



CORPORATE PROFILE

Rural Bank of Sanchez Mira (Cagayan) Inc., a rural bank, established on November 25 1971 and started its operation on March 16, 1972, the first rural bank situated at Sanchez Mira, Cagayan. RBSMI offers different business banking services that includes, loans and saving accounts.

Though found in an area wherein different commercial banks and other microfinance institutions are situated, it differentiates itself from the competition as a strong and independent rural bank. By revisiting our reason for existence, what we wanted to be, what we imagined to become, we are able to rise from any odds and face any challenges along the way, act with integrity and execute better banking business.

OUR 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.

OUR 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.

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**2018 FINANCIAL HIGHLIGHTS****Financial Highlights**

As of December 31, 2018 and 2017

	Year		Percentage of Change		
	2018	2017			
For the Year Ended (In Pesos)					
Gross Revenues	P	11,164,398.00	P	9,429,064.00	18.40%
Gross Expenses		8,959,359.00		8,096,809.00	10.65%
Net Income		2,205,039.00		1,332,255.00	65.51%
At Year End (In Pesos)					
Total Assets	P	95,329,860.00	P	84,376,450.00	12.98%
Loans and Receivables-Net		59,537,646.00		49,591,707.00	20.06%
Deposit Liabilities		67,236,546.00		65,232,495.00	3.07%
Equity		21,462,332.00		17,815,793.00	20.47%
Other Quantitative Indicators					
Earnings per Share	P	15.52	P	10.42	48.94%
Book Value per Share		151.05		139.35	8.40%
Capital Adequacy Ratio		21.85%		21.54%	1.44%
Past Due/ ITL Ratio		4.44%		3.83%	15.93%
Return on Average Equity		11.23%		8.03%	39.85%
Return on Average Assets		2.45%		1.64%	49.39%
Net Interest Margin		9.66%		8.69%	11.16%
Debt to Equity Ratio		3.44:1		3.74:1	-8.02%

The bank's 2018 Financial Performance reflects drive to key priorities, including continued marketing of loans and ongoing adjustments to increase operational efficiency.

The loans and receivables-net expanded by 20.06% in 2018 to PhP 59.537 million. Total deposits increased slightly by 3.07% to PhP 67.236 million. As such, interest expense increased by 28.56%. Overall, net interest

income climbed 11.25% to PhP 7.92 million and non-interest expense scaled slightly by 2.10% to PhP 7.16 million.

Equity increased by 20.47% to PhP 21.462 million while total assets rose by 12.98% to PhP 95.33 million. Non-performing loans ratio is at 4.44%, 15.93% higher than last year but still lower than the 10% past due ratio commitment to Bangko Sentral ng Pilipinas.



MESSAGE FROM THE PRESIDENT

“We have faced challenges along the way but we have proven that our compassion to serve the rural economy and our vision to be a dependable provider of credit and other value-added financial services to support economic growth in the community gave us the strength to strive more.”

Dear Clients and Shareholders,

Warmest greetings to everyone!

First of all, I would like to take this opportunity to thank our Board of Directors headed by the energetic Chairman of the Board, Dr. Michael P. Asanias, our dear shareholders, and our dedicated management team for the year just ended.

I am proud to report of the progress we made throughout the transition and in setting the strategic direction to drive sustainable growth. Year 2018 continued to deliver incremental, but critical improvements in strengthening the bank’s core foundations to meet growing challenges and opportunities head on.

Our results, while modest, go a long way towards positioning the bank for a more competitive future. Our transition into a better-focused and more agile institution is possible because of the guidance and wise counsel of our Board of Directors, continued support of our shareholders and the management team’s perseverance and dedication.

In the year 2017, we have implemented new strategies and policies particularly on the lowering of interest rates of Salary Loans and Small Scale Enterprises Loans, increasing loan amount while extending its

loan terms. These give the bank a competitive advantage and increase market to DepEd Salary Loans, other employee loans and business loans that contributed to the increase on the net income for the year 2018.

We also focused our market to the Agricultural Sectors. We promoted a more aggressive strategy in pursuing a higher demand to Loans to Agricultural Sector. RBSMI staff visited SANGHERAs to market the programs offered by the bank and to give them a better understanding on how RBSMI could help them in financing their agricultural needs. As a result, our Outstanding Loans to the Agri-Agra Sector increased by PhP 4.10 million or 32.23% higher compared to last year 2017.

In 2018, we achieved a 65.51% increase on the net income and 12.98% increase on the total assets vs. 2017. More important, the bank focused on key foundation improvements related to governance, credit risk management, core banking implementation, investing in our people and in service enhancement and improving our capital resources.

We are now on our 48th year in the banking industry. We have faced challenges along the way but we have proven that our compassion to serve the rural economy and our vision to be a dependable provider of



credit and other value-added financial services to support economic growth in the community gave us the strength to strive more.

And now, I am pleased to report on our progress in RBSMI for the year 2018.

Key Financial Highlights

Our Gross income for 2018 is PhP 11.17 million which is 18.40% higher compared to from last year's PhP 9.43 million. This income was driven by the increase on our loan portfolio for Salary Loan, MSME (Loans to Rice Traders) which policy (decrease on loan's interest rate, increase loan amount and extend loan term) was amended by the BOD in order to win back clients and to increase a wide range of market.

We ended the year with PhP 88.70 million in total resources, up by 6.80% from 2017 level of PhP 83.05 million. Total Equity raised for 2018 totaled PhP 21.46 million composed of PhP 14.21 million common shares.

Opportunities in Rural Banking

The Rural Banking market is still full of opportunities. Some of these are:

- Most of the nearby municipalities have no banks
- Increase on the market for the Agricultural Sector, MSME and DepEd Salary Loan
- Branching into new Areas like Junction Luna, Abulug, Cagayan or other nearby municipalities

Challenges

- Increasing competition
- Commercial Banks
- Intrusion of microfinance institutes within the area

Regulatory Compliance

- Stringent Regulations and higher standards imposed by BSP, PDIC, DOLE, and BIR
- Increasing Capitalization required by BSP
- Increasing Cost (Administrative and Personnel)
- The need to improve knowledge and competence

We have heard the shutting down of nearby rural banks that gave an adverse effect on the notion of our clients. But the bank took these challenges in a positive and aggressive way. We commit ourselves to look the opportunities ahead and move forward as we arise from years of retooling to be a more agile and a more solid player in the rural banking market in the years to come.

Our plan to expand our building was also realized this year 2018. We all hope that this will boost the confidence of our clients to give their trust and confidence towards our bank. We thank our mentors, our dear stockholders, members of the Board and all of the people who are behind the success of the expansion of our building.

Also, we are now on our last year to accomplish the Memorandum of Undertaking with Bangko Sentral ng Pilipinas (BSP) for the Five (5) year Strategic Plan. By the end of this year, we



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must have achieved the Capital Minimum Requirement of P 20,000,000.00 for a third class municipality. As of 2018, we already reached P 14,209,200.00 Paid-up Capital and a Retained Earnings of P 7,253,132.00 for a Total Equity of P 21,463,332.00. The bank has already declared P 1,715,300.00 stock dividend, pending for BSP approval. At the end of 2019 the bank will still need to declare P 4,075,500.00 stock dividend to achieve the P 20 million Paid-up Capital. Still, we must continue to launch new products and services and transforming our bank to be more effective, productive and profitable.

For this year 2019, we continue to build our bank's strength, provide innovative financial solutions that enable our clients to reach their goals and empowering them through trusted advice gained through our years of experience. We look to solidify our leadership position even further within the next years as we enhance product relevance, expand our processing capacity, sustain adequate liquidity and maintain our operational efficiency.

As we continue to pursue business excellence, I would like to thank and recognize each and every one for sharing their savings and investments to help our community develop through the provision of credit. Without your trust and confidence to RBSMI, many of our town mates may be pleading the mercy of commercial banks whose credit policies and requirements are stringent that could hardly be met by the small farmers, small merchants and other meager income earners. It is our privilege to partner with you.

Also, I would like to recognize all our employees for their role in RBSMI's achievement. Their dedication brings our business model to life in the communities we serve. We will go hand in hand in facing all the adversities that may come along the way. For if there is unity among us there will always be success. Above all let us not forget our Almighty God for His guidance and we must always recognize His presence because His ways are always higher than our ways.

Thank you so much for your trust.

ALEJANDRO M. PULIDO JR.
President



2018 Achievements

Total Loan Portfolio
Expanded to
P 60.810 Million

Net Income
Climbed to
P 2.205 Million

Total Deposits
Increased to
P 67.236 Million

Equity
increased to
P 21.462 Million

Total Assets rose to
P 95.329 Million

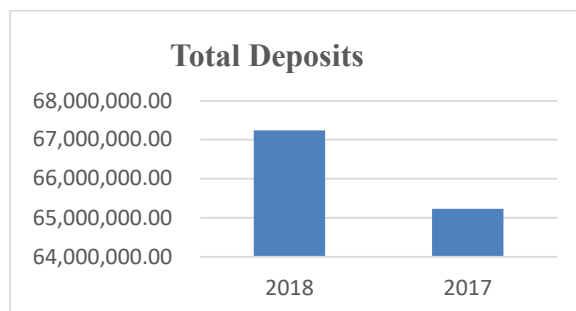
Operational Highlights

Deposits

In 2018, the bank continued its progressive growth with the continued marketing of deposits and gaining the trust and confidence of depositors ending the bank with an increase in deposits by 3.07%.

Going forward, the Bank will continue to seek opportunities to broaden its market and provide countryside access to financial services.

Interest rates on Special Savings Deposits ranged from 1.25% to 3.00% per annum. Regular Savings Deposits are withdrawable upon demand, while Special Savings Deposits have different maturity dates from: 30, 60, 90, 180 and 360 days and bear different interest rates based on the amount of deposits and term of placements.



+3.07%



Lending

The Bank's loan portfolio settled at P 60.810 Million up by 16.56% this year. Non-performing loans ratio stood at 4.44% still lower than the 10% past due ratio commitment to Bangko Sentral ng Pilipinas (BSP).

The launch of the bank's new loan program for MSME is responsive to the market. This proves a strong financial support of the bank to the Small and Medium Scale Enterprises within the locality and nearby municipalities.

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. MSME loans stood at P 21.258 Million. Of this amount, P 13.368 million is directed to SSE and P 7.889 million to MSE. The significant increase on the loan portfolio directed to MSME'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.

The bank's outstanding loan for Salary stood at P 11.713 million. This is a result of the amendment on the policy imposed by the bank which is to decrease the loan interest rate from 32% to 24% and increase loan amount. Most of the borrowers are from

DepEd, LGU employees, Brgy. Officials and other private institutions.

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.

The bank promotes an aggressive marketing to the Agricultural Sector by means of visiting SANGHERA's to market the programs offered by the bank and to give them a better understanding on how RBSMI help them in financing their agricultural needs.

As a result, total outstanding loans to Agri-Agra sector expand to P 12.240 million this 2018 from P 8.625 million from last year.

RBSMI released a total of P 20.877 million to small farmers and fishers. The assistance benefited 241 borrowers, of which 30 are new borrowers.

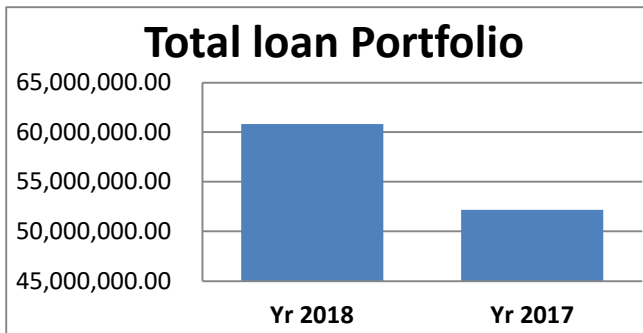
The Guarantee Fund Pool (AGFP) is one of the partners of the RBSMI in funding loans that supports the Agricultural programs of the government. In 2018, the bank released a total of P 3.888 million with 23 new borrowers.



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Total Loan Portfolio

	2018	% to total Loan Portfolio
I. Agri-Agra Loans		
a. Agrarian Reform Loans	5,346,718.00	8.79%
b. Other Agricultural Loans	6,893,709.00	11.34%
II. Small and Medium Scale Enterprises		
a. Small Scale Enterprise	13,368,776.00	21.98%
b. Medium Scale Enterprise	7,889,136.00	12.97%
III. Real Estate Loans		
a. Loans to Individuals for Housing Purposes	11,572,465.00	19.03%
IV. Loans to Individuals Primarily for Personal Use		
a. LIPPUP-Other Consumption	2,511,086.00	4.13%
b. LIPPUP-Salary Loans	11,712,926.00	19.26%
Loans to Individuals for Other Purposes		2.49%
v. Total	60,810,183.00	100%



+16.56%

Status of Loans

	Year 2018		Year 2017	
Current Loans	58,110,976.00	95.56%	50,173,022.00	96.17%
Past Due Loans	2,699,145.00	4.44%	1,933,535.00	3.71%
Items in litigation	62.00	0.00%	62,456.00	0.12%
Total Loan portfolio	60,810,183.00	100%	52,169,014.00	100%
Loans and Receivables Discount	0.00		(1,119,761.00)	
Allowance for Credit Losses	(1,272,537.00)		(1,457,546.00)	
Loans and Receivables-Net	59,537,646.00		49,591,707.00	

Of the total loan portfolio of ₱ 60.810 million, current loans of ₱ 58.111 million accounted for 95.56%; past due loans of ₱2.699 million, made up 4.44%% and items in litigation of ₱ 62.



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It is noteworthy that Items In litigation significantly decreased by 0.12%% compared to last year. These points to the bank's success in improving loan quality and stepping up collection efforts.

Financial Condition:

Total Assets Distribution for CY 2018 and CY 2017.

ASSETS	2018	2017	Variance
Cash and Other Cash items	32,242,215.00	31,545,603.00	696,612.00
Held to Maturity Investment	2,000,000	2,000,00	0.00
Loans and receivables, Net	59,537,646.00	49,591,707.00	9,945,939.00
Bank Premises, Furniture, Fixtures and Equipment, net	1,350,177.00	164,733.00	1,185,444.00
Investment Properties	0.00	973,000.00	(973,000.00)
Deferred Tax Assets	76,747.00	0.00	76,747.00
Other Assets	123,075.00	84,062.00	39,013.00
<u>TOTAL ASSETS</u>	<u>95,329,860</u>	<u>84,376,450.00</u>	<u>10,953,410.00</u>

The financial condition and result of operations are based on the Audited Financial Statement of the Bank as at December 31, 2018 and 2017.

Total Assets increased by 12.98% from last year 2017. Loans and Receivables increase significantly by 20.06% that contributed to the increase in total assets for the year. Bank Premises, Furniture and Fixtures also increase because of the expansion of the RBSMI building. There was no outstanding investment property for the year because ROPA from last year was redeemed by the owner Mrs. Ana Liza Ganotice.

DUE FROM BSP AND OTHER BANKS	2018	2017	Variance
Due from Bangko Sentral ng Pilipinas	3,336,953.00	3,349,645.00	(12,692)
Due from Other Banks	26,199,497.00	24,635,039.00	1,564,458
<u>Total</u>	<u>29,536,450.00</u>	<u>27,984,684.00</u>	<u>1,551,766</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 cash deposits with the BSP. The Due from Other Banks account consists of deposits to various depository banks which are used for banks operations.

As of December 31, 2018, the Bank's Single Borrower's Limit (SBL) was registered at P5,365,583.00 and as per BSP Manual of Regulations Section 362, banks are exempted on the



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ceiling of single borrowers limit (SBL) of 25% on deposit/investment placements to government banks, however excess of SBL on private banks are being considered if the accounts are used for check clearing in connection with its business operations and as per BSP Circular No. 734, "Loans and other credit accommodations as well as deposits and usual guarantees by bank to any other bank, whether locally or abroad, shall be subject to the limits as herein prescribed or P100.00 million, whichever is higher".

Showing the Total Liabilities for CY 2018 and 2017

LIABILITIES & SHAREHOLDERS' EQUITY

LIABILITIES	2018	2017	Variance
Deposit Liabilities	67,236,546.00	65,232,495.00	2,004,051
Bills Payable	5,000,000.00	0.00	5,000,000
Accrued Interest taxes and Other expenses Payable	702,091.00	386,308.00	315,783
Other liabilities	928,891.00	931,854.00	(2,963)
<u>TOTAL LIABILITIES</u>	<u>73,867,528.00</u>	<u>66,560,657</u>	<u>7,306,871</u>

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

Deposit Liabilities

	Year 2018		Year 2017	
Regular Savings Deposits	P 42,561,872.00	63.30%	P 39,417,113.00	60.43%
Special Savings Deposits	24,674,674.00	36.70%	P 25,815,381.00	39.57%
Total Deposit Liabilities	67,236,546.00	100.00%	P 65,232,495.00	100.00%

Total Deposits for the year had increased by P 2,004,051.00 or 3.70% over the figures of 2017. Biggest percentage contribution for the increase comes from regular savings deposits representing 7.98% while the special savings deposit account decreased by 4.42%. The overall deposit mix was 63.30% for low cost deposits which is favorably indicative of low cost of funds for better interest margin. This means that the depositors regain their trust and confidence towards the bank after the effect brought by the closure of nearby rural banks. Total Deposits made up of 91.02% of the total bank's liabilities. Out of the total deposits, 90.44% 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



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deposits amounted to P 782,830.00 and P 608,945.00 for the years ended December 31, 2018 and 2017 respectively.

The Bills Payable is secured by the bank's promissory note together with their corresponding collaterals. Outstanding Balance of assets pledged as collaterals as of December 31, 2018 amounted to P 5,417,802.00. These accounts are being reduced thru payment of loans by the borrowers wherein the corresponding collaterals are also retrieved by the bank. Maturity of this borrowing is less than one (1) year from the balance sheet date with interest rates per annum which is in accordance with the prevailing LBP lending rate at the time of availment.

Showing the capital accounts for CY 2018 and 2017

SHAREHOLDERS' EQUITY

Capital Stock	2018	2017	Variance
Common Stock	14,209,200	12,784,700	1,424,500
Retained Earnings	7,253,132	5,031,093	2,222,039
TOTAL SHAREHOLDERS' EQUITY	<u>21,462,332</u>	<u>17,815,793</u>	<u>3,646,539</u>

The total Bank's Capital Accounts 20.47% compared on 2017 as a result of the payment of the subscribed share capital of stockholders. Also stockholders infused fresh capital amounting to P 61,000.00 due to the deficiency on net income for the year 2018. . Under the Bank's capital build-up program, total paid-up capital will reach ₱20,000,000.00 by 2019.

Authorize Ordinary share capital as of December 31, 2018 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 14,209,200 or 142,092 shares as of December 31, 2018,

Showing the Total Income and expense accounts and the percentage of distribution for CY 2018 and 2017

Performance Review

Income Accounts	2018	%	2017	%
Interest Income	8,703,903	74.77	7,327,270	77.71
Non-Interest Income	2,460,495	21.13	2,101,794	22.29
Total	11,164,398	100.00	9,429,064	100.00

Expense Accounts	2018	%	2017	%
Interest Expense	782,830	8.74	608,945	7.47
Compensation	4,665,731	5.21	4,546,594	5.76
Taxes and Licenses	686,096	7.6	573,826	7.04
Other administrative Expenses	1,639,479	18.30	1,709,878	20.97
Depreciation/Amortization	173,651	1.94	187,391	2.29
Provision for Loan Losses	255,824	2.86	83,943	1.03



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Income Tax Expense	755,748	8.44	386,232	4.74
Total Expenses	8,959,359	100	8,153,541	100
Net Income before Income Tax	2,960,787		1,718,486	
Net Income after Tax	2,205,039		1,332,255	
Earnings per Share	15.52		10.42	

We finished the year with P 2,205,039 million net income, which is 65.51% higher than 2017 Net income of P 1,332,255. 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 paid by the stockholders. For 2018, stockholders infused P 60,000.00 for the deficiency on the net income. However, after Net Effect of Adjustments on the just concluded audit by the External Auditors, the bank has reached the targeted net income reflected in the Five (5) Year Strategic Plan of the bank which is P 2.180 million.

RBSMI still 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 endeavors to establish a better position for the years to come.

Quantitative Indicators and Other Ratios

Below are selective quantitative indicators and other ratios relative to the bank:

		2018	2017	Increase/ (Decrease)
Capital Adequacy Ratio	= $\frac{\text{Total Qualifying Capital}}{\text{Net Risk Weighted Assets}}$	21.85%	21.54%	1.44%
Return on Average Equity	= $\frac{\text{Net Income}}{\text{Average Equity}}$	11.23%	8.03%	39.85%
Return on Average Assets	= $\frac{\text{Net Income}}{\text{Average Assets}}$	2.45%	1.64%	49.39%
Net Interest Margin	= $\frac{\text{Net Interest Income}}{\text{Average Interest Earnings Assets}}$	9.66%	8.69%	11.16%
Debt to Equity	= $\frac{\text{Total Liabilities}}{\text{Total Equity}}$	3.44:1	3.74:1	-8.02%

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 21.85% from 21.54% in 2017 brought about by the increase in the bank's capital. The rate of 21.85% is an indicator that the bank is capable to absorb risk proportion to its capital exposures. All other profitability indicators also increased as a result of the increase in the bank's net income. Debt to Equity ratio registered a decrease of 8.02% over the last year's figure, an indication of the bank's less dependence to debt capital.



RISK 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.

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.

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.

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 (1st Line). The controls to mitigate the risks are assessed as to design and effectiveness of the method, Information Security and Compliance (2nd line). The assessments are validated by the Internal Audit (3rd 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 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.

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.



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Additionally, the table below shows the distribution of maximum credit exposure by industry sector of the bank as of December 31, 2018 and 2017.

Maximum Credit Exposure

	2018	%	2017	%
Wholesale and retail trade, repair of motor vehicles	16,488,322	27.11	8,603,619	16.49
Agriculture, Hunting and Forestry	12,240,428	20.13	4,033,684	7.73
Transportation and Storage	0.00	47.30	24,674,986	47.30
Real Estate Activities	16,342,045	26.87	12,546,299	24.05
Activities of Households as Employers, Undifferentiated	1,515,367	2.49	2,310,426	4.43
Goods-and-Services-Producing Activities of Households	14,224,011	23.39	0.00	0.00
Total loan Portfolio	60,810,183	100.00	52,169,014	100.00

As of December 31, 2018, the bank's past due loan increased by P 703,216. The past due ratio of the bank for 2018 and 2017 is 4.48% and 3.71% respectively.

As of December 31, 2018, the bank's regular Loans and Receivables amounted P 59,537,646.00 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 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.



RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

The following are the primary collaterals accepted by the bank:

As to Security	2018	%	2017	%
Real Estate mortgage	43,552,934	97.49	39,335,713	75.40
Deposit Hold-Out	0.00	0.00	0.00	0.0
Chattel Mortgage	1,006,094	2.25	700,001	1.3
Under Fringe Benefits	115,486	0.26	674,090	1.2
Total	44,674,514	100.00	40,709,804	100.00

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:

- 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.

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.

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

	2018	2017
Particulars		
Liquid Assets	34,326,965	33,545,603
Financial ratios		
Liquid Assets to Total Deposits	51.05	51.42

Also, ratio of total deposits over total assets of the Bank for the year 2018 and 2017 is 70.59 % and 77.36% respectively. In addition, total loan portfolio over total deposit liabilities for the year 2018 and 2017 is 92.61% and 76.02% 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 2018, RBSMI continued to strengthen its operational performance to attain its financial target. The banking industry is threatened with the closure of nearby rural banks, nevertheless, RBSMI viewed it as an opportunity to market more depositors and borrowers. Indeed, number of borrowers increased significantly over the years.

Net income of the bank for the year 2018 is P 2,205,039, 39.58% higher than 2018 net income of P 1,332,255. 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.

Anti-Money Laundering Governance and Culture

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.

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.

Risk Management Report

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).



Customer Acceptance

The bank maintains a system of verifying the true identity of its clients by establishing a clearly written and graduated customer acceptance policy and procedure, including set of money laundering risk criteria for clients categorized depending on the risk it may pose to the Bank's operations.

The provision of the bank's MTPP is implemented in a manner that is non-discriminatory to all customer types, ensuring that political exposure, religion, race or ethnic origin are not used as the only basis to deny access to the bank's services.

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 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 Chief Compliance Officer being the Anti-Money Laundering Act Officer attended a seminar on AMLA as Amended in February 21, 2019 at RBAP.

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.

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 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. 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.



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 (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 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.

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.

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 Directors takes 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.

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	9	38,695	23.53%
Mr. Alejandro M. Pulido Jr.	Member	23	8,488	5.16%
Mr. Rafael V. Pulido	Member	4	5,824	3.54%
Ptr. Virginia B. Pacris	Independent Director	3	2	0.0012%
Mr. Carlo A. Cachapero	Independent Director	2	2	0.0012%



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.

List of Board Level Committees

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>

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	Michael P. Asanias- <i>BOD Chairman/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.

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 2018.

Board Attendance: In 2018, the bank held twelve (12) Regular Board Meetings from January to December 2018, two (2) Special Meetings for a total of fourteen (14) Board Meetings.



RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

Directors and Officers	Number of Meetings Attended	
	Regular (12)	Special (2)
Dr. Michael P. Asanias- <i>Chairman</i>	12	2
Mr. Alejandro Pulido Jr.- <i>Member</i>	12	2
Mr. Rafael V. Pulido- <i>Member</i>	12	2
Mr. Carlo A. Cachapero- <i>Independent Director</i>	12	2
Ptr. Viriginia B. Pacris- <i>Independent Director</i>	10	2
Mrs. Vigilina C. Cocson- <i>Chief Compliance Officer</i>	12	2
Mrs. Annabelle M. Bangalan- <i>Internal Auditor</i>	11	-
Mrs. Charmaine A. Tapia- <i>Secretary</i>	12	2

List of BOD, Officers and Senior Management

Name of Director/Officer	Position
Dr. Michael P. Asanias	Director/Chairman
Mr. Alejandro M. Pulido, Jr	Director/President
Mr. Rafael V. Pulido	Director/Manager
Ptr. Viriginia B. Pacris	Independent Director
Mr. Carlo A. Cachapero	Independent Director
Mrs. Charmaine A. Tapia	Acting Corporate Secretary
Mrs. Vigilina C. Cocson	Chief Compliance Officer/AML A Officer
Mrs. Annabelle M. Bangalan	Internal Auditor
Mrs. 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.

Credit Committee

The Credit Committee meets monthly 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>	10
Mr. Alejandro M. Pulido, Jr. – <i>President/Director</i>	10



Mr. Rafael V. Pulido – *Manager/Director*

10

Audit Committee

The Audit Committee meets on a monthly 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 –*Independent Director*

11

Dr. Michael P. Asanias–*Chairman/ Director*

11

Mr. Carlo A. Cachapero – *Independent Director*

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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	Not dedicated to any progress and operations of the bank. Unable to address	Poor



below	any improvement. No Commitment at all.	
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?	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

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 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
March 9-10, 2018	Circular 941	RBAP		MOISES R. SADAMA <i>Loan Officer</i>
July 27-28, 2018	Strategic Human Resource Management Training	RBAP	DR. MICHAEL P. ASANIAS <i>Chairman of the Board</i>	
August 28, 2018	RTD on proposed Amendments to the Risk-Based Capital Adequacy Framework for Stand-Alone Rural Banks	RBAP	DR. MICHAEL P. ASANIAS <i>Chairman of the Board</i>	VIGILINA C. COCSON <i>Chief Compliance Officer</i>
September 24, 2018	Focused Group Discussion at Baguio City	RBAP	DR. MICHAEL P. ASANIAS <i>Chairman of the Board</i>	
October 26-27, 2018	Risk Based Audit Methodology	RBAP		VIGILINA C. COCSON <i>Chief Compliance Officer</i>
December 7-8, 2018	Risk-Based Compliance Program Seminar	RBAP		VIGILINA C. COCSON <i>Chief Compliance Officer</i>
December 14-15, 2018	Risk-Based Audit Training	RBAP		SHIERY ANN O. GALLA <i>General Bookkeeper</i>

Retirement and Succession Policy

The Bank recognizes retirement benefit obligation using the provision of RA 764. The movement in this account are as follows:

	2018	2017
Beginning	P 2,673,602	P 2,238,734
Additional	214,636	430,000
Adjustments	(200,719)	4,868
<u>Ending</u>	<u>P 2,687,519</u>	<u>P 2,673,602</u>

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:



RURAL BANK OF SANCHEZ MIRA (CAGAYAN), INC.

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–Independent Director	Representative	By appointment
Carlo A. Cachapero	Member–Independent 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	Rafael V. Pulido	Shiery Ann O. Galla
Annabelle M. Bangalan	Internal Auditor	Shiery Ann O. Galla	Charmaine A. Tapia
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



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

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
- 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.

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

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.

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



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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.

CORPORATE 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.

- 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,



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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.)

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

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) 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.



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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 (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 Capital already meet the statutory and regulatory requirement with adjusted capital of P 21,462,332.00. The bank declared stock dividends amounting to P 1,715,300.00, still pending for BSP approval. 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. The Bank developed a Five-Year Strategic Plan that aims to meet the required capitalization by the end of 2019.

	2018	2017
Tier 1 Capital	21,157,634.24	17,774,103
Tier 2 Capital	580,394.89	479,898
<u>Total Qualifying Capital</u>	<u>21,738,029.13</u>	<u>18,254,000</u>
Risk weighted Assets	86,551,635.49	84,756,448
Tier 1 Capital Ratio	24.44%	20.97 %
Tier 2 Capital Ratio	0.67%	0.57 %
Capital Adequacy ratio (CAR)	21.85%	21.54%

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.