



# CORPORATE POLICY

The Rural Bank of Sanchez Mira (Cagayan) Inc., was registered with the Security and Exchange Commission (SEC) under registration number 45926 on 25 November 1971 and was incorporated on 6 July 1971. Likewise, the Bank was granted authority to operate by the Bangko Sentral ng Pilipinas (BSP) on March 13, 1972 and started its operation on March 16, 1972 with an authorized capital of P 1 million divided into 5 thousand shares of common and 5 thousand shares of preferred stock, both with par value of P 100.00.

On October 22, 1998, the P 3 million authorized capital was increased to P 15 Million increasing the common shares with a total P 14.5 million and P 0.500 million preferred stocks. On December 31, 2006, the Bank has a total paid up capital of common stock of P 4.800 million and preferred stock of P 0.100 million. On June 15, 2007, the LBP preferred shares of P 0.100 million was redeemed/paid including interest.

Rural Bank of Sanchez Mira (Cagayan) Inc., now operates with an authorized capital stock of P 15 million with a paid up capital of P 13.944 million owned by 26 private individuals.

Its primary purpose is to engage in the business of extending rural credits to small farmers and tenants and to deserving industries or enterprise, to have and exercise all authority and powers to do and perform all acts, and to transact all business which may legally be had or done by rural banks organized under or maybe amended; and to do all other things incident thereto that are necessary and proper in connection with the said purpose and within such territory, as maybe determined by the Monetary Board of the Bangko Sentral ng Pilipinas.

The Bank's principal place is located at Corner Marzan St., Lagasca St., Centro 1, Sanchez Mira, Cagayan.

The Rural Bank of Sanchez Mira (Cagayan), Inc. Board of Directors is composed of five (5) members; two (2) of them are Independent Directors.

In pursuance to the objectives of the Bank, the stockholders recognize that it plays a very important role in the countryside development and to a broader sense to or nation's development thereby uplifting the quality of life for all. Hence, its mission is to provide sufficient financial assistance and make them available and readily accessible to those in need of financial assistance at reasonable terms.



## **O**UR 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.

## **O**UR 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.

*The Bank's Mission and Vision serve as the guiding path of the Bank in continuously providing the people in the rural community the best services it can give.*

## **C**ontents

1 Corporate Policy	24 Corporate Governance
4 Message from the President	38 Corporate Information
7 2019 Financial Highlight	40 Audited Financial Statement
8 Operational Highlights	40 Statement of Management Responsibility
15 Risk Management Framework	41 Capital and Capital Adequacy
21 Anti Money Laundering Governance and Culture	



# **B** **USINESS MODEL**

The Bank's growth is embedded in its Plans and Strategies. The Bank's main goal is to achieve a solid financial position by the end of 2019.

## **Capital Position**

Financial	We properly manage the financial resources of the Bank to strengthen the Bank's Capital position and to increase the Bank's value.
Human	We continue to empower, engage, involve and recognize our employees for their dedication in serving the Bank's clients. We harness their full potential and enhance their capabilities through sending them to several trainings and seminars.
Customer Relationship	We ensure to build trust and confidence to the people in the community we serve.

## **Our Value**

Loans	We address financing requirements of the rural community by extending financial assistance, in the form of Agri-Agra loans, Business Loans, Personal Loan and Salary Loan.
Deposits	We help people in the rural community save for their future and other needs through the Bank's different kinds of deposit such as regular savings account and special savings account.
Other Services	We offer other services such as Point of sale System to facilitate a more convenient access to other financial services.
Financial Inclusion	We improve our market and widen our reach to people in the communities we serve.
Business Growth	We support small and medium enterprises in growing and expanding their businesses.



---

## RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

---

### Countryside Development

We coordinate with people in the countryside in educating them with the Bank's products and services and other financial opportunities. We stand to our commitment to the rural community to be a customer-centered bank.

## **Our Stakeholders**

### Employees

We empower the Bank's employees and harness their capabilities to deliver quality services to our clients.

### Clients and Communities

Our relationship with clients and communities we serve is our priority. We dedicate ourselves to become channels of growth through our own efforts of meaningful services.

### Government and Regulators

We ensure that the Bank is in compliant to any policies, rules, and regulations set up by supervising institutions and other regulatory bodies.

### Investors and Shareholders

We make sure that the Bank will operate to a safe and sound practices and make our shareholders realize their investments through returns of investment.



## **M**ESSAGE FROM THE PRESIDENT

*“We shall continue to do what our incorporators envisioned, to carry on uplifting the lives of the rural community by providing efficient and timely services to our clients and stakeholders. We might be facing struggles and difficulties for the next years to come but I believe that our foundation is as solid as a rock that will not be shaken.”*

Dear Clients, Shareholders and Colleagues,

To our dear Clients, we express our sincerest gratitude for believing in us through patronizing our products and services throughout the years. To our dear *employees* who dedicatedly given the best services to everyone and to our *stockholders* and *Board of Directors* who unwaveringly supported the *Management* over the years.

Amidst a challenging business environment we faced during the year 2019, adding the wave of panic caused by the successive closure of rural banks across the country, the Bank’s Financial Performance demonstrated resilience and competitiveness. Given all the challenges, we undertook initiatives to raise brand awareness and sustained growth through continued marketing of loan products and innovative new products such as Agricultural loans and other services.

Our journey is about uplifting lives of our small farmers, tenants, fisher folks and small industries. We lived by our mission that is to support the agricultural sector and rural businesses.

The past year has been a fulfilling journey as we continually uphold to our mission and vision in uplifting our bank to a new level. Though we faced struggles brought by stiff competition within the area that offers the same products and services- requiring lesser requirements and collaterals, the Rice Tariffication Law imposed by the government and several typhoons that greatly impacted the Agri-Agra sectors, the Bank still posed progress, though little, amidst adversities.

In line with this, we endeavor to do more than just banking in terms of regulatory compliance by continuously improving our processes, systems and policies in order to serve with due diligence to our dear clients. We thrive to become a sustainable bank that would bring in steady returns to our shareholders. We will continue to invest in our people, to harness their full potential and facilitate their personal and professional growth.

To the community we serve, we dedicate ourselves to become channels of growth through our own efforts of meaningful service. This we stand to our commitment to the rural community to be a customer-centered bank-and together we will strive to uplift every lives.



---

## RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

---

RB Sanchez Mira's performance during the past year might not be as strong as it was in 2018, however we believed that the journey we had in 2019 broadens the management and BOD's perspective to continue improving our business processes, policies and systems.

The recorded portfolio set-back by 17.074% and deposit liabilities by 9.688% alerted the management to redefine more competitive strategies to ascertain progress in the future. Certain challenges and setbacks were encountered during the year that constrained the bank to meet its targets, the bank still remained competitive and managed to retain its share of the local market however, the management believes that we still need to do more, to strive more and to challenge more ourselves.

The Bank's marked performance generated additional increase in Total Operating Income compared to 2018 year-end gains by 4.24% though a little bit lower by 1.94% in Net income. RBSM also managed to control and limit its total Operating Expenses below the budgeted expenditures, notwithstanding the sizable amount of credit losses which was set up and booked for the year.

On a positive note, the Bank's Past Due Ratio was maintained as single-digit 5.57%, way below the industry average of 11.77%. Additionally, a 3-year review of operations reflects an upward trend in the Bank's financial landscape. In fact, the Operating Income grew at a steady pace within the 3-year period.

Also, one big accomplishment of the Bank this year is the completion of the five (5) year Capital Build-up Plan- the bank has now met the P 20 million capital requirement for a third class municipality signifying that the bank is in a more liquid state. Moreover, we already began applying for the Bank's Perpetual life extension as we are nearing to reach the 50-year life of the corporation.

As we continue serving the rural community, many challenges and opportunities will still come along our way, together, we, the stockholders, management, RBSM employees must deal with this adversities and seize the opportunities with the same energy, enthusiasm and intensity that lead to our success during the past years and drive to the fulfillment of our future commitments.

Under the providence of our Stockholders and Board of Directors, we must continue to build or momentum to be a stable and competitive Bank in our region, continue to act decisively, maintain control and exercise prudence in managing our Bank for a bigger and more profitable Rural Bank of Sanchez Mira on our 50<sup>th</sup> years and in the years to come.

**ALEJANDRO M. PULIDO JR.**

*President*



## **2019 FINANCIAL HIGHLIGHTS**

		Year		
		2019	2018	Increase (Decrease)
<b>For the Year Ended (In Pesos)</b>				
Total Income	P	11,638,168	P 11,164,398	P 473,770
Total Expenses		9,475,978	8,959,359	516,619
Net Income		2,162,190	2,205,039	(42,849)
<b>At Year End (In Pesos)</b>				
Total Assets	P	86,368,778	P 95,329,860	(8,961,082)
Loans and Receivables-Net		49,372,126	59,537,646	(10,165,520)
Liquid Assets		84,453,549	93,779,861	(9,326,312)
Equity Accounts		23,379,694	21,462,332	1,917,362
Fixed Assets		1,241,996	1,350,177	(108,181)
Deposit Liabilities		60,727,170	67,236,546	(6,509,376)
<b>Other Quantitative Indicators</b>				
Earnings per Share-Ordinary		15.51	15.52	(0.01)
Book Value per Share		167.66	151.05	16.61
Capital Adequacy Ratio		25.50%	21.85%	3.65%
Past Due/ITL Ratio		5.57%	4.44%	1.13%
Return on Average Equity		9.64%	11.23%	(1.58%)
Return on Average Assets		2.38%	2.45%	(0.07%)
Net Interest Margin		10.45%	9.66%	0.78%
Debt to Equity Ratio		2.69:1	3.44:1	0.74:1
Ratio of Liquid Assets to Deposits		139.07%	139.48%	(0.41%)
Ratio of Total Fixed Assets over Equity Accounts		5.31%	6.29%	(0.98%)



# REVIEW OF OPERATIONS

Annual Report 2019

## Financial Condition and Result of Operations

At the close of 2019, RBSM posed a significant decrease in Loan Portfolio-net from P 59.537 million in 2018 to P 49.372 million in 2019. The massive decrease is due to the retention of loan releases to farmers and rice traders brought by the Rice Tarrification Law. Rice traders did not opt to avail loans due to the very low price of local palay.

Similarly, the Bank recorded a lower Deposit Portfolio from P 67.236 million in 2018 to P 60.727 million in 2019 due to withdrawal of two large depositors in financing their businesses.

We have booked a total of P 320 thousand pesos in provision in line with the loan loss

methodology and BSP Circular 855. The coverage is regularly monitored and evaluated to ensure adequate provision and to stand a strong commitment of protecting equity and operation from the possible effect of non-performing assets.

Moreover, the Bank declared stock dividend amounting to P 1.055 million on August 19, 2019 and was approved for distribution by the BSP on March 10, 2020.

Our CAR of 25.50% remains strong and well above the minimum regulatory requirement of 10%.

### Breakdown of the Components of Tier 1 and Tier 2 Capital

	<b>2019</b>
Tier 1 Capital	P 23,070,119
Tier 2 Capital	584, 148
<b>Total Qualifying Capital</b>	<b>23,654,267</b>
Risk weighted Assets	92,781,465
Tier 1 capital ratio	24.87%
Tier 2 capital ratio	0.63%
<b>Total CAR</b>	<b>25.50%</b>

### Calculation of Qualifying Capital

A. Calculation of Qualifying Capital	<b>2019</b>
<b>A.1 Tier 1 Capital</b>	<b>P</b>
Core Tier 1 Capital	
Paid-up Capital- Ordinary	13,944,300
Retained Earnings	9,435,394
Deductions from Core Tier 1 Capital	
Deferred Tax Assets, Net of Deferred tax Liability	172,887
Total Outstanding unsecured credit accommodations to DOSRI	136,688





## RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

<b>Total Tier 1 Capital</b>		<b>23,070,119</b>
<b>A.2 Tier 2 Capital</b>		
Upper Tier 2 Capital		
General Loan Loss Provision		584,148
Total Upper Tier 2 Capital		584,148
<b>Total Qualifying Capital</b>	<b>P</b>	<b>23,654,267</b>

### Operational Highlights

#### Lending

The Bank's Gross Loan Portfolio settled at P 52.170 million this 2019, down by 14.21% from last year's Gross Loan portfolio of P 62.267 million. Non-performing loans ratio stood at 5.57%, still lower than the 10% past due ratio commitment to Bangko Sentral ng Pilinas.

MSME Loans stood at P 13.496 million in 2019 from P 16.801 million in 2018 a downfall of 19.671%. Of this amount P 12.076 million is directed to SSE's and P 1.419 million to MSE's. Total SME non-performing loans stood at 7.92% of MSME loan portfolio. The significant decrease in MSME loan portfolio is mainly to the retention of loan releases directed to rice traders from within and outside the municipality brought by the Rice Tarrification Law imposed by the government.

The bank's outstanding loan for Salary stood at P 11.245 million. Loan portfolio remains high though decreased by 4.00% from last year's loan portfolio. Interest from Salary loans contributed the highest Interest Income for the year 2019 which amounts to P 3.325 million. Most of the borrowers are from DepEd, LGU employees, Brgy. Officials and other private institutions.

Rural Bank of Sanchez Mira drives to their mission and vision to uplift the lives of the rural community especially the farmers, tenants and fisher folks and all agri-preneurs by providing financial assistance and support system. It serves as the Bank's drivers to growth and development.

The Bank maintains its rapport to the Agricultural Sector and continually promotes its existence through extensive marketing. Total outstanding loans to Agri-Agra stood at P 9.632 million-out of this P 2.987 million is directed to the Agrarian Sector and P 6.645 million to the agricultural sector. However, several typhoons and flash floods hit the area that greatly devastated the crops of our farmers and the effect of the Rice Tarrification Law which resulted to a cheaper price of local palay, affecting farmer's income. As a result the Bank recorded a high past due rate from the Agri-Agra Sector by 11.06% from the total Agri-Agra portfolio. However, the Bank still uplift its support to the Agri-Agra Sector that in time they will recover from this diversities.

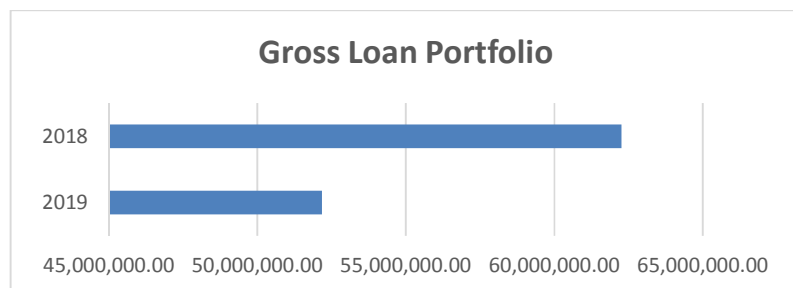


## RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

RBSMI released a total of P 19.244 million to small farmers, rice traders and fisher folks. The assistance benefited 179 loan accounts (renewal/reloan/new loan). The Agricultural Guarantee Fund Pool (AGFP) is one of the partners of the RBSMI in funding loans that supports the Agricultural programs of the government. In 2019, the bank released a total of P 2.595 million with 13 new borrowers.

### Gross Loan Portfolio

	2019	% to total Loan Portfolio
<b>I. Agri-Agra Loans</b>		
a. Agrarian Reform Loans	2,987,081.61	5.72%
b. Other Agricultural Loans	6,645,228.99	12.73%
<b>II. Small and Medium Scale Enterprises</b>		
a. Small Scale Enterprise	12,076,649.34	23.15%
b. Medium Scale Enterprise	1,419,408.99	2.72%
<b>III. Real Estate Loans</b>		
a. Loans to Individuals for Housing Purposes	12,660,876.68	24.27%
<b>IV. Loans to Individuals Primarily for Personal Use</b>		
a. LIPPUP-Other Consumption	3,838,024.77	7.36%
b. LIPPUP-Salary Loans	11,245,984.98	21.56%
<b>V. Loans to Individuals for Other Purposes</b>	1,297,428.59	2.49%
<b>Total</b>	<b>52,170,683.95</b>	<b>100%</b>



**-14.21%**

### Status of Loans (amortized cost)

	Year 2019		Year 2018	
Current Loans	49,266,846	94.43%	58,110,976	95.56%
Past Due Loans	2,553,452	4.90%	2,699,145	4.44%
Items in litigation	350,386	0.67%	62	0.00%
<b>Total Loan portfolio</b>	<b>52,170,684</b>	<b>100.00%</b>	<b>60,810,183</b>	<b>100.00%</b>
Loans and Receivables Discount	1,225,624		(0.00)	
Allowance for Credit Losses	(1,572,934)		(1,272,537)	
<b>Loans and Receivables-Net</b>	<b>49,372,126</b>		<b>59,537,646</b>	



## RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

Of the Total Loan Portfolio of ₱ 50.945 million, current loans of ₱ 49.267 million accounted for 94.43%; past due loans of ₱2.553 million, made up 4.90% and items in litigation of ₱ 350 thousand made up of 0.67%.

It is noteworthy that Items In litigation increased by 0.67% compared to last year. These points that the Bank's initiative to take action to long overdue accounts for litigation.

### Financial Condition:

Total Assets Distribution for CY 2019 and CY 2018.

ASSETS	2019	2018	Variance
Cash	2,623,784	2,705,766	(81,982)
Due from BSP and Other Banks	30,457,639	29,536,449	921,190
Held to Maturity Investment	2,000,000	2,000,000	-
Loans and receivables, Net	49,372,126	59,537,646	10,165,520
Bank Premises, Furniture, Fixtures and Equipment, net	1,241,996	1,350,177	108,181
Investment Properties	207,000	-	(207,000)
Deferred Tax Assets	172,887	76,747	96,140
Other Assets	293,346	123,075	170,271
<b><u>TOTAL ASSETS</u></b>	<b><u>86,368,778</u></b>	<b><u>95,329,860</u></b>	<b><u>8,961,082</u></b>

*\*The Financial Condition and result of operation are based on the Audited Financial Statement of the bank as at December 31, 2019 and 2018.*

The immense decrease in the Total Asset of the Bank is due to the massive decline in the Loan Portfolio of the Bank by 9.400%. Decrease in loan portfolio is recorded on the last quarter of the year. Full payment of one large borrower amounting to P 5 million is recorded in November 2019, added by the full payment and non-renewal of Rice Traders of their accounts.

There is an outstanding investment property (ROPA owned by Mr. Lazaro P. Mariano) amounting to P 207 thousand.

### LIABILITIES & SHAREHOLDERS' EQUITY

LIABILITIES	2019	2018	Variance
Deposit Liabilities	60,727,170	67,236,546.00	(6,509,376)
Bills Payable	-	5,000,000.00	(5,000,000)
Accrued Interest taxes and Other expenses Payable	175,355	702,091.00	(526,736)
Other liabilities	1,505,764	928,891.00	576,873
Income Tax Payable	580,795	428,939	151,856
<b><u>TOTAL LIABILITIES</u></b>	<b><u>62,989,084</u></b>	<b><u>73,867,528</u></b>	<b><u>10,878,444</u></b>

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



## RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

### Deposit Liabilities

	Year 2019		Year 2018	
Regular Savings Deposits	P 39,965,717	65.81%	P 42,561,872	60.30%
Special Savings Deposits	20,761,453	34.19%	24,674,674	36.70%
Total Deposit Liabilities	<b>60,727,170</b>	<b>100.00%</b>	<b>67,236,546</b>	<b>100.00%</b>

Total Deposits for the year had massively decreased by P 6.5 million or 9.68% over the figures of 2018. Biggest percentage contribution for the decrease comes from gold savings deposits representing 6.09% while the regular savings deposit account by 15.85%. Total Deposits made up of 97.41% of the total bank's liabilities. Out of the total deposits, 85.91% is invested in loans.

Regular savings deposit earns interest of 0.50% on a tiered-rate basis based on the total amount of average daily balance (ADB) of the deposits. Interest Expense arising from savings deposits amounted to P 617,515 and P 782,830 for the years ended December 31, 2019 and 2018 respectively.

Showing the capital accounts for CY 2019 and 2018

### SHAREHOLDERS' EQUITY

Capital Stock	2019	2018	Variance
Common Stock	13,944,300	14,209,200	(264,900)
Retained Earnings	9,435,394	7,253,132	2,182,262
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b><u>23,379,694</u></b>	<b><u>21,462,332</u></b>	<b><u>1,917,362</u></b>

The Bank's Capital Stock decreased by 1.86% compared to 2018. This is a result of the reclassification of Deposit for Stock Subscription-Equity Account to Deposit for Stock Subscription-Liability Account amounting to P 625,000. Furthermore stockholders infused fresh capital amounting to P 61,000.00 due to the deficiency on net income for the year 2018. Moreover, the bank has already complied with its Capital Build-Up Program under Section 121: Minimum Required Capital for Rural Banks with head office in all other areas outside NCR to comply with the minimum capital of P 20 million.

Authorize Ordinary share capital as of December 31, 2019 amounted to P 15,000,000.00 divided into 150,000 shares with a par value of P100.00 each. Total subscribed and paid-up ordinary shares amounted to P 13.944 million or 139,443 shares.



## RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

Showing the Total Income and expense accounts and the percentage of distribution for CY 2019 and 2018

Performance Review	Year		Increase (Decrease)		
	2019	2018			
<b>Income Accounts</b>					
Interest Income	P	9,515,307	P	8,703,903	811,404
Non-Interest Income		2,122,861		2,460,495	(337,634)
Gross Income		11,638,168		11,164,398	473,770
<b>Expense Accounts</b>					
Interest Expenses		774,598		782,830	(8,232)
Provision for Credit Losses		320,468		255,824	64,644
Compensation and Fringe Benefits		4,997,279		4,665,731	331,548
Other Operating Expenses		1,565,268		1,639,479	(74,211)
Depreciation and Amortization		243,868		173,651	70,217
Taxes and Licenses		688,329		686,096	302,233
<b>Total Expenses</b>		<b>8,589,810</b>		<b>8,203,611</b>	<b>386,199</b>
Net Income Before Income Tax		3,048,358		2,960,787	87,571
Income Tax Expenses		886,168		755,748	130,420
Net Income after Tax		2,162,190		2,205,039	(42,849)
Earnings per share		15.51		15.52	0.01

We ended the year with P 2.162 million net income, which is a little bit lower by 1.94% from 2018 net income of P 2.205. As per Memorandum of Undertaking (MOU) executed by the bank and the Bangko Sentral ng Pilipinas, any difference on the Net Income between the targeted from the Actual Income will be infused by the stockholders. For 2018, stockholders infused P 60,000 for the deficiency on the net income. For this year 2019 targeted income is P 2.625 million thus, stockholders paid the difference amounting to P 463 thousand pesos.

### Quantitative Indicators and Other Ratios

Earnings per Share-Ordinary	15.51	15.52	(0.01)
Book Value per Share	167.66	151.05	16.61
Capital Adequacy Ratio	25.50%	21.85%	3.65%
Past Due/ ITL Ratio	5.57%	4.44%	1.13%
Return on Average Equity	9.64%	11.23%	(1.58%)
Return on Average Assets	2.38%	2.45%	(0.07%)
Net Interest Margin	10.45%	9.66%	0.78%
Debt to Equity Ratio	2.69:1	3.44:1	0.74:1
Ratio of Liquid Assets to Deposits	139.07%	139.48%	(0.41%)
Ratio of Total Fixed Assets over Equity Accounts	5.31%	6.29%	(0.98%)



---

## RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

---

The Bank maintains an actively managed capital base to cover risk inherent in the business. The adequacy of the Bank's capital is monitored using, among others measures, the rules and ratios adopted by the BSP. The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain requirements. As at December 31, 2019 and 2018, the Bank was in compliance with CAR requirement.

The bank recorded an increasing net interest margin, this shows that the bank earns more interest compared to the outgoing expenditures. Book value per share grows by 16.61 due to the addition of retained earnings for the year. Capital Adequacy Ratio was derived by dividing the bank's total qualifying capital over the bank's net risk weighted assets. The bank's CAR had increased to 25.50% from 21.85% in 2019 brought about by the increase in the bank's capital. The rate of 25.50% is an indicator that the bank is capable to absorb risk proportion to its capital exposures. Debt to Equity ratio registered a decrease of 21.80% over the last year's figure, an indication of the bank's less dependence to debt capital.



## **R**ISK MANAGEMENT FRAMEWORK ADOPTED

Given that all businesses including financial institutions faces different kind of risks, RBSMI reinforced existing risk management measures and controls by adopting a better control in mitigating various risks faced by the bank. It operates in accordance to its established risk philosophy, where the Board of Directors is responsible for approving, reviewing, supervising, and overseeing the bank's risk strategy, risk policies, risk appetite and risk limits. It also continue to pursue initiatives that enhanced the bank's implementation and approach to different risks that are inherent to the Bank's business activities.

The Board of Directors created the Audit Committee to oversee the development of risk management program of the Bank. The Internal Audit and the Compliance Office continuously assess the effectiveness and compliance with the policies, procedures and controls set under the Risk Management System of the Bank. The Compliance Officer act as the Anti-Money Laundering (AML) Officer of the Bank.

BHF Bank's primary direction is to maintain its resiliency and relevance in the rural banking industry by maintaining excellent capital ratios, liquidity ratios and profit ratios and all other basic financial ratios.

### **Risk Management Culture and Philosophy**

Risk Management is embedded in the bank's business strategy. It is an integrative component of good governance wherein the 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.

In 2019, the Bank implemented several policies to strengthen credit and operational risk management. Periodic analyses is conducted to mitigate the occurrence of credit risk, liquidity risk, market risk (i.e. interest rate risk, price risk). The Board of Directors reviews and agrees on policies for managing each of these risks. The Bank's Risk Management objective is primarily focused on controlling and mitigating these risks.

In compliance with BSP Circular 1022, series of 2018, further amendments in the Bank's MLPP manual were approved by the Board of Directors on June 2019 to foster greater due diligence in combating money laundering.



### Risk Appetite and Strategy

RBSMI's risk appetite is the level of risk that it is prepared to accept in pursuit of its business goals and objectives.

The bank's risk appetite is imposed by the board of directors. The risk appetite statements establish the philosophy and high-level boundaries for risk-taking activities. The risk policies give more specific guidance for particular risks,

providing clarity for management in making day-to-day decisions.

The specific appetite for each risk type is implemented and enforced by an extensive set of specific limits, controls, and governance process.

The Bank's risk strategy is centered on at taking risk at an acceptable level with the assurance of positive returns.

### Bank-wide Risk Governance Structure and Risk Management Process

The bank's risk are managed by all units of the bank as it adopted the Three Lines of Defense Method. The process, systems, compliance risks and controls are identified by its Business Units (1<sup>st</sup> Line). The controls to mitigate the risks are assessed as to design and effectiveness of the method, Information Security and Compliance (2<sup>nd</sup> line). The assessments are validated by the Internal Audit (3<sup>rd</sup> line). Tying all this up is an active oversight function by the Board of Directors. The bank maintains transparent dealings with both external auditors and regulators in relation to the business, vision, plans and objective of the bank.

To fulfill its responsibilities in risk management, the BOD has established the Audit Committee which is composed by three members, whom the Chairman of the committee has experience in accounting, auditing, or related financial management experience or expertise. The skills, qualifications and experience of the committee members are appropriate for them to perform their duties as laid down by the BOD. Two of these three members are Independent Directors including the Chairman.

The Audit Committee serves as principal agent of the BOD in ensuring independence of the Bank's External Auditors and the internal audit function, the integrity of management, and the adequacy of disclosures and reporting to stockholders. It also oversees the bank's financial reporting process on behalf of the BOD. It assist the BOD in fulfilling its fiduciary responsibilities as to accounting policies, reporting practices, and the sufficiency of auditing and regulatory compliance.





### 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 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. The bank has placed due importance to expanding and strengthening its risk management process

and considers it as a vital 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 financial position in the market.

#### Risk Areas

The inherent risk which can rise from the bank's financial instruments are Credit Risk, Market Risk, Interest Rate Risk, Liquidity Risk, Operations Risk, Legal Risk, Reputation Risk and Compliance Risk. The Bank's risk management is geared towards the effective management of these risks.

#### 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.

#### Credit Risk Management

It is the overall responsibility of the bank's Board of Directors to approve the 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.



Rural Bank of Sanchez Mira (Cagayan), Inc. manages these risks through:

- Continuous development of credit policies and underwriting procedures to ensure compliance with the highest standards of due diligence in lending;
- Use of internal credit risk rating/borrower's risk grading in assessing the capacity of the borrower to meet his/her financial obligation.
- Use of Board-approved Credit Manual based on BSP Circular 855 as guidance in evaluation/credit underwriting procedures for individual borrowers.
- Establishment and strict compliance of limits for the effective management of large exposures, out of territory, Related Party Transactions (RPT), and DOSRI.
- Regular and practical evaluation of the ability existing borrowers to meet their financial obligation with the Bank throughout the life of the loan.
- To effectively monitor and maintain the quality of its loan portfolio, the Bank conducts quarterly 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.

### Credit Stress testing

The bank regularly conducts Stress testing of its loan portfolio taking into account risk events with high probability 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:

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

### Liquidity Risk

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

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

Also, the Bank monitor exposure to liquidity risk through undertaking gap analysis on a monthly basis. To further assess the Bank's liquidity position, stress testing is conducted regularly. The Bank adheres to a board-approved Contingency Finding Plan to ensure that the Bank is ready should a liquidity problem arise.

#### 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.

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

- Periodic risk assessment of the activities and engagements of the Bank particularly those considered critical in the day to day operations of the Bank.
- Regular monitoring and evaluation processes, people and systems.
- Implementation of an effective and efficient reporting mechanism.
- Adopting to a board-approved Business Continuity Plan to ensure non-disruption of operations in the face of adversity.
- Continuous streamlining of business operations.
- Continuous training and development of staff, Senior Management, and BOD.

### Risk categories:

#### a. 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.

#### b. 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.

#### c. Strategic Risks

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

#### d. 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.

### Legal Risk

Legal risk is the risk of financial or reputational loss due to regulatory or legal issues. It is often caused by poorly documented transactions which renders such transactions legally unenforceable along with other adverse consequences. Legal risk may also be the result of inadvertent or deliberate non-compliance with laws, rules, regulations and ethical standards.

RB Sanchez Mira manages legal risk through compliance checks, standardization of processes, contracts and documentation requirement. Outstanding court cases, contracts and similar documents are kept to facilitate easier monitoring and reporting to the Senior Management and BOD.



## **A**NTI-MONEY LAUNDERING

Pursuant to the Circular 1022, series of 2018, Circular 950 series of 2017 and Circular 706 series of 2017 the bank hereby adopts a comprehensive and risk-based Money Laundering and Terrorist Financing Prevention Program (MTPP), to be known as “Know-Your-Customer” policy, and 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.

It is the Policy of the Bank to protect the integrity and confidentiality of bank accounts and ensure that it shall not be used as money laundering site or a conduit for the proceeds of an unlawful activity.

The bank’s basic principle and practices adopted to adopt a more vigilant anti-money

laundering culture are anchored on (1) compliance with laws and regulations, (2) strict adherence to the KYC process, (3) cooperation with law enforcement, (4) information dissemination and continuing education and (5) implementation of its AML risk management system. The MTPP shall be in writing, approved by the BOD and well disseminated to all officers and employees who are obligated by law and this MTPP to implement the same.

The five areas of sound risk management practices are adequate and active Board and senior Management oversight, acceptable policies and procedures embodied in a money laundering and terrorist financing prevention compliance program, appropriate monitoring and Management Information System and Comprehensive internal control and audit.

### **Board and Senior Management Oversight**

It shall be the ultimate responsibility of the Board of Directors to ensure full compliance with the provisions of the MLLP manual, the AMLA and its implementing rules and regulations, as amended. The Senior Management holds the responsibility over day-to-day oversight of the operations of the bank and ensure effective implementation of board approved AML/CFT policies.

The Senior Management shall oversee the day-to-day management of the covered person, ensure effective implementation of AML/CFT policies approved by the BOD and alignment of activities with the strategic objectives, risk profile and Corporate Values set by the BOD. Senior management shall establish a management structure that promotes accountability and transparency and upholds checks and balances.



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

Pursuant to Circular 1022, series of 2018, the Bank hereby adopts a comprehensive and risk-based Money Laundering and Terrorist Financing Prevention Program (MTPP), 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 enhanced MTPP aims to foster greater due diligence benchmarked on global practices in combating money laundering and financing terrorism. The Bank has adopted a risk based assessment methodology for AML and anti-terrorism financing that:

- Considers all relevant risk factors;
- Enables adequate documentation of results and findings;
- Is periodically reviewed and updated to ensure effectiveness.

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 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.

### Reporting of Covered and/or Suspicious Transactions

The Compliance officer being the AMLA officer, identifies all Covered Transactions (CTs), and Suspicious Transactions (STs) in coordination with the various units inside the bank. The bank ensures that the identification, monitoring and reporting mechanism is in place and work efficiently to ensure that reports to its regulatory agencies are submitted within the prescribed period.



### 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. 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.

The Bank intends to increase AML/CFT awareness and consciousness through ongoing employee training.

### Anti-Money Laundering Training Program

- Definition of key terms under the AMLA
- Know your Customer (KYC) and Customer Diligence
- Covered and Suspicious Transaction Reporting
- Record Keeping and Retention Requirements
- Penalties, Fines, and Administrative Sanctions for Violation of the AMLA, its revised Implementing Rules and Regulations



# CORPORATE GOVERNANCE

*“We dedicate ourselves to become channels of growth through our own efforts of meaningful services!”*

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. The corporate governance philosophy of

the bank is anchored on compliance to the statutory and regulatory mandates which help build strategically sustainable business aligned with good corporate governance.

## COMPOSITION

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

two (2) Board-Level committees namely (1) Credit Committee and (2) Audit Committee which performs a specific function. These independent units report directly to the Board of Directors executed during regular meetings.

## SELECTION

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





## RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

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.

### BOARD'S OVERALL RESPONSIBILITY

The board of directors is primarily responsible for defining the Bank's vision and mission. The board of directors has the fiduciary responsibility to the Bank and all its shareholders including minority shareholders. It shall approve and oversee the implementation of strategies to achieve corporate governance framework and the systems of checks and balances. It shall establish a sound corporate governance framework. The board of directors shall approve the selection of the President and key members of senior management and control functions and oversee their performance.

The duties and responsibilities of the Board stipulated by law, Articles of Incorporation and By-Laws and resolutions of the shareholders, include the following:

a. Defining the Bank's corporate culture and values. It shall establish a code of conduct and ethical standards in the bank and shall institutionalize a system that will allow

reporting of concerns or violations to an appropriate body.

- b. Responsible for approving the Bank's objectives and strategies and in overseeing management's implementation thereof.
- c. 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. Responsible for approving and overseeing implementation of the Bank's Corporate Governance framework.
- e. Responsible for approving the Bank's governance framework and overseeing management implementation thereof.

### Role and Contribution of Independent directors and Chairman of the Board

#### Chairman of the Board of Directors

In accordance with BSP Circular 969, the Chairperson of the Board of Directors of RBSMI shall provide leadership in the BOD.

He shall ensure effective functioning of the board of directors, including maintaining a relationship of trust with members of the board of directors, including maintaining a relationship of trust with members of the board of directors. He shall:



## RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

- Ensure that the meeting agenda focuses on strategic matters including discussion on risk appetites, and key governance concerns;
- Ensure a sound decision

making process;

- Encourage and promote critical discussion;
- Ensure that dissenting views can be expressed and discussed within the decision-making process;
- Ensure that members of the Board of directors receives accurate, timely, and relevant information;
- Ensure the conduct of proper orientation for first time directors and provide training opportunities for all directors;
- Ensure conduct of performance evaluation of the board of directors at least once a year.

### 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	10	32,701	23.45%
Mr. Alejandro M. Pulido Jr.	Member	24	5,349	5.16%
Mr. Rafael V. Pulido	Member	5	4,943	3.54%
Ptr. Viriginia B. Pacris	Ind. Director	4	2	0.0012%
Mr. Carlo A. Cachapero	Ind. Director	3	2	0.0012%

Directors	Number of Meetings Attended	
	Regular (12)	Special (2)
Dr. Michael P. Asanias- <i>Chairman</i>	12	6
Mr. Alejandro Pulido Jr.- <i>Member</i>	11	6
Mr. Rafael V. Pulido- <i>Member</i>	11	6
Mr. Carlo A. Cachapero- <i>Independent Director</i>	12	6
Ptr. Viriginia B. Pacris- <i>Independent Director</i>	12	6
Ms. Vigilina C. Cocson- <i>Chief Compliance Officer</i>	12	6
Ms. Annabelle M. Bangalan- <i>Internal Auditor**</i>	5	4
Ms. Charmaine A. Tapias- <i>Acting Corporate Secretary</i>	12	6
Ms. Shiery Ann O. Galla- <i>Acting Internal Auditor</i>	6	2

### 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.

**BOARD COMMITTEES**

**Audit Committee**

**Chairperson:**

Virginia B. Pacris

**Members:**

Michael P. Asanias  
Carlo A. Cachapero

Committee Members	No. of Meetings	No. of Meetings Attended	% Rating
Ptr. Virginia B. Pacris	12	12	100%
Dr. Michael P. Asanias	12	12	100%
Mr. Carlo A. Cachapero	12	12	100%

**F U N C T I O N**

The Audit Committee shall:

(1) Oversee the financial reporting framework. Oversee the financial reporting process, practices, and controls. It shall ensure that the reporting framework enables the generation and preparation of accurate and comprehensive information and reports.

(2) Monitor and evaluate the adequacy and effectiveness of the internal control system. Oversee the implementation of internal control policies and activities. It shall also ensure that periodic assessment of the internal control system is conducted to identify the weaknesses and evaluate its robustness considering the Bank’s risk profile and strategic direction.

(3) Oversee the Internal Audit Function. Responsible for the appointment/selection, remuneration, and dismissal of the internal auditor. It shall review of the effectiveness of the Bank’s internal controls, including

financial, operational and compliance controls, and risk management system.

(4) Oversee the external audit function. The committee shall be responsible for the appointment, fees, and replacement of external auditor. It shall review and approve the engagement contract and ensure that the scope of audit likewise cover areas specifically prescribed by the Bangko Sentral and other regulators.

(5) Oversee implementation of corrective Actions. The committee shall have explicit authority to investigate any matter within its terms of reference, have full access to an cooperation by management is taking necessary corrective actions in a timely manner to address the weaknesses, non-compliance with policies, laws, and regulations and other issues identified by auditors.

(6) Investigate significant issues/concerns raised. The committee shall have explicit



## RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

authority to investigate any matter within its terms of reference, have full access to and cooperation by management, and have full

discretion to invite any director or executive officer to attend meetings.

### Credit Committee

#### Chairperson:

Michael P. Asanias

Committee Members	No. of Meetings	No. of Meetings Attended	% Rating
Dr. Michael P. Asanias	12	12	91.666%

#### Members:

Alejandro M. Pulido, Jr.  
Rafael V. Pulido

Mr. Alejandro M. Pulido, Jr.	12	12	100.00%
Mr. Rafael V. Pulido	12	12	100.00%

The primary objective of the Credit Committee is to oversee, direct and review the management of credit risk within the loan portfolio.

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.

### List of BOD, Officers and Senior Management

#### Name of Director/Officer

Mr. Carlo A. Cachapero  
Dr. Michael P. Asanias  
Mr. Alejandro M. Pulido, Jr.  
Mr. Rafael V. Pulido  
Ptr. Virginia B. Pacris  
Mrs. Charmaine A. Tapia  
Mrs. Vigilina C. Cocson  
Mrs. Shiery Ann O. Galla  
Mrs. Thelma M. Delacruz

#### Position

Independent Director/Chairman  
Director  
Director/President  
Director/Manager  
Independent Director  
Acting Corporate Secretary  
Chief Compliance Officer/AMLA Officer  
Acting Internal Auditor  
Cashier/Treasurer

### 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

### 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.

Continuing refresher and education is also given to the board of directors and employees such as the annual AML Seminar and other training program as deemed fitting and necessary.

#### **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**



## RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

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 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
February 21, 2019	AMLA as amended	RBAP		<b>VIGILINA C. COCSON</b> <i>Chief Compliance Officer</i>
February 23, 2019	Currency Familiarization Briefing (New Generation Currency)	BSP-Tuguegarao		<b>Thelma M. De La Cruz</b> <i>Cashier/teller</i>
March 21-23, 2019	Credit Investigation and Comprehensive Property Appraisal Seminar	RBAP		<b>MICHAEL A. LABRADOR</b> <i>Credit Investigation/Collector</i>
April 23, 2019	Internal Audit Training-A Practical Approach	RBAP		<b>SHIERY ANN O. GALLA</b> <i>General Bookkeeper</i>
September 5-6, 2019	Strategic Marketing for Rural Banks	RBAP	<b>AIEJANDRO M. PULIDO, JR.</b> <i>Director/President</i>	
December 18,19 &20, 2020	Professionals Director Program	Institute of Corporate Directors RBAP	<b>DR. MICHAEL P. ASANIAS</b> <i>Director</i>	

### Retirement and Succession Policy



## RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

The Bank recognizes retirement benefit obligation using the provision of RA 764. The bank believes that building a bank of enduring greatness entails building a strong base of leaders who can steer the bank towards digital transformation. 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
Carlo A. Cachapero	Chairman – Ind. Director	Michael P. Asanias	Alejandro M. Pulido, Jr.
Michael P. Asanias	Member		
Rafael V. Pulido	Member		
Alejandro M. Pulido Jr.	Member		
Virginia B. Pacris	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 Jr.	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	Shiery Ann O. Galla	Annabelle M. Bangalan
Thelma M. De la Cruz	Cashier/ Teller	Rafael V. Pulido	Shiery Ann O. Galla



## RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

Shiery Ann O. Galla	Internal Auditor	Charmaine A. Tapia	Melody B. Florida
Vigilina C. Cocson	AMLA Officer	Jose Mari O. Macalma	Recruitment
Charmaine A. Tapia	Acting Corporate Secretary	Melody B. Florida	By Appointment

### Management Staff

Name of Incumbent	Position	Standing Assignee	Alternate Assignee
Annabelle M. Bangalan	Loan Officer	Moises R. Sadama	Recruitment
Charmaine A. Tapia	Bookkeeper	Melody B. Florida	Recruitment
Moises R. Sadama	Loans Bookkeeper	Melody B. Florida	Recruitment
Melody B. Florida	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 C. Lopez	Appraiser	Michael A. Labrador	Recruitment
Rafael V. Pulido	Security Officer	Recruitment	Recruitment
Rexalino Y. Domingo	Utility/Prop. Custodian	Recruitment	Recruitment

### 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.

Directors of the bank receive per diems of P 5,000.00 for each attendance in meetings of the BOD and P 2,000.00 for each committee meetings.

Also, 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
- 13<sup>th</sup> 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.

### Related Party Transactions

The Rural Bank of Sanchez Mira (Cagayan), Inc. recognizes the need to strengthen its policy on related-party transactions and other similar situations so as to prevent conflict of interest and mitigate abusive transactions with related parties.

Related parties shall cover the Bank's Directors, Officers, Stockholders and Related Interests (DOSRI), and their close family members, as well as corresponding persons in affiliated companies. This shall also include such other person/juridical entity whose interest may pose potential conflict with the interest on the financial institution.

Close family members related to the bank's Directors, Officers and Stockholders (DOS) within the second degree of consanguinity or affinity, legitimate or common-law. These shall include the spouse, parent, child, brother, sister, grandparents, grandchild parent-in-law, son-/daughter-in-law, brother-/sister-in-law of the FI's DOS.

Material RPTs or significant transactions shall refer to dealings that could pose material/significant risk to the Bank. Significant transaction would refer to the transactions of value amounting to P 2.5 million or 3.5 percent on a one-time transaction<sup>1</sup> for individual exposures and 5M or 10% for aggregate exposures to all related parties ; such as in the provision and delivery of services on per project basis to a single related party.

The Board of Directors approved the amended RPT Policy on December 20, 2019 under Resolution No. 2019-185.

### 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.

### Dividend Policy



## RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

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.

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

The declaration of stock dividend is summarized below:

<b>Date of Declaration</b>	<b>Date of Record</b>	<b>Date of Distribution</b>	<b>BSP Date of Approval</b>	<b>Amount of Stock Dividend</b>
August 9, 2019	August 9, 2019	March 11, 2020	March 10, 2020	P 1,055,700

As of December 31, 2019, such dividend declaration was entered in the Books as memorandum entry only. On the date of BSP approval, it will be debited directly to the retained earnings free under the equity accounts in the statement of financial position.

### 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

#### a. 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.

## **C** ORPORATE INFORMATION

### 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.

### 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.

### List and Description of products and services offered

#### **Agrarian Reform and Other Agricultural Credit Loans**

##### *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.

##### *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.



## RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

- 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.

### 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:

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. )

### 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.

### Loans to Individual for Other Purposes



---

## RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

---

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

### **Loans to Individuals Primarily for Personal Use Purposes**

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

### **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](http://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.

## **AUDITED FINANCIAL STATEMENTS (AFS) WITH AUDITORS OPINION**

The Audited Financial Statements with Auditors Opinion is hereto attached.

### **I. Compliance with Appendix 63c of the MORB-Disclosures in the Annual Reports and Published Statement of Condition**

#### **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





## RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

(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.

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 3<sup>rd</sup> class municipality with a head office outside NCR. The Bank developed a Five-Year Strategic Plan that aims to meet the required capitalization by the end of 2019.

The CAR of the Bank as at December 31, 2019, as reported to the BSP, is shown in the table below:

	2019	2018
Tier 1 Capital	23,070,119	21,157,634
Tier 2 Capital	584,148	580,394
<b>Total Qualifying Capital</b>	<b>23,654,267</b>	<b>21,738,029</b>
Risk weighted Assets	92,781,465	86,551,635
Tier 1 Capital Ratio	24.87%	24.44%
Tier 2 Capital Ratio	0.63%	0.67%
<b>Capital Adequacy Ratio (CAR)</b>	<b>25.50%</b>	<b>21.85%</b>

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. The amount of surplus funds available for dividend declaration also on the basis of regulatory net worth after considering certain adjustments. As at December 31, 2019 and 2018, RBSMI has fully complied with the CAR requirement of the BSP.

The Bank's Total Qualifying Capital as at December 31, 2019 was computed as follows:

<b>A. Calculation of Qualifying Capital</b>	<b>2019</b>
<b>A.1 Tier 1 Capital</b>	
<b>Core Tier 1 Capital</b>	
Paid-up Capital-Ordinary	P 13,944,300
Retained Earnings	9,435,394



---

---

## RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

---

---

<b>Deductions from Core Tier 1 Capital</b>	
Deferred Tax Assets, Net of Deferred Tax Liability	172,887
Total Outstanding unsecured credit accommodations to DOSRI	136,688
<b>Total Tier 1 Capital</b>	<b>23,070,119</b>
<b>A.2 Tier 2 Capital</b>	
<b>Upper Tier 2 Capital</b>	
General Loan Loss Provision	584,148
<b>Total Upper Tier 2 Capital</b>	<b>584,148</b>
<b>Total Qualifying Capital</b>	<b>P 23,654,267</b>

The Bank maintains an actively managed capital base to cover risks in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios adopted by the BSP in supervising the Bank.