bank (A Rural Bank), Inc. for the year December 31, 2017 were audited by another auditor whose report dated March 27, 2018 expressed an unqualified opinion on those financial statements.

Approval of Financial Statements

The accompanying financial statements of the Bank for the year ended December 31, 2018 were authorized for issue by its Board of Directors on April 5, 2019.

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.

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.

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.

Presentation and Functional Currency

Items included in the financial statements of the Bank are measured using Philippine peso ("₱") the currency of the primary economic environment in which the Bank operates (the "functional currency").

All information presented in Philippine peso has been rounded to the nearest peso, except when otherwise specified.

Use of Judgements and Estimates

The preparation of the Bank's financial statements requires the management to make judgments, estimates and assumptions that affect the application of accounting policies as the amount reported in the financial statements and accompanying notes. The judgments, estimates and assumptions used in preparing the financial statements are based on management's evaluation of relevant facts and circumstances as at the date of the financial statements. Actual results may differ from these estimates.

Judgments, estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experiences and other factors including expectations of future events that are believed to be reasonable under the circumstances.

Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. The summary of significant judgments and estimates are disclosed in Note 4.

Going Concern Assumption

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

Changes in Accounting Policies and Disclosures

The Philippine Financial Reporting Standards Council (FRSC) approved the issuance of new and revised Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), and Interpretations issued by the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the FRSC and adopted by SEC.

These new and revised PFRS prescribe new accounting recognition, measurement and disclosure requirements applicable to the Bank. When applicable, the adoption of the new standards was made in accordance with their transitional provisions, otherwise the adoption is accounted for as change in accounting policy under PAS 8: "Accounting Policies, Changes in Accounting Estimates and Errors".

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, Amendments, and Interpretations Adopted

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

b. Impairment

Expected Credit Losses (ECL) represents credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECL allowances are measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial instrument.

The Bank has complied with the financial instrument classification requirement of PFRS 9 but opted to apply at a minimum, the requirement of Appendix 18 of the Manual of Regulations of Banks (MORB) of the Bangko Sentral ng Pilipinas (BSP) for its loan loss estimation methodology. The Bank being classified as a simple BSP Supervised Financial Institution (BSFI) and with credit operations that as of the moment cannot economically justify adoption of a simple loan loss methodology.

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)

Financial Instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments include both financial asset and financial liabilities.

The Bank will assess, classify and quantify the effect in conjunction with the provisions of the new standard PFRS 9 *Financial Instruments*, when issued, to present a comprehensive picture since the provisions will significantly affect the classification and measurement of the Bank's financial instruments.

Recognition of Financial Assets

The Bank recognizes financial assets when the Bank becomes party to the contractual provision of the financial instruments.

Financial assets include cash and other financial assets within the scope of PAS 39, classified as either financial assets at fair value through profit or loss, loans or receivables, held-to-maturity investments, or available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Bank determines the classification of its financial assets at initial recognition.

Cash and 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 highly liquid and readily convertible to known amounts of cash with original maturities of three months or less from dates of placements and which are subject to insignificant risk of changes in value. Due from BSP includes the statutory reserves required by the BSP which the Bank considers 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 valued at face amount. Cash denominated in foreign currency is translated in peso using the closing rate as of the financial date. If a bank or financial institution holding the funds of the Bank is in bankruptcy or financial difficulty, cash should be written down to estimated realizable value if the amount recoverable is estimated to be lower than the face amount.

Date of Recognition

The Bank recognizes a financial asset or financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of the assets within the time frame established by regulation or convention in the marketplace are recognized on settlement date. Deposits, amounts due from other banks and loans and receivables are recognized when cash is received by the Bank or advanced to the borrowers.

Initial recognition and measurement

All financial instruments are initially measured at fair value. Except for financial assets and financial liabilities at fair value through profit or loss (FVPL), the initial measurement of financial assets and financial liabilities includes transaction costs. The Bank classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) investments, and loans and receivables. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market, and for HTM investments, the ability and intention to hold the investment until maturity. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. Financial liabilities are classified into financial liabilities at FVPL and other financial liabilities at amortized cost.

As at December 31, 2018 and 2017, the Bank has no AFS investments and financial instruments at FVPL.

Determination of fair value

In reference with the existing standards and the new *PFRS 13 Fair Value Measurement*, the fair value for financial statements traded in an active markets at the statement of condition date is based on its quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction is used since it provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models and other relevant valuation models.

Financial asset at fair value through profit or loss (FVTPL)

A financial asset is classified as FVTPL if the financial asset is either held for trading or is designated as such upon initial recognition.

A financial asset is classified as held-for-trading if it has been acquired principally for the purpose of selling in the short term; or if it is part of an identified portfolio of financial instruments with a recent actual pattern of short-term profit-taking and which is managed by the Company; or if it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee contract. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

This category includes derivative financial instruments entered into by the Bank that are not designated as hedging instruments in hedge relationships as defined by PAS 39 *Financial Instruments: Recognition and Measurement*. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Financial assets classified in this category are designated by the Bank on initial recognition when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis that would not be separately recorded.

Financial asset at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the Statement financial operations.

As at December 31, 2018 and 2017, the Bank does not have financial assets that are classified as fair value through profit or loss.

Reclassification

The Bank evaluates its financial assets at fair value through profit and loss (held for trading) whether the intent to sell them in the near term is still appropriate. When the Bank is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Bank may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

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, unless the following conditions are met:

- The HTM investment were sold to close to its maturity that no substantial price change was expected.
- The Bank sold its HTM investment after it substantially collected all payments and prepayments; or

- The selling or reclassification is attributable to an isolated and non-recurring events beyond the Bank's control.

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. The Bank classify HTM under Investment Securities at Amortized Cost.

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.

Available-for-Sale Securities Financial Instrument

These include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

All financial assets within this category are initially recognized at fair value plus transaction costs and subsequently measured at fair value, unless otherwise disclosed, with changes in value recognized in capital funds, net of any effects arising from income taxes. Gains and losses arising from securities classified as available-for-sale are recognized in profit or loss when they are sold or when the investment is impaired.

In the case of impairment, the cumulative loss previously recognized directly in capital funds is transferred to profit or loss. If circumstances change, impairment losses on available-for-sale equity instruments are not reversed through the profit or loss. On the other hand, if in a subsequent period the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the loss is reversed through profit or loss.

For investment that are actively traded in organized financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the statements of financial condition date. For investment where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

Non-compounding interest and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial asset is measured.

As at December 31, 2018 and 2017, the Bank does not have investments in available-for-sale securities.

Unquoted Debt Securities Classified as Loans (UDSCL)

This refers to debt securities, with fixed or determinable payments that are not quoted in an active market. Unquoted Debt Securities Classified as Loans shall be measured upon initial recognition at their fair value plus transaction costs that are directly attributable to the acquisition of the securities.

After initial recognition, the Bank shall measure these securities at their amortized cost using the effective interest method. A gain or loss arising from the change in the value of the Unquoted Debt Securities Classified as Loans shall be recognized in the Statement of Income & Expenses when the security is derecognized or impaired through amortization process.

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 profit or loss when the security is derecognized or impaired.

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.

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:

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.

Bills Payable

The bills payable account refers to obligations availed by the Bank from other financial institutions thru rediscounting which requires the issuance of borrowers' promissory notes and their corresponding collaterals.

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.

Classification as debt or equity

Debt or equity instruments issued by a company entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Bank's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the company's own equity instruments.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into Bank that are not designated as hedging instruments in hedge relationships as defined by PAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gain or losses on liabilities held for trading are recognized in the profit or loss.

As at December 31, 2018 and 2017, the Bank has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

Derecognition of Financial Assets and Financial Liabilities

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:

- the rights to receive cash flows from the asset have expired; or
- 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
- 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.

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.

Impairment of Financial Assets

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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 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.

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.

Restructured Loans

Where possible, the Bank seeks to restructure loans, which may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subjected to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized under 'Provision for credit and impairment losses' in the statement of income.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if:

- there is a currently enforceable legal right to offset the recognized amounts in the normal course of business, in event of default, and in event of bankruptcy or insolvency; and
- there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The Bank assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Bank and all of the counterparts.

Loans & Discounts

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

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.

Sec. X306.1 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. x 306.2 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.

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

Section 6 of the BSP Circular No. 855 states that on accounts considered as past due

- Restructured loans shall be considered past due in case of delay of any of its principal or interest payments.

Restructured loans are loans the principal terms and conditions of which have been modified in accordance with a restructuring agreement setting forth a new plan of payment or a schedule of payment on a periodic basis. The modification may include, but is not limited to, change in maturity, interest rate, collateral or increase in the face amount of the debt resulting from the capitalization of accrued interest/accumulated charges. Items in litigation and loans subject of judicially approved compromise, as well as those covered by petitions for suspension or for new plans of payment approved by the court or the SEC, shall not be classified as restructured loans.

The allowance is increased by provisions charged to expense and reduced by reasonable write-offs and reversals as determined by the Bank.

Non-Performing Loans

NPL's shall as a general rule, refer to loan accounts whose principal and/or interest unpaid for thirty (30) days or more after due date or after they have become past due in accordance with existing rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual, or installments, in which case, the total outstanding balance thereof shall be considered nonperforming.

In the case of receivable that are payable in monthly installments, the outstanding balance thereof shall be considered nonperforming when three (3) or more installments are in arrears.

In the case of receivable that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered non-performing at the same time that they become past due in existing BSP regulations, i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrear ages reaches ten percent (10%) of the total receivable balance.

Section 7 of the BSP Circular No. 855 states that restructured loans considered as non-performing is hereby amended

- Restructured loans shall be considered non-performing except when as of restructuring date: (i) the principal and interest payments have been updated and (ii) the loan is yielding a rate of interest that fully compensates the FI for its cost of funds and credit risk.

The restoration to a performing loan shall only be effective after a *satisfactory track record* of at least three (3) consecutive payments of the required amortizations of principal and/or interest.

A restructured loan which has been restored to a performing loan status shall be immediately considered non-performing in case of default of any principal or interest payment."

NPLs amounted to ₱100,531,109 and ₱32,974,593 as at December 31, 2018 and 2017 respectively or 4.94% and 1.99% of total loans.

Premises, Furniture, Fixtures and Equipment's

Premises, furniture, fixtures and equipment except land, are carried at cost less accumulated depreciation and amortization and any impairment value. Land is stated at cost less any impairment value

Items under premises, furniture, fixtures, and equipment are initially measured at cost. 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.

Increase in the carrying amount arising from revaluation of land and buildings are credited to other comprehensive income and shown as other reserves in shareholders' equity. Decreases that offset previous increase of the same asset are charged in the comprehensive income and debited against other reserves directly in equity; all other decreases are charged to the statement of income. Each year the difference between the depreciation based on the revalued carrying amount of the asset charged to the statement of income and depreciation based on the asset's original cost is transferred from 'other reserves' to retained earnings.

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

Estimated useful lives (EU) of property and equipment are as follows:

Building	20 years
Appraisal Increment	5-10 years
Leasehold Improvements	5 years or the term of the lease
Transportation Equipment	5 years
Furniture, Fixtures and Equipment	3 years

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.

Leasehold improvements and intangibles are amortized over the term of the lease or life of the improvements or intangibles, whichever is shorter.

Intangible Assets

Intangible assets, if any shall be measured initially at cost in accordance with the provisions of PAS 38 *Intangible Assets*. It shall be recognized if, and only if, it is probable that the expected future economic benefits are attributable to the assets will flow to the entity and the cost of asset can be measured reliably. The Bank will assess the probability of expected future economic benefits using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset. Amortization is recognized on a straight-line method over their estimated useful lives.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of asset given up. Foreclosed properties are classified under 'Investment properties' upon either:

- Entry of judgment in case of judicial foreclosure;
- Execution of sheriff's certificate of sale in case of extra-judicial foreclosure; or
- Notarization of the deed of dacion in case of payment in kind (dacion en pago).

The difference between the fair value of the asset acquired and the carrying amount of the asset given up is recognized under 'Miscellaneous income' in the statement of income.

Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation on buildings and improvements is calculated on a straight-line basis over the EUL of ten years from the time of acquisition of the investment properties.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of income in the period of retirement or disposal. Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are charged against income in the year in which the costs are incurred.

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

For transfers from investment property to owner-occupied property, the deemed cost of property for subsequent accounting is its depreciated cost at the date of change in use. If the property occupied by the Bank as an owner-occupied property becomes an investment property, the Bank accounts for such property in accordance with the policy stated under 'Property and equipment' up to the date of change in use.

However, under BSP circular 520, Investment Properties shall still be classified as Real and Other Properties Acquired (ROPA) but only accounted for as Investment Properties under PAS 40.

Impairment of Premises, Furniture, Fixtures & Equipment, Investment in Properties and Intangible Assets

At each reporting date, the Bank assesses whether there is any indication that its nonfinancial assets are impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case the recoverable amount is assessed as part of the cash generating unit (CGU) to which it belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset (or CGU) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is charged against operations in the year in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income. After such a reversal, the depreciation and amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

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.

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. Under Sec.x394.3 of the MORB, sales contract receivable shall be recorded based on the present value of the installment receivable discounted at the imputed rate of interest. Discount is amortized over the term 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 the income statement at the date of sale in accordance with the provisions of PAS 18 "Revenue". SCRs shall also be subject to impairment provision of PAS 39.

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 by Circular 520 issued by the Bangko Sentral ng Pilipinas.

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.

Employee Benefits

Employee benefits are all forms of consideration given by the Bank in exchange for services rendered by employees, including directors and management. The Bank recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. Employee benefits have four types as follows:

(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) Post-employment benefits

Benefits that are payable after the completion of employment.

(c) Termination Benefits

Payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits when it is demonstrably committed to either; terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting date are discounted to present value.

(d) Retirement

The Bank has a funded, non-contributory retirement benefit plan covering all of its regular employees. Retirement benefit costs is determined using the projected unit actual actuarial valuation method as

determined by an independent actuary taking into account the factors of investments, mortality, disability and salary projection rates on actuarial basis.

The cost of providing benefits should be determined using projected Unit Credit Method which reflects services rendered by the employees to the date of valuation and incorporates the assumptions concerning employees' projected salaries. Post-employment expenses include current service cost plus amortization of past service cost, experience adjustments and changed in actuarial assumptions over the expected average remaining working lives of the covered employees. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

The funding of the plan is determined by an actuarial advisor and payment of the benefits there under is provided for through the medium of a fund held by a Board of Trustees under an appropriate trust agreement.

The plan is administered by a Board of Trustees appointed by the company and is responsible for the general administration of the plan and the management of the fund.

The determination of the obligation and cost of pension and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. While the bank believes that the assumptions are reasonable and appropriate, significant differences between actual experiences and assumptions may materially affect the cost of employee benefits and related obligations.

The bank also estimates other employee benefits obligation and expense, including cost of paid leaves based on historical leave availments of employees, subject to the bank's policy. These estimates may vary depending on the future changes in salaries and actual experiences during the year.

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 lessor

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

Amount due from lessees under the finance lease are recognized as receivables at the amount of the Bank's net investment in the leases. Finance lease income is allocated to the periods so as to reflect a constant period rate of return on the Bank's net investment in respect of the leases. As at December 31, 2018 and 2017, the Bank does not engage into finance lease agreement.

Rental income from operating lease is recognized on a straight-line basis over the term of the relevant lease. Initial direct cost incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Bank as lessee

Asset held under finance leases are initially recognized as assets of the Bank at the fair value at the inception of the lease, or, if lower, at present value of the minimum lease payments. The corresponding liability to the lessor shall be included in the statements of financial position as finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which they are capitalized in accordance to the Bank's general policy on borrowing costs. Contingent rentals are recognized as expense in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except when another systematic basis is more representative of the time pattern in which economic benefits from the lease assets are consumed.

Contingent rentals arising from operating lease are recognized as an expense in the period in which they are incurred. The Bank's basis on which contingent rent payable is determined, other than passage of time, are the amount of future use of the property, future price indices and future market rates of interest, if any.

Cost of leasehold improvements are amortized on a straight-line basis over the lease term or service life of the assets, whichever is shorter and charged to operation. Associated costs such as maintenance and insurance, are expected as incurred.

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

Foreign Currency-Denominated Transaction

Transaction in currencies other than Philippine Peso are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date the fair value was determined. Gains and losses arising on retranslation are included in profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities when the gains and losses of such non-monetary items are recognized directly in equity.

Non-monetary assets and liabilities that are measured in term of historical cost in a foreign currency are not translated.

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 offset 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.

Provision

Provisions are recognized when the Bank has a present obligations (legal or constructive) 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.

Contingencies

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

Equity

Share Capital

Share capital is measured at par value for all shares issued. Proceeds and/or fair value of considerations received in excess of par value, if any, are recognized as additional paid-in capital. Incremental costs directly attributable to the issuance of new common shares or option are shown in equity as deduction, net of tax, from the proceeds.

Retained Earnings

Retained Earnings is the sum of all profits generated by Bank since its inception that are not distributed to stockholders as dividends but either reinvested in the business or kept as a reserve for specific objectives. Retained Earnings are reduce by losses. Accumulated Surplus is classified into unappropriated (Surplus Free) and appropriated (Surplus Reserves).

Unappropriated are accumulated earnings of the Bank available for dividend distribution, while, the Appropriated retained earnings are accumulated surplus that have been set aside by action of the board

of directors for specific use. An appropriation of retained earnings may be for purposes such as future plant acquisitions or expansion, reserve against expected losses, restriction imposed by a loan covenant and treasury shares.

Reserve for contingencies refers to the accumulated amount set aside for possible or unforeseen losses, decrease or shrinkage in the book value of the bank's assets, or for undeterminable liabilities not otherwise recorded, such as those arising from lawsuit, defaults on obligations and unexpected expenditures.

Dividends on equity are recognized when they are declared.

Deposit for Future Stock Subscription

Deposit for future stock subscription (DFS) represents payments made on subscription of shares which cannot be directly credited to 'Preferred stock' or 'Common stock' pending registration with the SEC of the amendment to the Articles of Incorporation increasing capital stock. In accordance with SEC Financial Reporting Bulletin No. 006 issued in 2012, the Bank does consider a deposit for future subscription as an equity instrument unless all of the following elements are present.

- a. The unissued authorized capital stock of the Bank is insufficient to cover the amount of shares classified as deposits for future shares subscriptions;
- b. the entity's BOD and shareholders have approved an increase in capital stock to cover the shares corresponding to the amount of the deposit; and
- c. an application for the approval of the increase in capital stock has been presented for filing or filed with the SEC and BSP.

DFS that does not meet the foregoing provisions is treated as a financial liability.

As of December 31, 2018 and 2017, the Bank has no DFS recorded under liabilities nor in equity.

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.

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.

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:

Interest Income

Interest income on financial instrument is recognized based on the effective interest method of accounting.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts, if any.

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

Interest income on non-discounted term loan is accrued monthly as earned, except in 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.

Interest income on receivables from customers is recognized based on the accrual method of accounting, except in case of non-accruing receivables.

Loan Fees and Service Charges

Loan fees directly related to acquisition and origination of loans are included in the cost of receivables and are amortized using the effective interest rate method over the term of the loan.

Service charges and penalties are recognized, earned or accrued where there is reasonable degree as to its collectability.

Interest income from bank deposits and investments

Interest income from bank deposits and held-to-maturity financial are recognized on a time proportion basis on the principal outstanding and the rate applicable using accrual method.

Other Income

Other income arising from litigation, service charges, membership fee, rental income and others. Income from sale of services is recognized upon rendition of the service. Income from sale of properties is recognized upon completion of the earning process and the collectability of the sales price is reasonably assured.

Cost and Expense Recognition

Cost and expenses are recognized in profit or loss when a decrease in future economic benefits related to decrease in an asset or an increase in a liability has arisen that can be measured reliably. Cost and expenses are recognized in profit or loss in the following manner:

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

Prior Period Error

The Bank corrects material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by: (a) restating the comparative amounts for the prior period presented in which error occurred; or (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

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.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND POLICIES

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.

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:

Going Concern

The Management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

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.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Refer to Note 6 for the fair value measurement of financial assets and liabilities.

Classification of leases

Operating lease

Bank as lessor

The Bank has entered into commercial property leases on its investment property portfolio. The Bank has determined based on the evaluation of the terms and conditions of the arrangements (i.e., the lease does not transfer the ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties which are leased and so accounts for the contracts as operating leases.

Bank as lessee

The Bank has entered into leases on premises it uses for its operations. The Bank has determined, based on the evaluation of the terms and conditions of the lease agreements (i.e. the lease does not transfer ownership of the asset to the lessee by the end of the lease term and the lease term is not for the major part of the asset's economic life), that the lessor retains all significant risks and rewards of the ownership of these properties and so accounts for these contracts as operating leases.

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:

- a. 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);
- b. The currency in which funds from financing activities are generated; and
- c. The currency in which receipts from operating activities are usually retained.

Distinction between provision and contingencies

Judgement is exercised by the management to distinguish between provisions and contingencies. In evaluating provisions and contingencies, The Bank takes into consideration its present, legal or constructive obligations, if any in accordance with its policies, management's assessments and its legal counsel.

Fair value of investment property

The fair values of the Bank's investment properties have been derived on the basis of the recent sales of similar properties in the same areas where the investment properties are located and taking into account the economic conditions prevailing at the time the valuations were made.

Financial assets not quoted in an active market

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

Classification of HTM investment

The classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than in certain specific circumstances – for example, selling an insignificant amount close to maturity– it will be required to reclassify the entire portfolio as AFS investments. The investments would therefore be measured at fair value and not at amortized cost. The Bank has assessed that it has the intention and ability to hold these investments until maturity.

Estimates

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. x178.17, Sec. x 178.18 and Appendix 18 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 - 180- 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 Subsection x178.17 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	Allowance for Credit Losses (ACL)	
	Other types of collateral	Secured by real estate
31 - 90 days	10%	10%
91 - 120 days	25%	15%
121 - 360 days	50%	25%
361 days - 5 years	100%	50%
Over 5 years	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.

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.

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.

Allowance for Doubtful Accounts

The Bank assesses whether objective evidence of impairment exist for receivables and due from related parties that are individually significant and collectively for receivables that are not individually significant. Allowance for doubtful accounts is maintained at a level considered adequate to provide for potentially uncollectible receivables.

Impairment losses of loans and receivables

The Bank reviews its loans and receivables at each statement of financial condition date to assess whether an allowance for impairment should be recorded in the statement of financial operations. In particular, judgement by the Bank is required in the estimation of the amount and timing of future cash

flows when determining the level of allowance required. Such estimates are based on assumption about a number of factors and actual results may differ, resulting in future changes to the allowances.

In addition to specific allowance against individually significant loans and receivables, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the internal rating of the loan or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

The Bank maintains allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. This amount is evaluated based on such factors that affect the collectability of the accounts. These factors include the age of the receivables, the length of the Bank's relationship with the customer, the customer's payment behavior and known market factors. The amount and timing of recorded expenses for any period would differ if the Bank made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase the recorded operating expense and decrease current assets.

Impairment of nonfinancial assets

The Bank assesses impairment on property and equipment, investment properties and intangible assets whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

Among others, the factors that the Bank considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Bank recognizes an impairment loss whenever the carrying amounts exceed their recoverable amounts. The carrying values of property and equipment, investment properties and intangible assets and the related allowance for impairment are disclosed in Notes 10, 11 and 12.

Employee Benefits

The determination of the obligations and cost of retirement and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. While the Banks believes that the assumptions are reasonable and appropriate, significant differences between actual experiences and assumption may materially affect the cost of employee benefits and related obligations.

Recognition of deferred tax assets

The amount of deferred tax asset recognized by the Bank is based on the estimate of future taxable income. Significant management judgment is required to determine the amount of deferred tax asset that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

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

Details of recognized deferred tax assets are disclosed in Note 25.

5. 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:

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

- the Bank's credit structure
- target market;
- credit evaluation, administration, monitoring, and collection guidelines; and
- Remedial management.

The Bank likewise manages risk by setting limits such as:

- approving authority limits;
- individuals and borrower group limits; and
- Concentration limit as to facility and industry segments.

Moreover, the Bank monitors credit exposures, and continually assesses the creditworthiness of counterparties. It is also obtains security where appropriate, enters into collateral arrangement with counterparties, and limits the duration exposure.

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