



MESSAGE OF THE PRESIDENT

To our Dear Fellow Stockholders:

Warmest greetings to everyone!

We, at Rural Bank of Sanchez Mira hold its strong mission that is to gear towards economic development of the countryside and to improve rural economy. We are in no doubt that RBSMI has a vivid plan on what it will become in the near future. It may be a small rural bank but we are focused on working to provide excellent customer service. The Board of Directors, the management, and all of the bank employees hold a grip on the banks mission and vision to make a way towards becoming a more service-oriented and a significant bank. And since we have a strong faith in what we are trying to achieve, we may have pains and roughness right now, but we don't mind those entire temporary plight that come with big objectives.

In the year 2015, RBSMI through a Memorandum of Undertaking signed a Five (5) Year Strategic Plan with the BSP. This Strategic Plan aims to achieve the Capital Minimum Requirement by the end of 2019. And by God's grace, that by 2019 ends the bank has already achieved the capital requirement of P 20,000,000.00 for a third class municipality.

Year 2017 was quite a tough year for us. All the challenges brought about by numerous calamities that greatly impact the Agricultural Sector; nevertheless RBSMI continued to provide financial support to our local farmers, fishers, and other agrarian beneficiaries. We cannot still say that we are now reaping the full benefits of our hard work, passion and determination to make our bank a better one, but we would rather say that we are still on the next phase which is development towards a better position. 2017 marks the beginning of our most difficult part of recruiting new depositors and borrowers, implementing new strategies and policies, change in the management and staff having two employees resigned during the year and a long-time employee who retires, but we can also say this is the beginning of a better times ahead. Having said that, we are on our way to move upwards. We need to build a level of operation and plan that would enable us to be more efficient and improve our operation leverage.

If we have been working harder on the past years, we need to do more and more given that we have set our targets for the coming years. We cannot be complacent. We need to modify our process, improve customer service, tighten governance and risk management to prepare for a bigger scope of operation. We need to generate more deposits. Of course, that means that we also need assets to deploy the deposits. We've got to move faster and be more focused to our goals and objectives; that's the only way for us to compete especially that we have a lot of competitors in the area. Aside from the intrusion of the other rural banks from nearby municipalities.



On the year 2017, it has been presented during our stockholder's meeting the plan of the bank in expanding its building. This will boost the confidence of our stakeholders to give their trust and confidence to RBSMI. Thus, this 2018 we will make that plan into reality, because today, we are honored to have with us our only surviving mentor to host our ground breaking for the construction of the annex building together with our Chairman of the Board, Dr. Michael Asanias.

There is so much work to do in 2018 and beyond. In the next phase of our growth strategy, our main goal is to increase our strong foundation, maximize our resources, and continue to improve customer-service, invest in our people and in service enhancement so that our clients will have a simpler, easier and a better experience while banking with us.

We must always challenge ourselves on how we can retain our clients and to encourage more clients to choose our services. In 2017, we have set our targets especially on the loan releases and market of deposits. We modify our interest rates on deposits and loans in order to be more competitive in the market. This competitive products and services will further increase our share of market and will push our people to deliver the bank's reputation and promise of fulfilling the financial dreams to our customers.

It is clear that we have real challenges ahead to fully realize our potential, challenges that taught us to be better, difficulties that brought by the external environment. Nevertheless, we learned our lesson to do better in the coming years. 2017 may be a tough year for us but it also taught us that we can do better if we will.

We recognize the efforts and burning dedication of the management, the officers and the employees in adhering to the policies, rules and regulations of the bank for the success for this year 2017 is mainly due to the collaborative effort of all levels of management. Likewise, we value the guidance of our Board of Directors and the support of our stockholders.

Throughout our journey, as part of the banking industry, we shall be always guided by our mission and vision. We will continue to execute and live with what our incorporators' intended in putting up this institution – a bank dedicated to helping and improving the lives of the rural community and making it a profound and remarkable institution not only during the past years but in the coming years as well.

Thank you so much for the trust. At RBSMI your satisfaction is our goal.

ALEJANDRO M. PULIDO JR.

President



1. Corporate Policy

As RBSMI continues to grow, our commitment is as strong as ever to promote economic development of the countryside and improve rural economy. As we prided ourselves with steady financial support to our clients, we also strive to improve our operations, especially in customer servicing.

Our clients are our main focus. We dream of a more convenient service experience to our clients. We are committed to help our clients grow and succeed by providing them not only financial assistance but to make them realize that we are partners to their success.

Our bank offers a wide array of products and services that aims to help the rural community grow. The Board of Directors, Senior Management, employees and staff goes hand in hand in promoting these products and services to provide satisfaction to our dear clients and other stakeholders of the bank. RBSMI continues to develop strategies and improvements to ensure quality services that will satisfy and retain our customers.

As we continue to be firm in our mission and vision, we will continue treading the path towards business excellence and working at improving our performance and customer service, with the goal of prioritizing the arising needs of the rural community.

VISION

To serve as a dependable provider of credit and other value-added financial services to support economic growth in the community through the development of farmers and local economies by way of prudent investment that support the agriculture sector and rural businesses.

MISSION

The Bank aims to utilize its financial resources in providing quality banking services, adopting a market driven strategy, and obtaining sustained and competitive return on investments toward economic development of the countryside to improve rural economy.

**2. FINANCIAL SUMMARY/ HIGHLIGHTS****KEY PERFORMANCE INDICATORS**

Profitability	2017	2016
Total Net Interest Income	7,120,133	7,600,541
Non-Interest Income	2,101,794	1,518,815
Interest Expense	608,945	934,016
Total Non-Interest Expense	7,017,689	6,623,781
Provision for Probable Loan Losses	83,943	62,632
Net Income before Income Tax	1,718,486	1,729,900

Selected Balance Sheet	2017	2016
Liquid Assets	33,545,603	32,298,254
Fixed Assets	164,733	244,169
Loans and Receivables Net	49,591,707	44,719,790
Total Assets	84,376,450	77,644,373
Deposit Liabilities	65,232,495	61,043,427
Total Equity	17,815,793	13,357,417

Selected Ratios	2017	2016
Return on Average Equity	8.03%	9.30%
Return on Average Assets	1.64%	1.72%
Capital Adequacy Ratio	21.54%	18.52%
Past Due Ratio	3.71%	3.57%
Ratio of Liquid Assets to deposits	51.42%	52.91%
Debt to Equity Ratio	3.74%	4.06%
Ratio of Total Fixed Assets over Equity Accounts	0.92%	1.59%
Net Interest Margin	8.69%	9.15%

Per common Share Data	2017	2016
Earnings per Share (Ordinary Shares)	21.49	22.89
Book Value per share	287.32	260.26

As of December 31, 2017, the Bank's Return on Average Equity and Return on Average Assets decrease due to decrease of income, assets and equity of the bank this 2017 compared to last year. The return on average equity of the bank for 2017 is 8.03% while 9.30% in 2016 and the return on Average Assets for 2017 and 2016 is 1.64% and 1.72% respectively.



FINANCIAL SUMMARY/ HIGHLIGHTS

Based on Audited		
	2017	2016
Total Resources	84,319,098	77,644,373
Gross-Loans and Receivables	52,169,014	47,580,571
Investments	2,000,000	2,000,000
Deposit Liabilities		
Regular Savings	38,896,483	33,085,509
Gold Savings	25,815,381	27,421,487
Capital	12,784,700	6,200,700
Gross Revenues	9,429,064	9,350,329
Interest income on Loans	7,120,133	7,600,541
Income on Investments	207,137	230,973
NET INCOME	1,332,255	1,369,628

GROSS LOAN PORTFOLIO		
	2017	% to total Loan Portfolio
I. Agri-Agra Loans		
a. Agrarian Reform Loans	4,033,684	7.73 %
b. Other Agricultural Loans	4,591,400	8.80 %
II. Small and Medium Scale Enterprises		
a. Small Scale Enterprise	17,263,586	33.09 %
b. Medium Scale Enterprise	6,820,000	13.07 %
III. Real Estate Loans		
a. Loans to Individuals for Housing Purposes	8,546,299	16.38 %
IV. Loans to Individuals Primarily for Personal Use		
a. LIPPUP-Other Consumption	1,474,626	2.83 %
b. LIPPUP-Salary Loans	7,128,994	13.67 %
Loans to Individuals for Other Purposes		4.43 %
v. Purposes	2,310,425	
Total	52,169,014	100.00 %



3. OPERATIONAL HIGHLIGHTS

Rural Bank of Sanchez Mira (Cagayan), Inc. strives to promote economic growth in the community by providing financial assistance and support system to the agricultural sector (small farmers and fishers) and the community as a whole. It serves as the bank's drivers to growth and development. As to concentration of credits to certain Industry, **(Table 1)**, in 2017, the total loans to all sectors reached PHP 52,169,014 of which 7.73% was directed to Agrarian sector amounting to PHP 4,033,684 and 8.80% amounting to PHP 4,591,400. Likewise, its financing program also caters the needs of Small and Medium Enterprises (SME's), housing, and livelihood/salary loans.

Table 1

	2017	%	2016	%
Agrarian Reform Loans	4,033,684	7.73	P 4,610,777	9.69
Other Agricultural Credit Loans	4,591,400	8.80	5,961,926	12.53
Small and Medium Enterprises	24,083,586	46.16	6,989,465	14.69
Real Estate Loans	8,546,299	16.38	10,637,841	22.36
Individuals Primarily for Personal Use	8,603,620	16.50	12,783,461	26.87
Individuals for Other Purposes	2,310,425	4.43	6,597,102	13.87
Total	52,169,014	100.00	47,580,572	100.00

Loans to Agricultural Sector

In 2017, RBSMI proved once again that its commitment to provide growth and development to the Agricultural Sector especially to small farmers and fishers. RBSMI released a total of P 14,004,000.00 to small farmers and fishers. The assistance benefited 186 farmers and fishers wherein 36 were new borrowers. The bank finances various farm activities such as crop production, poultry and livestock.

Also, in order to promote a more aggressive strategy in pursuing a higher demand to Loans to Agricultural Sector, RBSMI staff visited SANGHERAs to promote the programs offered by the bank and to give them a better understanding on how RBSMI could help them in financing their agricultural needs. This will create and awareness that RBSMI will play a vital role in their life as farmers and fishers.

The Guarantee Fund Pool (AGFP) is one of the partners of the RBSMI in funding loans that supports the Agricultural programs of the government. In 2017, the bank released a total of P 1,239,795 with 32 new borrowers.

***Loans to Small and Medium Enterprises –Meeting the demand of Businesses***

RBSMI also provide a strong financial support to Small and Medium Enterprises (SME's) in the community of Sanchez Mira and nearby municipalities especially that businesses are booming in the locality. With a vital role that these Small and Medium Enterprises play for the development of our locality, it is only just to support them with their endeavor. In 2017, outstanding loans to SME have amounted to P 24, 083,586. Of this amount, P 17,263,586 is directed to SSE and P 6,820,000 to MSE. The significant increase on the loan portfolio directed to SME's was due to the decrease on interest rate from 32% to 24%. Also, RBSMI's intensive marketing contributed to the increase on the loans to SME's.

Status of Loans

	2017	%	2016	%
Current Loans	50,173,022	96.17	45,882,522	96.43
Past Due Loans	1,933,535	3.71	1,409,555	2.96
Items in litigation	62,456	0.12	288,495	0.61
Total Loan portfolio	52,169,014	100	47,580,572	100

Of the total loan portfolio of ₱ 52,169,014, current loans of ₱ 50,173,022 accounted for 96.17%; past due loans of ₱1,933,535 made up 3.71% and items in litigation of ₱ 62,456 represented 0.12%. It is noteworthy that Items In litigation significantly decreased by 0.49% compared to last year. These points to the bank's success in improving loan quality and stepping up collection efforts.

New Lending Programs and Activities Implemented in 2017**➤ Short Term SME-Rice Trader, coconut and Second Hand Vehicles**

The Board of Directors approved Loans to Short Term SME through Board Resolution 2017-056. Recently the Bank launched a new product to cater additional capitalization to Rice Traders; Coco Traders and Buy and Sell of second hand vehicles.

The objective of this new scheme is to bring awareness to the Big Business Entities that the Bank can also offer a low interest rate same as that of Commercial Banks. Moreover, timeframe in the approval and release of loans of this product is shorter compared to that applied from Commercial Banks.

This product is for a short term (3mos – 6 mos) with a maximum loanable amount of P2M per borrower with an interest rate of 9.5% per annum. Collateral is required as Security of the Loan.



All of the borrowers paid their loans before the due date. With the positive result of the new product, the Bank intends to increase its share from the portfolio of 10-15 million pesos. The effect in liquidity is minimal because return of investment is fast.

Special interest rate of 7%-10% is provided for this short term SME in order to be competitive to other lending institution like Philippine National Bank and Land Bank of the Philippines. RBSMI total approved loans amounted to P 13,700,000 and benefited 6 rice traders within Sanchez Mira and nearby municipalities.

➤ **Revision on interest Rates on Salary Loans**

In order to increase the number of borrowers on Salary Loans, the Management approved Board Resolution No. 2017-091 on the revision of interest rate downgrading it from 32% to 24% per annum. Upon the approval of the revision, the Management marketed the salary loan package to LGU's, Educational Institutions (Teachers) and Private Employees as well.

Aside from downgrading the interest rate, the Management initiated also on improving their services to interested clients, such as application forms are now delivered to their respective workplace and interviews of their co- makers are contacted where the co- makers work or resides in order for the interviewer to observe and analyze if their co- makers have the capacity to pay the loan in case the borrower fails to pay its obligation.

➤ **Chattel Mortgage**

As per approved Board Resolution No. 2017-146 dated September 12, 2017, the Rural Bank of Sanchez Mira, Inc. Re-consider the Re adoption of Chattel Mortgage.

The objective of the Bank is to allow Chattel as collateral on loan application other than the real properties to be able to expand the bank market coverage by extending financial assistance for additional capital to its high net worth clients engage in construction of infra-structure projects (public sector); gravel and sand and concrete products; transport and trucking services; buy and sell of commodities, delivery and forwarders and other related business engage in trucking services.

The limitation of exposure to chattel mortgage does not exceed twenty five percent (25%) of its total loan portfolio. Interest rate of 9.5% per annum is offered by this type of loan.



➤ **Out of Territory Loan (OTL) Policy**

The Board approved the Out of Territory Loan (OTL) as per Board Resolution No.2018-05. The objective of this loan is to be able to cater to borrowers, outside of Cagayan, basically because of clients' business covering not only in Cagayan but outside its territory as well. Interest rate for this loan is 12%-16% secured.

Financial Condition:

Table 2 shows the Total Assets Distribution for CY 2017 and CY 2016.

Table 2

	2017	2016	Variance
ASSETS			
Cash and Other Cash items	3,560,919	1,926,815	1,634,104
Due from BSP	3,349,645	2,281,171	1,067,994
Due from Other Banks	24,635,039	26,090,268	(1,455,229)
Loans and receivables, Net	49,591,707	44,719,790	4,871,917
Held to Maturity Investment	2,000,000	2,000,00	-
Bank Premises, Furniture, Fixtures and Equipment, net	164,733	244,169	(79,436)
Investment Properties	973,000	298,368	674,632
Other Assets	101,407	84,062	17,345
TOTAL ASSETS	<u>84,376,450</u>	<u>77,663,433</u>	<u>6,713,017</u>

The financial condition and result of operations are based on the Audited Financial Statement of the Bank as at December 31, 2017 and 2016.

In 2016, there was a slight diverse of 4.66% from the total assets of 2015. This was a riffle effect of the closure of the Rural Bank of Claveria. Now the total assets in 2017 stood at PHP 84,319,098, a 39.34% increase on the total assets of 2016. This only proves that the trust and confidence of our dear stakeholders are still with our bank.

Table 3

DUE FROM BSP AND OTHER BANKS	2017	2016	Variance
Due from BangkoSentral ng Pilipinas	3,349,645	2,281,171	1,068,474
Due from Other Banks	24,635,039	26,090,268	(1,455,229)
<u>Total</u>	<u>27,984,684</u>	<u>28,371,439</u>	<u>(386,755)</u>

The balance of Due from BSP account serves as the bank's reserve for its deposit liabilities. Under the Manual Regulations for Banks, a bank is required to maintain its reserve requirements for its deposit liabilities in the form of deposits with the BSP. The BangkoSentral ng



Pilipinas released Memorandum Circular 997 that notifies banks on the increase Required Reserve deposit. Thus RBSMI made an additional deposit to the BSP required reserve deposit amounting to P 1,100,000.00.

Table 4

Showing the Total Liabilities for CY 2017 and 2016

LIABILITIES & SHAREHOLDERS' EQUITY			
LIABILITIES	2017	2016	Variance
Deposit Liabilities	65,232,495	61,043,427	4,189,068
Accrued Interest taxes and Other expenses Payable	186,083	93,628	92,455
Other liabilities	931,855	964,314	(32,459)
Income Tax payable	210,225	185,858	24,367
TOTAL LIABILITIES	<u>66,560,657</u>	<u>62,287,227</u>	<u>4,273,430</u>

Total Liabilities of the bank are made up of deposits generated, accrued interest and other expenses payable.

In 2017, deposits, both regular and special/gold amounting to ₱ 65.232 million made up 98.00% of the total bank's liabilities or 77.36% of the total assets of the bank. Out of the total deposits, 79.97% is invested in loans. The deposit for 2017 heightened by 3.32%. This means that the depositors regain their trust and confidence towards the bank after the effect brought by the closure of a nearby rural bank.

Table 5

Showing the capital accounts for CY 2017 and 2016

SHAREHOLDERS' EQUITY			
Capital Stock	2017	2016	Variance
Common Stock	12,784,700	6,200,700	6,584,000
Retained Earnings	5,031,093	9,175,506	(4,125,624)
TOTAL SHAREHOLDERS' EQUITY	<u>17,815,793</u>	<u>15,376,206</u>	<u>(2,439,587)</u>

The total Bank's Capital Accounts made up of capital stock and retained earnings-free. The Bank's capital stock is 34.67% higher on 2017 at ₱ 12.785 million from ₱ 6.200 million as a result of the payment of the subscribed share capital of stockholders, and the distribution of stock dividends amounting to P 6,000,000; also stockholders infused fresh capital amounting to P 282,900 due to the deficiency on net income for the year 2016. Under the Bank's capital build-up program, total paid-up capital will reach ₱20,000,000.00 by 2019.



Result of Operation

The interest income is a little bit drawn this year with a decrease of 3.33%. This is brought by the decrease on the interest rates of Salary Loans and Small Scale Enterprises from 32% to 24% annually and the special rates offered to SME Short term Loans. The Board of Directors approved to lower down the interest rates for this particular loans in order to win back old borrowers like teachers, government employees and others that decides to borrow to other lending institution because they have been offered a lower interest rates by other financing companies. Nevertheless, the bank succeeded in winning back the trust and confidence of these borrowers thus increased the loan portfolio for salary loans and will later on contribute to the increase on interest income for the coming years.

Also, RBSMI restructured the interest rates on its regular savings and gold savings. New interest rate for regular savings is 0.50% annually from 0.75%. Gold savings interest rate is as follows:

Amount	Term				
	30 Days	60 Days	90 Days	180Days	365 Days
100,000-1M	1.25	1.50	1.75	2.00	2.50
1,000,0001 above	1.50	1.75	2.00	2.50	3.00

The restructuring of interest rates lead to the decrease on interest expense by 21.07%.

Other operating income on the other hand amounted to P 2.102 million for 2017 from P 1.518 million on 2016 or 21.07% higher due to the increase of loan releases and increase in the number of new borrowers. This greatly affects the intense marketing done by the management.

Table 6

Showing the Total Income and expense accounts and the percentage of distribution for CY 2017 and 2016

Performance Review:

Income Accounts	2017	%	2016	%
Interest Income	7,327,270	77.71	7,831,514	83.76
Non-Interest Income	2,101,794	22.29	1,518,815	16.24
Total	9,429,064	100.00	9,350,329	100.00

Expense Accounts	2017	%	2016	%
Interest Expense	608,945	7.47	934,016	11.68
Compensation	4,546,594	55.76	4,105,409	51.32
Taxes and Licenses	573,826	7.04	537,968	6.73
Other administrative Expenses	1,709,878	20.97	1,700,457	21.26
Depreciation/Amortization	187,391	2.29	279,947	3.49
Provision for Loan Losses	83,943	1.03	62,632	0.78
Income Tax Expense	386,232	4.74	379,062	4.74
Total Expenses	8,153,541	100	7,999,490	100
Net Income before Income Tax	1,718,486		1,729,900	



Net Income after Tax	1,332,255	14.13% of Gross Income	1,369,628	14.65% of Gross Income
Earnings per Share	287.32		260.58	

We finished the year with ₱1.332 million net income, a little bit lower than the net income of 2016 which is P 1.370. As per Memorandum of Undertaking (MOU) executed by the bank and the BangkoSentral ng Pilipinas, any difference on the Net Income between the targeted from the Actual Income will be paid by the stockholders.

Nevertheless, RBSMI strives to do better in the coming years. The efforts exerted for this year will soon be reaped thus contributing to a better performance for the coming years. RBSMI continually strives to establish a better position for the years to come.

Test of Financial Strength

1. Secured Loans to Total Loans 78.03%

This ratio indicates that out of the total loan portfolio of the bank, 78.03% are secured. This represents a good balance between unsecured and secured loans. However, the management makes sure not to be too collateral oriented as we may neglect viable projects of eligible borrowers who cannot offer bankable collateral.

2. Ratio of Debt to Equity 3.74%

This shows that depositors have a high confidence in the bank. This means that the depositors have more than twice as much money in the company than equity holders. Thus, the bank needs to make efficient use of the deposit liabilities to increase the total loan portfolio and mitigate the risk of having idle cash.

3. Return on Average Equity 8.03%

This measures how efficiently a firm can use the money from shareholders to generate profits and grow the company. The ROAE decreased by 1.60% compared to the year 2016. Although the return is acceptable given the prevailing low yield on investment, it is noted that the bank must find ways to cut cost improve efficiency and increase profit margins.

4. Past Due Ratio 3.71%

The ratio indicates a reasonably efficient collection of loans. A remarkable decrease of 0.14% almost from 3.57% in 2016 to 3.71% in 2017 indicates good performance in the implementation of credit and collection policy and mitigating the risk of delinquency, not to mention improving asset quality.

**5. Net Interest Margin 8.69%**

This ratio indicates the performance metric that examines the bank's success on its investment decisions. There was a decrease of 0.46% on the net interest margin thus the bank is looking forward for the next years towards more efficient utilization of financial assets to increase net interest margin.

5. RISK MANAGEMENT AND FRAMEWORK ADOPTED

During the year, RBSMI reinforced existing risk management measures and controls by adopting a better control in mitigating various risks faced by the Bank. It also continued to pursue initiatives that enhanced the Bank's implementation and approach to different risks that are inherent to the Bank's business activities.

a. Risk Management Philosophy and Culture

Risk Management is embedded in the bank's business strategy. It is an integrative component of good governance wherein the RBSMI board and management ensures the adequacy of framework, policies internal controls, risk management systems and procedures to manage risks.

At RBSMI, Internal Audit and Compliance complement each other's role to create collaboration that provides authority to the role of corporate governance in implementing an effective Risk Management Framework.

b. Reinforcing Risk Management Measures and Controls**• 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 banks 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. The bank has placed due importance to expanding and strengthening its risk management process and considers it as a vital to the banks 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 financial position in the market.



The inherent risk which can rise from the banks financial instruments are Credit Risk, Market Risk, Interest Rate Risk, Liquidity Risk, Operations Risk, Legal Risk, Reputation Risk and Compliance Risk.

➤ **Capital Adequacy**

The Bank's Capital did not meet the statutory and regulatory requirements with adjusted capital of P 17,774,103 or 21.47%. The Bank's new Capitalization requirement is P 20M as provided under BSP Circular No. 854 dated October 29, 2014 for a Rural bank classified as 3rd class municipality with a head office outside NCR. Nevertheless, the Bank developed a Five-Year Strategic Plan that aims to meet the required capitalization by the end of 2019.

	2017	2016
Tier 1 Capital	17,774,103	15,334,517
Tier 2 Capital	479,898	449,439
Total Qualifying Capital	18,254,000	18,783,955
Risk Weighted Assets	84,756,448	84,756,448
Tier 1 Capital Ratio	20.97 %	18.09 %
Tier 2 Capital Ratio	0.57 %	0.53 %
Capital Adequacy Ratio (CAR)	21.54%	18.62%

➤ **Credit Risk**

Credit risk is the risk of financial loss due to the other party's failure to discharge an obligation cited in the binding financial instrument.

The bank faces potential credit risks every time it extends funds to borrowers, guarantees the paying performance of its clients.

The bank manages the level of credit risks it accepts through comprehensive credit risk policy setting assessment and determination of what constitutes credit risk for the bank; setting up exposure limits; compliance with credit risk policy and review of credit policy for pertinence and changing environment.

Additionally, the table below shows the distribution of maximum credit exposure by industry sector of the bank as of December 31, 2017 and 2016.

Maximum Credit Exposure

	2017	%	2016	%
Wholesale and retail trade, repair of motor vehicles	8,603,619	16.49	10,572,703	22.22
Agriculture, Hunting and Forestry	4,033,684	7.73	-	0.00
Transportation and Storage	24,674,986	47.30	6,989,465	14.69
Real Estate Activities	12,546,299	24.05	10,637,841	22.36
Other Service Activities	2,310,426	4.43	19,380,563	40.73
Total loan Portfolio	52,169,014	100.00	47,580,572	100



As of December 31, 2017, the bank's past due loan increased by P 523,981. The past due ratio of the bank for 2017 and 2016 is 3.71% and 2.96% respectively.

As of December 31, 2017, the bank's regular Loans and Receivables amounted to P 49,591,707 net of credit risk mitigation which consists of primarily collaterals, like REM, Deposit Hold-Out and Chattel Mortgage.

Credit Risk Management:

It is the overall responsibility of the bank's Board of Directors to approve Bank's Credit Risk Strategy and significant policies relating to credit risk and its management which should be based on the bank's overall business strategy. To keep it current, the overall strategy has to be reviewed by the Board, preferably on an annual basis or when the need arises.

To effectively monitor and maintain the quality of its loan portfolio, the Bank conducts annual qualitative review to assure proper loan qualification and setting up of valuation reserves.

Collateral and other Credit Enhancement:

The required amount and type of loan collateral depend on the borrower type and assessment of the credit risk of the borrower. The bank's lending manual and credit policy issuances provide the guidelines on the acceptability of loan collateral and maximum valuation for each type of collateral.

The following are the primary collaterals accepted by the bank:

As to Security	2017	%	2016	%
Real Estate mortgage	39,335,713	75.40%	40,552,896	85.23
Deposit Hold-Out	-	0.00%	61,900.00	0.00%
Chattel Mortgage	700,001	1.34%	90,001	0.00%
Under Fringe Benefits	674,090	1.29%	-	0.00%

Credit Stress testing

The bank regularly conducts Stress testing of its loan portfolio taking into account risk events with high profitability of occurrence. Utilizing such scenarios, tests are done to determine the magnitude of their impact on the loan portfolio covered by the bank.



Credit Risk Rating

The bank adopts its own Internal Credit Risk System (ICRRS) which is a summary of the bank's individual credit exposure. The importance of ICRRS framework becomes more eminent due to the fact that historically major losses to banks stemmed from default in loan portfolios.

An Internal Rating framework would facilitate the bank in a number of ways such as:

- Credit Selection
- Amount of exposure
- Tenure and Price of facility
- Frequency or intensity of monitoring
- Analysis of migration of deteriorating credits and more accurate computation of future loan loss provision
- Deciding the level of approving authority of loan

➤ **Interest Rate Risk**

This is defined as the risk to earnings or capital arising from mismatches of the timing within which interest rates on assets and liabilities can be changed. It includes risk mismatches in maturity and interest rate on assets and liabilities; and risk of high interest rate on term deposits and emergency borrowings to retain/generate funds to cover liquidity problem.

Interest Risk Management:

- ALCO-Asset, Liabilities, Capital and Owner's Equity
- Accuracy on Management Information System
- Interest Rate and Maturity Matching Report

➤ **Liquidity Risk**

The bank's liquidity management is among the most important activities conducted within the bank. The bank manages its liquidity risk through analyzing net funding requirements under alternative scenarios, diversification of funding sources and contingency planning.

Liquidity risk is managed by the bank through holding sufficient liquid assets and appropriate assessment to ensure short-term funding requirements are met and by ensuring the high collection performance at all times. Deposits with banks are made on short-term basis with almost all being available on demand within one month.



RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

2017 ANNUAL REPORT

The management uses forecast models that estimate the bank's cash flow needs like the Liquidity Gap that estimate the bank's cash flow needs based on the banks contractual obligations.

*Liquidity Gap Report as of December 31, 2017

	REMAINING TERM TO MATURITY OR REMAINING TIME TO NEXT REPRICING						
	On Demand	1-30 Days	31-90 Days	91-180 Days	181 Days-1Year	Over 1 Year	Total
ASSETS							
Cash on Hand/COCI	3,560,918.58						3,560,918.58
Due From BSP	3,349,645.16						3,349,645.16
Due From Banks		27,165,163.93					27,165,163.93
Loans and Receivables	870,930.44	1,695,145.43	3,945,181.38	14,783,143.45	2,425,237.45	28,449,375.51	52,169,013.66
Held to Maturity						2,000,000.00	2,000,000.00
Other Assets-Gross	101,406.86						101,406.86
TOTAL ASSETS	7,882,901.04	28,860,309.36	3,945,181.38	14,783,143.45	2,425,237.45	30,449,375.51	88,346,148.19
LIABILITIES							
Deposit Liabilities, Savings	-	38,896,483.77	-	-	-	520,629.35	39,417,113.12
Deposit Liabilities, Gold		12,709,282.25	8,233,879.76	1,185,875.36	3,686,344.03	-	25,815,381.40
Other Liabilities	-	933,991.50	-	-	-	-	933,991.50
TOTAL LIABILITIES	-	52,539,757.52	8,233,879.76	1,185,875.36	3,686,344.03	520,629.35	66,166,486.02
Position per Time Band	7,882,901.04	(23,679,448.16)	(4,288,698.38)	13,597,268.09	(1,261,106.58)	29,928,746.16	22,179,662.17
Cumulative Net Position	7,882,901.04	(31,562,349.20)	27,273,650.82	(13,676,382.73)	12,415,276.15	17,513,470.01	

Note: Under normal condition, a negative asset position does not necessarily reflect liquidity crisis. Short-term assets and liabilities are usually rolled over when they mature. One such item is deposits which are typically not required to be paid in their entirety in short period of time and therefore considered a stable source of funding. However, the bank should maintain its tight collection and providing new room for marketing.

The following table sets out the Bank's Liquidity ratios as of the dates indicated:

Particulars	2017	2016
Liquid Assets	33,545,603	32,298,254
Financial ratios		
Liquid Assets to Total Deposits	51.42	52.91



Also, ratio of total deposits over total assets of the Bank for the year 2017 and 2016 is 77.36% and 78.60% respectively. In addition, total loan portfolio over total deposit liabilities for the year 2017 and 2016 is 76.02% and 73.26% respectively.

Although the Bank pursues what it believes to be prudent policy in managing liquidity risk, a maturing gap does, from time to time, exists between the Bank's assets and liabilities. In part, this comes as a result of the Bank's policy to seek higher yielding assets, a policy which will generally lead to the average maturity of its financial assets exceeding that of its liabilities.

Mitigating Liquidity Risk

The Board and Management establish credit lines from the Land Bank of the Philippines. This will serve as a back-up whenever financial support is needed by the bank. RBSMI also maintains high monitoring for the list of maturing obligations, weekly report on required and available reserves. The Bank also develops its strong internal control to allow the flow of credit exposures and maintenance of funds from investments and bank deposits.

➤ **Operational Risk**

This is defined as the risk to earnings or capital that may arise as a result of weakness in organizational structure, poor oversight function of Board of Directors and management, defective personnel recruitment/selection criteria, weak internal control system, inadequate internal and external audit coverage, and deficient management information system.

In 2017, RBSMI continued to strengthen its operational performance to attain its financial target. A significant achievement of the bank in 2017 is the implementation of the Point of Sale System catered by the Land bank of the Philippines. This expands the services of the bank to its clients.

Net income of the bank for the year 2017 is P 1,275,523 which is 6.87% lower than 2016 net income of P 1,369,628. The loan portfolio increased by P 4, 871,917 and interest income from loans and receivables decreased by P 480,408. This is brought by the decrease on interest rate of Salary loans and Small Scale Enterprises from 32% to 24%. Nevertheless, the Board of Directors together with the senior management continue to develop and implement significant strategies and policies concerning the control activities of the bank, periodically review their implementations and take measures to establish and maintain efficient internal supervision.



In compliance with BSP Circular 900 dated January 18, 2016, the Bank has been using the average Gross Revenues for the last three years to calculate the Operational Risk Weighted Average. As of December 31, 2017, the Bank's Total RWA was P 75,421,958.

Risk categories:**1. Transaction Risk**

The risk of loss arising from incomplete or incorrect documentation of the transaction. This includes documentation risk, exceeding limits, fraud, security risk, key personnel risk, processing risk, systems error, and management and information risk and information technology system failure.

2. Compliance Risk.

Risk to earnings or capital arising from violations of, or non-compliance with laws, rules and regulations, prescribed practices, or ethical standards. The risk exposes the bank to fines, monetary penalties, payments of damages and suspension of authorities of voiding contracts.

3. Strategic Risks

The risk to earnings or capital arising from adverse business decisions or improper implementation of those decisions.

4. Reputational Risk

The risk to earnings of capital arising from negative public opinion that will affect the bank's ability to establish new relationships or services or continue servicing relationships.

Managing Operational Risk

The board and top management ensures that there is an effective integrated operational risk management framework. The management sees to it that there is a clearly defined organization structure, with defined roles and responsibilities for all aspects of operational risk management/monitoring and appropriate tools that support the identification, assessment, control and reporting of key risks.

The bank attains its overall strategic objectives through operational alignment where all employees are made to understand how each individual performance is tied to the attainment of Bank's goals.

c. Anti-Money laundering Act (AMLA)

The bank had completely satisfied the reporting requirements as required by the BangkoSentral ng Pilipinas (BSP) and RA 9160 as amended by RA 9194 otherwise known as the Anti-Money laundering Act.



- **AML System Enhancement**

The AMLS is a web-based system equipped with analytic capabilities for providing alerts and detecting transactions or accounts qualified as covered transactions or accounts qualified as covered transactions (CTRs) and suspicious transactions (STRs).

As of December 31, 2017, all the bank's directors and officers had undergone the requirements for corporate governance as confirmed by the Monetary Board as mandated by MORB Subsec. X147.4.

- **Annual Review and updating of the Compliance Manual and the Money Laundering and Terrorist Prevention Program (MLLP)**

Pursuant to Circular 950, series of 2017, the Bank hereby adopts a comprehensive and risk-based Money Laundering and Terrorist Financing Prevention Program (MLLP), to be known as "Know your Customer" policy and is geared toward the promotion of high ethical and professional standards and the prevention of the bank being used, intentionally or unintentionally, for money laundering and terrorist financing.

The Board of Directors approved the Bank's Compliance Program that sets out the compliance function's planned activities which include among others, the review and implementation of regulations, policies, procedures, regulatory risk assessment, and educating Bank Personnel on regulations and compliance matters.

The Money Laundering and Terrorist Prevention Program (MLLP) was also reviewed and updated to include new and revised AML-related policies and guidelines such as R.A No. 10168 or the Terrorism Financing Prevention and Suspension Act of 2012, as provided under the rule 27 of its implementing Rules and Regulations (IRR). The MLLP was approved by RBSMI Board on June 13, 2017.

The manual includes management of the implementation of the covered person's Money Laundering and Terrorist financing Prevention Program (MLLP) is primarily tasked to the compliance office, To ensure the independence of the office, it shall have a direct reporting line to the Board of Directors or any board-level approved committee on all matters related to AML and TF compliance and the risk management.

As part of the reporting process, the Chief Compliance Officer regularly conducts compliance checking which covers, among others, evaluation of existing processes, policies, and procedures including on-going monitoring of performance by staff and officers involved in ML and TF prevention, reporting channels, effectiveness of the electronic laundering transaction, monitoring system and record retention system



through sample testing and review of audit examination reports. It shall also report compliance findings to the Board or any Board-Level committee.

Ensure that infractions, discovered by internally initiated audits, or by special or regular examinations conducted by the BSP or other applicable regulators are immediately corrected; Inform all responsible officers and employees of all resolutions, circulars and other issuances by the BSP and the AMLC in relation to matters aimed at preventing ML and TF; Alert management, the BOD if it believes that the covered person is failing to appropriately address AML/CFT issues and organize the timing and content of AML training of officers and employees including regular refresher trainings as stated in Section x809/4809Q.

- **AML Training and Compliance-Related Activities**

The Bank continuously pursued initiatives aimed at promoting awareness embedding a strong compliance culture among all level of management inside the Bank.

As part of the continuing education of the Board, Management and employees on the various risks emanating from compliance regulations, the Chief Compliance officer conducted a lecture or a re-echo of the AML Seminar that aims to provide refresher session. Likewise, all the Board and Senior Management were updated on the AML training during the year.

The Bank, through the compliance office, always maintains a collaborative communication and constructive working relationship with various regulatory agencies by fostering open and transparent communication and holding consultation to clarify specific concerns.



6. CORPORATE GOVERNANCE

a. Overall corporate governance structure and practices

“We value our customers’ trust and confidence to our bank”

As RBSMI continually grows, we value the trust and confidence of all our stakeholders. This means that we commit ourselves to value the trust and confidence given by our stakeholder. In 2017, even we faced environmental challenges brought about by intense competition, tightening regulations and calamities; these did not hinder our desire for sound corporate governance.

Rural Bank of Sanchez Mira corporate governance is reflected in its organizational structure that defines a governance hierarchy led from top by the Board of directors and its delegated duties and responsibilities through the three (3) Board-Level committees namely (1) Credit Committee; (2) Audit Committee and (3) Remedial Committee which performs a specific function. These independent units report directly to the Board of Directors executed during regular meetings.

b. Selection Processes for the Board and Senior Management

The bank adheres to Circular 970 on the selection of qualified Board of Directors and key personnel of the bank to administer the bank’s affairs effectively and soundly. The bank has five (5) directors wherein two (2) are independent directors. To the extent practicable, the members of the board of directors shall be selected/voted by the stockholders from a board pool of qualified candidates.

The elected board of directors shall have the minimum qualifications of a director and he/she must prove that he/she possesses all the minimum qualifications and none of the cases mentioned under subsection 4150Q.1. The members of the Board of Directors shall possess the foregoing qualifications in addition to those required or prescribed under R.A. No. 8791 and other applicable laws and regulations. Also, he must have attended a seminar on corporate governance for board of directors.

It is the primary responsibility of the BOD to select and appoint competent senior management of the bank. The BOD should apply fit and proper standards on key personnel. Integrity, technical expertise and experience in the institution’s business, either current or planned, should be the key considerations in the selection process. And because mutual trust and a close working relationship are important, the board’s choice should share its general operating philosophy and vision for the institution. The board of directors shall establish an appropriate compensation package for all personnel which shall be consistent with the interest of all stakeholders.

**c. Board's Overall responsibility**

The position as a director is a position of trust. A director assumes certain responsibilities to different constituents or stakeholders, the bank itself, its depositors, stockholders, its management and employees and the public at large. Those constituencies or stakeholders have the right to expect that the institution is being run in a prudent and sound manner. The members of the Board of Directors should exercise their “duty of loyalty” to the institution.

As the highest governing body in RBSMI, the Board of Directors provides the direction of the bank, provides stewardship, and performs general oversight of the management and operations. Good corporate governance is an essential component to achieve a corporate success. The BOD approves the bank’s overall strategy and makes decision based on the approved values, emphasizing long term benefits. The Board is also responsible in ensuring that the bank maintains its competitiveness in consistent to its mission and vision. The RBSMI BOD sets the overall policies and strategic directions of the bank which serves as their basis in the day-to day operations.

The Board of Directors is committed to render service with utmost honesty integrity and transparency in the discharge of his duties and responsibilities. The RBSMI Board of Directors composed of five directors, two of which are independent directors. They are nominated and voted by stockholders every year. Each director serves for a one year term until the election of another set of directors. The Board of Directors are responsible for the appointment/selection of key members of Senior Management and heads of control functions and for the approval of a sound remuneration and other incentives policy for personnel.

d. Role and Contribution of Independent directors and Chairman of the Board**Chairman of the Board of Directors**

The role of the Chairman, Dr. Michael P. Asanias, being a non-executive director, he is not involved on the day-to-day operation of the bank, but provides leadership in the Board of Directors. He presides over the Board during meetings, always ensuring that the Board of Directorstakes a sound and informed decision in all matters affecting the bank and its shareholders.

Independent Director

Two of the five Board Members are Independent Directors whose role is to provide independent judgement, outside experience, and objectively to the Board. They do not have more than five board seats in other publicly listed companies.



e. Board Composition

The Board of Directors is composed of five members; two of them are independent directors.

Name	Type of Directorship	Number of year served as director	Number of direct and indirect shares held	Percentage of shares held to total outstanding shares of the bank
Dr. Michael P. Asanias	Chairman	8	29,396	23.33%
Mr. Alejandro M. Pulido Jr.	Member	21	6,869	5.16%
Mr. Rafael V. Pulido	Member	3	4,679	0.54%
Ptr. Viriginia B. Pacris	Independent Director	2	2	0.0014%
Mr. Carlo A. Cachapero	Independent Director	1	2	0.0014%

f. Board Qualification

The Bank adheres to Circular 969 ensuring that all directors are qualified for election based on their integrity, competence, education, good values and moral standing, education and relevant banking experience. The bank does not discriminate against gender, age, and ethnic, political, religious beliefs or cultural backgrounds.

g. List of Board Level Committees

1. Credit Committee

The Credit Committee consists of three members consisting of a Chairman, another as member with an alternative, and the manager of the bank (as a permanent member). The Committee shall meet on a quarterly basis or as needed, to pass upon all recommendations of the manager for the grant or denial of loans.

Chairman	Michael P. Asanias- <i>BOD-Chairman/Director</i>
Members	Alejandro M. Pulido, Jr- <i>President/Director</i> Rafael V. Pulido – <i>Manager/Director</i>

2. Audit Committee

The Audit Committee is composed of three (3) members of the Board of Directors.

Chairman	Virginia B. Pacris – <i>Independent Director</i>
Members	Alejandro M. Pulido, Jr- <i>President/Director</i> Carlo A. Cachapero – <i>Independent Director</i>

The Audit Committee purpose is to provide assistance to the bank BOD in fulfilling its oversight responsibilities over the bank’s reporting policies, practices and control, internal and external audit functions, and compliance function. The Audit Committee monitors and evaluates the adequacy and effectiveness of Internal Control System and oversees the internal audit function.



The Audit Committee is responsible for overseeing senior management in establishing and maintaining an adequate, effective and efficient internal control framework. It shall ensure 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.

3. Remedial Committee

The Remedial Committee timely recognized potential or actual problems on loans in order to affect maximum cash recovery within the shortest possible time. The Remedial Committee also formulate or implement or act remedial strategies like collection strategy, work out strategy like restructuring, liquidation strategy like foreclosure and litigation. The Remedial Committee is composed of three members.

Chairman	Alejandro M. Pulido, Jr- <i>President/Director</i>
Members	Michael P. Asanias- <i>BOD-Chairman/Director</i> Carlo A. Cachapero – <i>Independent Director</i>

h. Board Members' attendance to Meetings

The Board holds a meeting for organizational purposes immediately after election and regular meetings once a month every calendar year. Special meetings of the Board of Directors may be called at any time by the Chairman as the need arises. The table below summarizes the attendance of directors in Board Meetings in 2017.

Board Attendance: In 2017, the bank held twelve (12) Regular Board Meetings from January to December 2017, three (3) Special Meetings for a total of fifteen (15) Board Meetings.

	Number of Meetings Attended	
	Regular (12)	Special (3)
Directors and Officers		
Dr. Michael P. Asanias- <i>Chairman</i>	12	3
Mr. Alejandro Pulido Jr.- <i>Member</i>	12	3
Mr. Rafael V. Pulido- <i>Member</i>	12	2
Mr. Carlo A. Cachapero- <i>Independent Director</i>	12	3
Ptr. Viriginia B. Pacris- <i>Independent Director</i>	10	3
Mrs. Vigilina C. Cocson- <i>Chief Compliance Officer</i>	12	3
Mrs. Annabelle M. Bangalan- <i>Internal Auditor</i>	12	-
Ms. Shiery Ann O. Galla- <i>Secretary**</i>	6	1
Mrs. Charmaine A. Tapia- <i>Secretary*</i>	6	2

**Appointed on July 2017*

**i. List of BOD, Officers and Senior Management**

Name of Director/Officer	Position
Michael P. Asanias	Director/Chairman
Alejandro M. Pulido, Jr	Director/President
Rafael V. Pulido	Director/Manager
Virginia B. Pacris	Independent Director
Carlo A. Cachapero	Independent Director
Charmaine A. Tapia	Acting Corporate Secretary
Vigilina C. Cocson	Chief Compliance Officer/AMLA Officer
Annabelle M. Bangalan	Internal Auditor
Thelma M. Delacruz	Cashier/Treasurer

Board Level Committee Meetings

We have three (3) Board-Level Committees created to assist the Board in performing its duties and responsibilities and ensure efficiency and focus. Board-Level Committee meetings meet as prescribed in their respective charters.

1. Credit Committee

The Credit Committee meets quarterly for their committee meeting. Their objective is to oversee, direct and review the management of credit risk within the loan portfolio. The primary purpose of Credit Committee is to assist the Board to discharge its responsibility to exercise due care, diligence and skill to oversee, direct and review the management of credit risk within the loan portfolio.

Committee Members – Credit Committee	Number of Meetings
Dr. Michael P. Asanias – <i>Chairman/Director</i>	4
Mr. Alejandro M. Pulido, Jr. – <i>President/Director</i>	4
Mr. Rafael V. Pulido – <i>Manager/Director</i>	4

2. Audit Committee

The Audit Committee meets on a quarterly basis. The Audit Committee ensures that internal audit service provider comply with sound internal auditing standards such as the institute of internal auditors' International Standards for the Professional Practice of Internal Auditing and other supplemental standards issued by regulatory authorities/government agencies, as well as with relevant code of ethic.

Committee Members – Audit Committee	Number of Meetings
Ptr. Virginia B. Pacris – <i>Independent Director</i>	4
Mr. Alejandro M. Pulido, Jr. – <i>President/ Director</i>	4
Mr. Carlo A. Cachapero – <i>Independent Director</i>	4



3. Remedial Committee

The Remedial Committee meets on a quarterly basis. The primary purpose of Remedial Committee is to develop and maintain a disciplined and vigorous process for the early identification and intervention for potential or existing problem credits.

Committee Members – Remedial Committee	Number of Meetings
Mr. Alejandro M. Pulido, Jr. – <i>President/Director</i>	4
Dr. Michael P. Asanias – <i>Chairman/Director</i>	4
Mr. Carlo A. Cachapero – <i>Independent Director</i>	4

j. Performance Assessment Program

As part of the management function to oversee the performance of the bank and to ensure whether it complied the rules, standards and regulations set by the different regulatory agencies embodying the overall system of the bank, the BOD on its regular meeting approved BR No. 2017-130 on the Performance Evaluation. It provides needed input for determining both individual and organizational training and development needs.

RBSMI conducts a performance assessment program to evaluate performance of Board of directors, senior management, officers and staff. Regular employees’ performance are evaluated annually. The newly recruited probationary officers are to undergo training on basic training course (both practical and theoretical) for at least six months from the time of joining.

Appraisal form used for the lower level employees contains appraisal criteria like knowledge of job, amount of work, quality of work, dependability, ability to learn, capacity and ambition for future growth. Each of this item is well defined. Evaluation is done on each of the items on a five point scale-Outstanding (5), Excellent (4), Very Satisfactory, (3) Satisfactory, (2) Unsatisfactory, Poor (1). According to this rating procedure, reporting officer appraises annual performance of the employee.

The appraisal form used for the board of directors, senior management and officers are quite lengthy and comprehensive. Appraisal criteria includes such things as –personal knowledge, reliability, commitment, sense of belonging and responsibility, quality and quantity of work, analytical ability, power of judgement and decision, leadership, enthusiasm, awareness to rule and banking regulations and its implementation and administrative and disciplinary action.

The following scales are utilized to determine the level of satisfaction by the evaluator as representation of the bank- Outstanding (5), (5), Excellent (4), Very Satisfactory, (3) Satisfactory, (2) Unsatisfactory, Poor (1).



Evaluation form also includes the individual self-assessment and Group evaluation of the BOD. The grades and descriptions are as follows:

Range	Descriptions	Remarks
75 and below	Not dedicated to any progress and operations of the bank. Unable to address any improvement. No Commitment at all.	Poor
75-84.99	Less committed and seldom seeks for any improvement	Fair
85-89.99	Perform his function up to the extent of his commitment only with the bank.	Satisfactory
90-94.99	Commitment and dedication is centered to the progress and continuity of the bank and its stakeholders. Do all necessary action to address problems arise.	Very Satisfactory
95-100	Well dedicated to his/her function. He/she oversees the overall operation of the bank and any decisions are decided based on the best benefits of all the stakeholders.	Outstanding

k. Orientation and Education Program

The bank believes that in order to maintain a current and effective Board of Directors, proper orientation and ongoing education are critical to ensure that members of the Board are well equipped in their role as stewards of the bank. On continuing education, the policy also specifies the elements of the program that will be made available for the continued development of the board.

- **Orientation programs for New Directors**
The formal program consist of meeting with the president and Corporate Secretary to discuss the roles and responsibilities of the BOD and the corporate governance of the bank. The corporate secretary will welcome the new directors and a letter will follow containing an information kit that includes the following:
 - Corporate powers and limitations
 - Board committees and Board Structure and composition
 - Code of Conduct and other relevant policies adopted by the board
- **New Employee Orientation**
Learning starts the moment an employee is welcomed into the company. This orientation not only provides briefing on the company's vision and mission, values, cultures but also primer on the banks products and services. This program aides new hires to move on transition with ease and established knowledge about their institution.
- **Compliance Training**
In order to ensure that all of the Bank's daily operations are in accordance to BSP's regulations, all branch personnel and Board of Directors attended Anti Money Laundering Seminar.



- **External Trainings**
The Bank provides opportunities for its employees to widen their experiences and perspectives by sending them to training programs and seminars outside the company.
- **Product and Services Orientation**
Aside from the initial orientation prior to onboarding, all employees are provided with updates on new products and services.
- **Monitoring Assessment of Continuing Education and Training Program**

Date	Training Attended	Sponsoring Agency	Board of Directors	Officer and Staff
Jan 19-20,2017	Training on 5-Year Business Plan Preparation	RBAP		VIGILINA C. COCSON <i>Chief Compliance Officer</i>
February 22, 2017	AML A Seminar	BSP		SHIER Y ANN O. GALLA <i>General Bookkeeper</i>
May 19-20, 2017	Comprehensive Property Appraisal Seminar	RBAP		ALBERT JHON C. LOPEZ <i>CI/Collector</i>
June 7, 2017	AML A Seminar	RBAP		VIGILINA C. COCSON <i>Chief Compliance Officer</i>
September 7-8, 2017	Basic Risk Management Course	RBAP	ALEJANDRO M. PULIDO, JR <i>President</i>	
October 20, 2017	AML A Law and the AML Risk Rating System	BAIPHIL (Bankers Institute of the Philippines, Inc.)	CARLO A. CACHAPERO <i>Independent Director</i>	
November 9-10, 2017	Compliance Management System Assessment- Risk-Based Approach	RBAP		VIGILINA C. COCSON <i>Chief Compliance Officer</i>

I. Retirement And Succession Policy

The Bank recognizes retirement benefit obligation using the provision of RA 7641. The movement in this account are as follows:

	2017	2016
Beginning	P 2,238,734	P 2,920,253
Additional	430,000	170,278
Interest Income	4,868	12,672
Ending	P 2,673,602	P 3,103,203

One of the long-time appraiser of the bank, Mr. Arnold A. Saddam retires during the year that leads to the promotion of the collector/credit investigator, Mr. Albert John Lopez. Nevertheless, Mr. Saddam is still hired by the bank as mentor/trainer.

Also, the BOD approved the Succession Policy of the bank. This policy aims to ensure that the bank’s leadership direction has adequate information and strategy to effectively manage the bank in the event of vacancy, retirement, resignation or quitting positions in the Board as well as in its executive management positions.



The Board of Directors authorizes the President to implement the term of this emergency succession plan in the event of planned or unplanned temporary or final vacancy of positions.

The temporary assignment of the members of the board, key officers, and management staff in the temporary planned or unplanned absence follows:

Board of Directors

Name of Incumbent	Position	Standing Assignee	Alternate Assignee
Michael P. Asanias	Chairman	Danilo V. Pulido	Alejandro M. Pulido, Jr.
Rafael V. Pulido	Member		
Alejandro M. Pulido Jr.	Member		
Virginia B. Pacris	Member–Ind. Director	Representative	By appointment
Carlo A. Cachapero	Member– Ind. Director	Representative	By appointment

In the event of temporary absence (planned or unplanned) of any member of the Board of Directors in a regular or special meeting, shall be represented by his/ her duly authorized representative.

Key Officers

Name of Incumbent	Position	Standing Assignee	Alternate Assignee
Alejandro M. Pulido	President	Michael P. Asanias	Any member of the BOD
Rafael V. Pulido	Manager	Alejandro M. Pulido, Jr.	Any member of the BOD
Vigilina C. Cocson	Chief Compliance Officer	Annabelle M. Bangalan	Shiery Ann O. Galla
Thelma M. Dela Cruz	Cashier/ Teller	Jose Mari O. Macalma	Recruitment
Annabelle M. Bangalan	Internal Auditor	Charmaine A. Tapia	Recruitment
Vigilina C. Cocson	AMLA Officer	Jose Mari O. Macalma	Recruitment
Charmaine A. Tapia	Acting Corporate Secretary	By appointment	By Appointment

Management Staff

Name of Incumbent	Position	Standing Assignee	Alternate Assignee
Moises R. Sadama	Loan Officer	Melody B. Florida	Recruitment
Shiery Ann O. Galla	Bookkeeper	Charmaine A. Tapia	Melody A. Florida
Melody B. Florida	Loans Bookkeeper	Moises R. Sadama	Recruitment
Charmaine A. Tapia	Accounting Clerk	Recruitment	Recruitment
Jose Mari O. Macalma	Savings Bookkeeper/ Info. Tech./Consumer Assistance Officer	Recruitment	Recruitment
Michael A. Labrador	Collector/ Credit Investigator	Recruitment	Recruitment
Albert John Lopez	Appraiser	Michael A. Labrador	Recruitment
Rafael V. Pulido	Security Officer	Recruitment	Recruitment
Jessica H. Estabillo	Utility/Prop. Custodian	Recruitment	Recruitment



m. Remuneration Policy

The Board of Directors approves a remuneration Policy that is appropriate and consistent with the Bank's operating and risk culture, long-term business and risk appetite, performance, and control environment.

RBSMI maintains a remuneration policy that rewards good performance and is internally equitable and externally competitive. This policy enables the Bank to attract and retain its pool of quality and competent employees.

On top of the salaries, RBSMI employees enjoy compensation and benefits as follows:

- Overtime pay with food allowance
- 13th Month Pay
- Longevity Pay
- Cost of Living Allowance
- Performance Bonus
- Group Insurance/ Life Insurance
- Leaves(Vacation, Sick, Maternity, Paternity)
- Salary Loan, Fringe/ Benefit Program
- Provident Fund Loan
- Cash Gift
- Representation and Transportation Allowance- manager/cashier/president/chief compliance officer
- Traveling allowance- employees
- Yearly Uniform Allowance
- Incentives for marketing/ product targets.

n. Self- Assessment Function

The Compliance function is established by a charter or other formal document approved by the Board of Directors that defines the compliance function's standing, authority and independence. The compliance of the bank have the right to obtain access to information necessary to carry out its duties and responsibilities, conduct investigations of possible breaches of the compliance policy, and shall directly report to and have direct access to the Board of Directors or appropriate board-level committee.

The accomplishment of the Compliance Function in 2017 include the approval of the revised Compliance Program which Enhanced Guidelines in Strengthening Compliance Frameworks (Circular 950).



On the other hand, the Internal Audit of the bank is an independent, objective assurance and consulting function established to examine, evaluate and improve the effectiveness of internal control, risk management and governance systems and process of the bank, which helps management and the board of directors in protecting the bank and its reputation. The Internal Audit function of RBSMI both assess and complement operational management, risk management, compliance and other control functions, independent of the activities audited and from the day-to day internal control process. The Internal Audit is free to report audit results, opinions, appraisals and other information through clear reporting line to the board of directors or audit committee. It has the authority to directly access and communicate with any officer or employee, to examine any activity of the banks, as well as its records, whenever relevant to the exercise of its assignment.

The Internal Audit function also informs the senior management of the results of its audits and assessment. Senior management may consult the internal auditor on matters related to risks and internal controls without tainting the latter's independence.

The Board of Directors of the bank adheres to Circular 871 in ensuring effectiveness and adequacy of the internal control system. It ensures that senior management establishes an adequate, effective and efficient control framework commensurate with the size, risk profile and complexity of operations of the bank. The BOD also ensures that the internal audit function has an appropriate stature and authority within the bank and is provided with adequate resources to enable it to effectively carry out its assignments with objectivity.

Further, the BOD, during regular meetings, conduct discussions with management on the effectiveness of the internal control system, review evaluations made by the AC on the assessment of the effectiveness of internal control made by the management, internal auditors and external auditors and ensures that the management has promptly followed up on recommendations and concerns expressed by auditors.

o. Dividend Policy

The bank adheres to Section 57 R.A No. 8791, wherein banks shall not declare dividends greater than its accumulated net profits then on hand, deducting there from its losses and bad debts. Neither shall the bank declare dividends if, at the time of declaration, it has not complied with the provisions of Subsec. X136.2.

p. Corporate Social responsibility Initiatives

Supporting the Environmental Sustainability and Disaster Risk Management, RBSMI supports and sustain the responsibility as an organization on continuously working towards social and environmental stewardship. RBSMI recognized its responsibility to



the communities as it continuously serve and believe that great value can be driven by the responsible management of our environmental, social and economic resources.

- Observing the ZERO WASTE Management Program
- Extending Financial assistance to typhoon victims in a form of donations
- Promote Fire Protection Program

q. Consumer Protection Practices

Under R.A 7394 consumer Act of the Philippines Article 2, Declaration of Policy. It is the policy of the State to protect the interest of the consumer, promote his general welfare, and to establish standards of conduct for business and industry. The law is defined to prevent business from engaging in fraud or unfair business practices thereby gaining and advantage over competitors.

The Financial Consumer Protection Department BSP serves as the Bank's principal consumer protection unit which shall ensure the protection of financial consumer rights by formulating related policies and standards, assessing supervised financial institutions' adherence to the said standards and implementing financial earning programs and the BSP consumer assistance mechanism.

The Bank ensures that the Basic Consumer Rights are being adhered by the bank.

- Right to information. The consumer has the right to be protected against fraudulence, dishonesty or misleading advertising, labelling, promotion and the right to be given the facts and information needed to make an informed choice and to guide customers in dealing with the bank.
- Right to choose. The consumer has the right to choose products with an assurance of satisfactory quality at competitive prices.
- Right to redress. The consumer has the right to seek redress for misrepresentation, breach of contractual obligations, shoddy goods or unsatisfactory services.
- Right to education. The consumer has the right to adequately educated regarding features, terms, systems and procedures, and inherent risk of bank products, services and responsibilities.

The BOD and Senior Management are responsible for the implementation of the Consumer Protection policies approved by the BOD and the Board shall be responsible in monitoring and overseeing the performance of Senior Management in managing the day-to-day Consumer Protection activities of the bank.

Financial Protection Standards

The following Consumer Protection Standards reflect the core principles, which Banks are expected to observe at all times in their dealings with financial consumers. These are



embedded into the corporate culture of the Bank, enhancing further its defined governance framework while addressing conflicts that are inimical to the interests of the financial consumer.

➤ **Disclosure and Transparency**

The bank takes affirmative action to ensure that their consumers have a reasonable holistic understanding of the products and services which they may be acquiring or availing. In this context, full disclosure and utmost transparency are the critical elements that empower the consumer to make informed financial decisions. The Bank makes sure to provide readily the consumers with ready access to information that accurately represents the nature and structure of the products or service, its term and conditions as well as its fundamental benefits and risks.

➤ **Advertising and Promotional Materials**

The Bank ensures that advertising and marketing materials do not make false, misleading or deceptive statements that may materially and/ or adversely affect the decision of the customer to avail of a service or acquire a product. The bank also ensures that promotional materials are easily readable and understandable by the general public. It should disclose clear, accurate, updated and relevant information about its product and services.

➤ **Conflict of Interest**

The Bank discloses properly to the consumer prior to the execution of the transaction that the Bank or their staffs has an interest in a direct/cross transaction with a consumer. The Bank also readily discloses the limited availability of products to consumers when the Bank only recommends products which are issued by their related companies particularly when commissions or rebates are the primary basis for recommending the particular product to consumers.

➤ **Protection of Client Information**

Financial consumers have the right to expect that their financial transactions as well as relevant personal information disclosed in the course of a transaction are kept confidential. The Bank ensures that they have well-articulated information security guidelines as well as defined protocols, a secure database and periodically revalidated procedures in handling the personal information of their financial consumers.

7. CORPORATE INFORMATION

a. Organizational Structure

RBSMI's organizational Structure defines how activities such as task allocation, coordination and supervision are directed toward the achievement of organizational aims.



The structure is developed to establish how the bank operates and assist the Bank in obtaining its goals to allow for future growth. The Organizational Structure/Chart of the Bank is hereto attached as annex A.

b. List of major Stockholders, percentage of stockholdings and voting status

Stockholders are the owners of the company. Because shareholders are the Bank's owners, they reap the benefits of the company's success in the form of dividends. Stockholders are not personally liable for the bank's debts and other obligations. They rely to the Board of Directors and Senior Management to run things-meaning the shareholders don not have much say in the day-to-day operation of the business.

The list of major stockholder's of the Bank is hereto attached as annex B.

c. List and Description of products and services offered

1) Agrarian Reform and Other Agricultural Credit Loans

a) Agrarian Reform Loans

This refers to the amortized cost of production and other types of loans granted to beneficiaries of agrarian reform, namely: tillers, tenant farmers, settlers, agricultural lessees, amortizing owners, owner-cultivators, farmers, cooperatives and compact farms, as provided for in PD 717 for the following purposes:

- Acquisition of work animals, farm equipment and machinery, seeds, poultry fertilizers, livestock, feeds, aqua-culture and other similar items;
- Acquisition of land authorized under the Agrarian Reform Code of the Philippines and its amendments;
- Construction and / or acquisition of facilities for production, processing storage and marketing, and
- Efficient and effective merchandising of agricultural commodities stored and or processed by the facilities afore-cited in domestic and foreign commerce.

b) Other Agricultural Credit Loans

This refers to the amortized cost of loans granted to borrowers who are not beneficiaries of agrarian reform to finance activities relating to agriculture and processing, marketing and distribution of products resulting from these activities.

- Acquisition of work animals, farm equipment and machinery, seeds, poultry fertilizers, livestock, feeds, aqua-culture and other similar items;
- Acquisition of agricultural land;
- Construction and/or acquisition of facilities for production, processing storage and marketing,



Efficient and effective merchandising of agricultural commodities stored and or processed by the facilities afore-cited in domestic and foreign commerce.

2) Small and Medium Enterprises Loans

This refers to the amortized cost of loans granted to any business activity or enterprises engaged in industry, agri-business and /or services, whether single proprietorship, cooperative, partnership or corporation whose total assets, inclusive of those arising from loans but exclusive of the land on which the particular business entity's office, plant and equipment are situated, must have a falling value under the following categories:

Micro	:	up to P 3,000,000.00
Small	:	up to P 3,000,001.00 - P 15,000,000.00
Medium	:	up to P 15,000,001.00 - P 100,000,000.00

The above entities shall be duly registered with the appropriate agencies as presently provided by law, provided that in the case of microenterprises as defined herein, registration with the Office of the Municipal or City Treasurer shall be deemed sufficient compliance with this requirement;

SME's should be classified into the following sub-categories:

- SME - Commercial - represents loans to finance the purchase of commodities or merchandise for resale (ex. Small Market Vendors' loan, loans granted to retailers' of construction supplies, pharmacies and drug stores, etc.)
- SME - Industrial - represents loans to finance the purchase and processing of raw materials, manufacture of goods and the ultimate marketing thereof (ex. loans to cottage industries, rice mill owners, garment manufacturers, etc.)

3) Loans to Individuals for Housing Purposes

This refers to the amortized cost of loans granted to individuals for housing purposes, which may be for the acquisition, construction or improvement of a residential unit.

4) Loans to Individual for Other Purposes

This refers to the amortized cost of other loans granted to individuals that cannot be classified any of the foregoing classifications.

5) Loans to Individuals Primarily for Personal Use Purposes

This refers to the amortized cost of loans granted to individuals primarily for personal use purposes.



d. Bank Website

Every financial institution has the chance to shine. There is a lot of importance and impact of digital presence on banking brands. Branding is something banks and financial institutions struggle with. So the challenge is to create awareness in a larger scope of market by creating a website that is ready accessible and to catch the attention of a younger audience that uses social media.

Thus, the bank approved the creation of the Bank's website (www.rbsanchezmira.com) in order to build online presence-having a website means customers are always able to find the company. At its simplest, the website also serves as an easy way of communicating information between the bank and its clients.

In this modern world, there is an expectation for any reputable company to have some kind of online presence to build trust and confidence to the stakeholders.

8. AUDITED FINANCIAL STATEMENTS (AFS) WITH AUDITORS OPINION

The Audited Financial Statements with Auditors Opinion is hereto attached.

**II. Compliance with Appendix 63c of the MORB-Disclosures in the Annual Reports and Published Statement of Condition****A. Capital Structure and Capital Adequacy:**

The risk-based Capital Adequacy Ratio of a Bank, expressed as percentage of qualifying Capital to risk-weighted assets for both stand-alone basis (head office and branches) and consolidated (Parents and Subsidiaries engaged in financial allied undertakings but excluding insurance companies). Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP.

	2017	2016
Tier 1 Capital	17,774,103	15,334,517
Tier 2 Capital	479,898	449,439
Total Qualifying Capital	18,254,000	18,783,955
Risk weighted Assets	84,756,448	84,756,448
Tier 1 Capital Ratio	20.97 %	18.09 %
Tier 2 Capital Ratio	0.57 %	0.53 %
Capital Adequacy ratio (CAR)	21.54%	18.62%

The regulatory qualifying capital is consist of Tier 1 (core), which comprises paid-up common stock, retained earnings, current year profit less required deductions to DOSRI. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes general loan loss provision. RBSMI has fully complied with the CAR requirement of the BSP.