



# Annual Report

2021

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## Table of Contents

<b>SECTION 1. CORPORATE PROFILE</b>	<b>3</b>
<b>SECTION 2. MESSAGE FROM THE PRESIDENT</b>	<b>5</b>
<b>FINANCIAL HIGHLIGHTS</b>	<b>6</b>
<b>SECTION 3. FINANCIAL &amp; OPERATING HIGHLIGHTS</b>	<b>7</b>
OUR STRATEGY & BUSINESS MODEL	8
2021 PERFORMANCE	12
REPORT ON OPERATIONS	13
<b>SECTION 4. RISK MANAGEMENT</b>	<b>14</b>
<b>SECTION 5. CORPORATE GOVERNANCE</b>	<b>20</b>
<i>BOARD OF DIRECTORS</i>	20
<i>BOARD COMPOSITION &amp; STATISTICS</i>	21
<i>BOARD PERFORMANCE</i>	21
<i>CONTINUING ORIENTATION AND EDUCATION PROGRAM</i>	22
<i>SUCCESSION PLANNING</i>	23
<i>REMUNERATION</i>	23
<i>RELATED PARTY TRANSACTIONS</i>	23
<i>DIVIDEND POLICY</i>	23
<i>CORPORATE SOCIAL RESPONSIBILITY INITIATIVES</i>	23
BOARD OF DIRECTORS	24
SENIOR MANAGEMENT & OFFICERS	25
BOARD COMMITTEES	25
<i>AUDIT COMMITTEE</i>	25
<i>CREDIT COMMITTEE</i>	26
INDEPENDENT CONTROL FUNCTIONS	26
<i>COMPLIANCE</i>	26
<i>INTERNAL AUDIT</i>	26
<i>CONSUMER PROTECTION PRACTICES</i>	27
<b>FINANCIAL STATEMENTS</b>	<b>28</b>
STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS	28
SUPPLEMENTAL STATEMENT OF INDEPENDENT AUDITORS	29
AUDITOR'S OPINION	30
STATEMENTS OF PROFIT OR LOSS	34
STATEMENTS OF CASH FLOWS	35
STATEMENTS OF CHANGES IN EQUITY	36
<b>SECTION 6. PRODUCTS AND SERVICES</b>	<b>37</b>
<b>ORGANIZATIONAL STRUCTURE</b>	<b>38</b>
<b>CORPORATE INFORMATION</b>	<b>39</b>
<i>MAJOR STOCKHOLDERS</i>	39
<i>BANKING UNITS - DIRECTORY</i>	39
<b>COMPLIANCE WITH APPENDIX 63C OF THE MORB-DISCLOSURES IN THE ANNUAL REPORTS AND PUBLISHED STATEMENT OF CONDITION</b>	<b>40</b>

## SECTION 1. CORPORATE PROFILE

Binhi Rural Bank, Inc., previously Rural Bank of Balingasag, is a domestic rural bank founded in 1970. We provide financial services such as: loans primarily for consumers, MSMEs, and agricultural purposes. We also accept savings and time deposits.

Renaming the bank “BINHI”, which is the Filipino word for seed, is the initial step towards aligning the bank’s identity and services to support and empower its clients towards growth. BRBI is driven to continuously develop financial programs to best address the community’s needs.

### CORPORATE VISION

- The BINHI Rural Bank, Inc. (“the Bank”) envisions to become the leading and innovative Rural Bank and micro-finance institution in the country, touching the lives of a great number of entrepreneurial poor.
- To become a Php1 Billion Rural Bank by 2025.

### CORPORATE MISSION

The BINHI Rural Bank, Inc. is a banking institution with the following aims:

- To help entrepreneurial poor to strive towards self-reliance by generating income and capital build-up.
- To be able to formulate innovative financial packages, addressing the needs of the market segments and giving a good financial return of investments for further expansion and growth.
- To be able to flow back retained earnings to operations & to be able to touch more lives in the process.
- To provide professionals milieu for all employees, assuring them good compensation commensurate to their contribution in the growth and development of the company. It shall not be limited to financial rewards but more importantly, the environment where each staff will have room for personal and professional growth.

## CORPORATE BELIEFS

- We believe that success is not measured by wealth, health, position and prestige one has, but by the number of lives we have touched in our lifetime.
- We believe that our existence depends on how we are able to help our clientele, and how relevant our innovative financial packages are to their personal needs.
- We believe that it is not only the financial compensation that we derive from our work that is important, but also our ability to find fulfilment and satisfaction that we realize we are helping a lot of people in the process.
- We believe that the Bank should have a decent return of investment, not for profit as an end, but as a means to be able to reach out more people who need our assistance.
- Lastly, we believe that for the company to sustain its growth and development, all its stakeholders-managers, employees, market, clientele, investors, and owners should be justly compensated.

## SECTION 2. MESSAGE FROM THE PRESIDENT

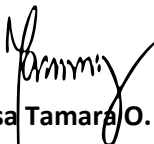
**Dear Fellow Shareholders,**

On behalf of the BRBI team, it is my pleasure to report that despite the continued challenges faced amid the effects of the global pandemic, the Bank has continued to sustain positive income for its 5th year in 2021. Through the concerted efforts of the Board, Management, and most especially the employees, the bank was able to grow its total resources, with deposits reaching the bank's all time high of ~ PHP198million. Moreover, despite the pandemic, loan asset quality though much higher than previous year has been maintained at 11.98%, better than industry benchmarks, with net portfolio gradually increasing –reaching ~ PHP128million.

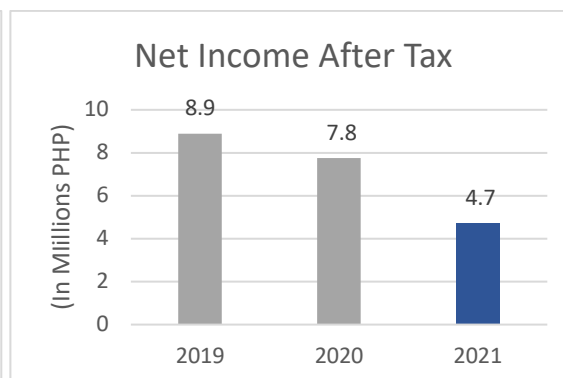
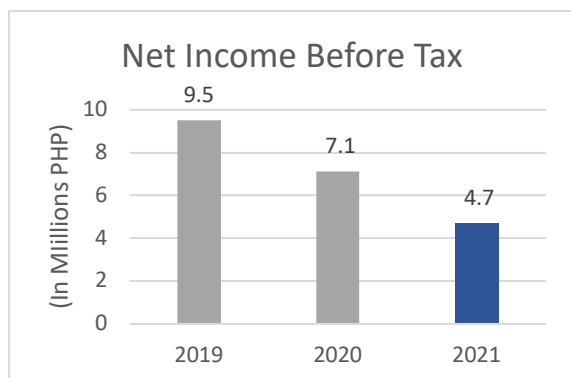
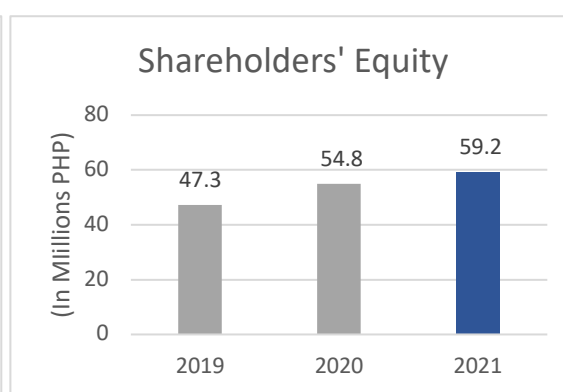
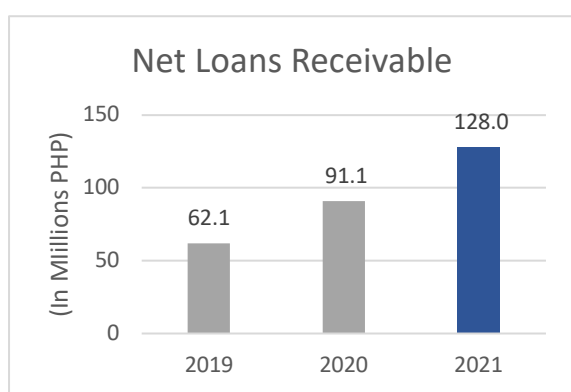
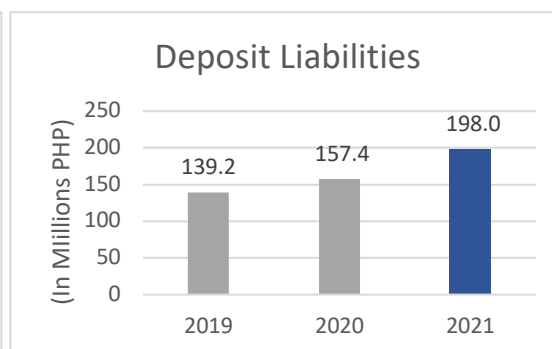
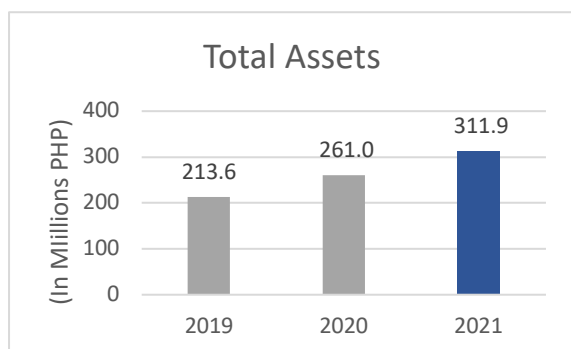
BRBI has also opened two (2) additional Branch Lite Units (BLUs) that have contributed to deposit growth and has begun providing financial services to Sugbongocogon and Claveria.

Moving forward, the bank shall continue on formulating initiatives true to the core of rural banking, that is, rural and community development, by augmenting organizational structure and enhancing products, services and processes.

Presenting herewith, is BRBI's annual report for the year ended December 31, 2021. This report includes the organization's vision, mission and corporate values, including our two (2) year financial highlights.

  
**Melissa Tamara O. Argayoso**  
President

## FINANCIAL HIGHLIGHTS



## SECTION 3. FINANCIAL & OPERATING HIGHLIGHTS

	2021	2020	Change
<b>BALANCE SHEET (in thousands Php)</b>			
Assets	<b>311,945</b>	261,033	20%
Cash & Investments	<b>149,386</b>	133,065	12%
Gross Loans Receivable	<b>135,352</b>	93,564	45%
Deposits	<b>198,031</b>	157,423	26%
Equity	<b>59,160</b>	54,844	8%
<b>INCOME STATEMENT (in thousands Php)</b>			
Net Interest Income	<b>22,798</b>	17,312	32%
Non-Interest Income	<b>16,022</b>	14,627	10%
Gross Operating Income	<b>38,820</b>	31,940	22%
Operating Expenses	<b>29,220</b>	23,277	26%
Impairment Losses	<b>4,908</b>	1,534	220%
Net Profit	<b>4,727</b>	7,751	-39%
<b>FINANCIAL PERFORMANCE INDICATORS</b>			
<b>Profitability</b>			
Return on Average Equity	<b>8.29%</b>	15.19%	-6.90%
Return on Average Assets	<b>1.65%</b>	3.27%	-1.62%
Earnings Per Share	<b>7.69</b>	12.60	-4.91
<b>Margins &amp; Liquidity</b>			
Net Interest Margin	<b>11.06%</b>	10.35%	0.71%
<b>Asset Quality</b>			
Past Due Ratio	13.35%	4.43%	8.92%
Past Due Provision Cover	36.63%	45.60%	-8.97%
<b>Capital and Leverage</b>			
Total Qualifying Capital	57,220	52,737	9%
Capital Adequacy Ratio	22.38%	25.17%	-2.79%
<b>DISTRIBUTION NETWORK &amp; MANPOWER</b>			
Branches	2	2	0
Branch Light Units (BLU)	6	4	2
Employees (Officers & Staff)	81	69	12

## OUR STRATEGY & BUSINESS MODEL

### Revenue Generation

#### a. Loan Portfolio Growth

The pandemic still guides the prudent credit practices of the Bank wherein tighter evaluation is adhered before loan release. This naturally tempered the growth of the bank's loan portfolio. Despite the measured loan releasing of the Bank, BRBI was still able to end with a modest portfolio level of PHP135M:

- i. The Bank recruited empowered Branch/BLU Operating Officers (BOOs) to take part in the marketing efforts for loan client acquisition, particularly secured loans (Php500k to Php3million, SME and/or agri).
- ii. New Product Offerings:
  1. A Building Construction Supervised Credit product was introduced to assist landowners particularly in growing rural communities to construct leasable spaces in commercially zoned areas.
- iii. Motorcycle Loan Releases also increased with the increasing branch network of dealer partner, Ryde N' Go.

#### b. Place liquid assets in interest bearing instruments

While loan portfolio growth may take time to materialize, BRBI's treasury officer continues to manage liquid assets to satisfy the different interests of the bank: (1) optimizing investment yields, (2) just-in-time availability of funds for operations, and (3) capital adequacy ratio requirements.

However, due to (1) lower interest rates available in the market and Bank's preference for (2) short term placements, Y-o-Y income from time deposits and government securities have declined, contributing ~PHP1.2M compared to around PHP1.9M from previous year.

#### c. Aggressive Recovery of Charged Off Accounts and Sale of ROPA

BRBI's net income has been driven in large part due to effective collections from ROPA and ROCOA accounts. This remains true for 2021, wherein Gain On Sale from ROPA Disposal amounted to almost PHP5.579Million. ROCOA slightly increased from PHP3.0M last year to PHP3.4M this year.

We plan to continue pursuing this revenue stream as there is still a sizeable number of accounts to be recovered. Moreover, developing the skill and expertise of the remedial



group in capital recovery from delinquent accounts allows the bank more flexibility in its credit risk taking activities moving forward.

### Improve asset quality of loans receivable

The COVID Pandemic still carried over its adverse effects in the repayment performance of the Bank borrowers. As a result, BRBI's Past Due Ratio increased to 13.35% from 4.43% last year (with ~6.93% identified as Non Performing, also higher than 2020's 2.3% figure). These figures are well above BRBI's 5% Past Due threshold. However, it is important to note that Bank outperformed Industry Benchmark which posted 17.17% PDR (as of Sept 30, 2021 data, published in a Dec 9, 2021 report)

The drivers for the year end PDR are attributable to factors including but not limited to (1) cash flow issues of clients after the expiration of the extension reliefs granted under the Bayanihan Act 1 and 2, (2) tempered loan portfolio growth for the year, and (3) no writing off fully provided non-performing loans.

Moving forward, the Bank will aggressively continue its efforts to improve the asset quality of its loans receivable through the following:

- a. Build and continuously develop the credit risk middle office for centralized processing, administration, and risk mitigation of above Php100,000 loans, comprising of credit analysts, credit investigators and appraisers. A Credit Team Head has also been onboarded in 2020.
- b. Periodic asset quality review independently assessed by the compliance and internal audit teams. Recommended allowance for credit losses shall be booked accordingly.
- c. Proactive resolutions to delinquent accounts:
  - i. For past due performing loans:
    1. Reclassify to current through proper communication and enhanced collection arrangements with clients.
    2. Renew loan accounts on case-to-case basis.
  - ii. For non-performing loans:
    1. Unsecured Loans: Aggressive 100% booking of provision -> Write Off -> Remedial/Litigation/Compromise Agreements
    2. Secured Loans: Booking of provision -> Extrajudicial foreclosure of collateral -> Reclassification to ROPA -> ROPA disposal

## Expense Management

- a. BRBI targets a composite cost of money of  $\leq 2\%$ , as is the case in 2021. Strategies to retain this are as follows:
  - i. Drawdown on rediscounting and other standby credit lines on case-to-case basis, while maintaining a good record to become eligible to lower rates.
  - ii. Periodically (currently on an annual basis) review further deposit rate reduction for savings and time deposit products.
  - iii. Target a minimum 70:30 mix, in favor of low-cost deposits: savings and basic deposit accounts. While we did not achieve the desired mix in 2021, Savings (low cost deposit) already accounts to almost 64% of deposit liabilities.
  
- b. As projected in previous years, operating expenses have increased at a much faster rate than the previous 5 years, as a result of management's decision to beef up its manpower – in key areas such as sales & marketing, cash operations, credit operations, accounting, and systems. Moving forward, as the organization stabilizes, the following metric will be the goal to work towards:

Non-interest expense =  $\leq 60\%$  of Net Interest Margin plus Other Income from loans

## Deposit Generation

BRBI's total deposit grew 26% compared to previous year balances. This is primarily augmented by the opening of BLUs in the rural municipalities of Sugbongcogon and Claveria. Management projects that these operating units will continue to become a good source of deposits as they are currently unbanked/underbanked.

Learning from this experience in Baungon and Balingasag where deposit growth will take time, the Bank intends to focus on developing its presence in more rural communities as a long term campaign effort for low cost funding, as well as to carry out its mission to provide financial services that contribute and support the economic activities and growth in the area.

The management team targets to open one (1) to three (3) units before in 2022.

## Increase Available Rediscounting Lines with Different Institutions

BRBI continues to maintain its rediscounting and credit line facilities with different partners. This is for contingency in case of liquidity crunches in the future.

- a. Landbank of the Philippines (LBP)

- b. Department of Trade – Small Business Corporation (DTI – SBC)
- c. Bangko Sentral ng Pilipinas (BSP)
- d. Banco de Oro (BDO)
- e. Development Bank of the Philippines (DBP)

#### Enhance and Optimize Information Technology System to support expansion program

BRBI's core banking system from Byte per Byte Software Center (BPB) allows the management and control units access to timely information necessary for decision and policy-making. At the time of writing, system and process enhancement and manpower training is a continuing work-in-progress.

#### Augment manpower complement to support key functions in the bank

BRBI has begun the process of formalizing its organizational structure fit for its size and immediate expansion plans. By properly delineating the key roles and responsibilities, BRBI can grow faster with proper checks and balances wherein key officers focus and specialize on their functions and milestones.

## 2021 PERFORMANCE

With the bank's eight (8) operating units, we have posted our 5th consecutive profitable year, at PHP4.7Million net profit, despite the residual challenges brought by the pandemic.

Gross Loans Receivable increased by 45%, ending the year at almost PHP135.35 million. This growth is similar to 2020's 44% YOY loan growth. As previously mentioned, Past Due Ratio increased to 13.35%, surpassing industry benchmarks posted at over 17%. Year-End total deposits rose by 26% to PHP198 million, with 64% comprising of low-cost Savings deposits.

Interest income from loan receivables grew by 35%, despite the collections being affected by pandemic. Modest but steady loan releases gave the bank better growth rate for this item than previous year. The bank projects that this uptrend in loan releases will boost the profitability of bank's lending operations.

Non-Interest income contributed a healthy PHP16 million, higher by 10% from previous year. Recoveries on Charged Off Assets and Miscellaneous Income both slightly improved by 14% and 102% respectively, offsetting the decrease in Gain on Sale which is 25% lower compared to 2020 income.

Meanwhile, operating expenses also rose only by 22% to PHP29.22 million primarily, which is a slower rate than 2020's 39%. This is still primarily driven by the Bank's investment in manpower, and partly by the opening of the new BLUs.

In an effort to fortify the balance sheet, BRBI's provisions for credit losses now amounts to PHP7.4 million to cover for bad debts. Our SLL Provision cover for Past Due Loans is currently at 37%.

The Bank's capital base is now at PHP 59.16 million, with Capital Adequacy Ratio of 22.38%, well-above industry required 10%.

BRBI believes that with these metrics, it is positioned well for continued growth and expansion for the year 2022.

## REPORT ON OPERATIONS

BRBI provides basic banking products and services, specifically lending & deposit-taking.

### LENDING BUSINESS

BRBI's loan portfolio ended with a 62:38 mix, with PHP84 million secured loans to PHP51 million unsecured. Secured loans grew by 53% compared to the year prior, while unsecured loans by 32%.

Another key product that continues to perform is the Motorcycle Finance product accounting to PHP27.6 million, more than doubling 2020's year-end figure. This is in line with the Bank's thrust to capture the growing motorcycle market in the country. Motorcycle loans portfolio is a result of the bank's focus for unsecured consumer loans which shifted from salary loans.

Looking ahead, BRBI intends to grow the secured SME and agricultural loan segment, while keeping the upward momentum of the motorcycle finance product as well. Further, BRBI will continue to innovate and develop new loan products that will suit the needs of its customers, all while keeping the discipline to balance growth with loan quality and ensuring proper risk-return trade-offs are maintained.

### DEPOSIT TAKING BUSINESS

BRBI's deposit portfolio has continued its upward trend, posting a 26% YOY growth, double the rate of 2020. The Bank continues to benefit from good relations as well as the progress and development of the locality served, primarily in Balingasag, while building its roots in the localities of our newly opened BLUs.

The programmed gradual decrease in interest rates have allowed the bank to enjoy below 2% p.a. cost of deposit liabilities.

### TREASURY ACTIVITIES

While BRBI's is gradually building its loan portfolio, excess liquidity have been placed in Time Deposits and Government securities. This has generated additional PHP1.1 million in interest income, ~40% lower than the year prior. This is brought by lower interest rates, and the bank's decision to keep placements short-term to address any potential, unexpected withdrawals from depositors due to pandemic fears.

Additionally, to diversify fund sourcing and future proofing for any liquidity gaps, BRBI has established and maintained standby credit and rediscounting lines.

## SECTION 4. RISK MANAGEMENT

BRBI's Board and Management is very conscious of the importance of sound business practices. Rooted in the pursuit of the Bank's growth and profitability is the sense of responsibility to its customers—especially depositors, its stakeholders—shareholders and employees, and to the regulators. As such, risk management is part and integral to our decision making processes as we formulate and implement strategies and plans.

### OVERALL RISK MANAGEMENT CULTURE AND PHILOSOPHY

In any environment, the existence of risk associated with uncertainty is prominent. In the regulated banking sector, its share of risk evolves daily as it exposes itself to the many financial and non-financial capsules that it lives on.

BRBI continues to evaluate and study critical areas of risk in banking for proper identification, measurement, monitoring and mitigation.

### RISK APPETITE AND STRATEGY

To achieve BRBI's vision, it is vital to ensure a fortified balance sheet while pursuing revenue generating risk activities.

- Maintaining a Capital Adequacy Ratio well above Industry Requirements
- Maintaining and Managing Stable and Growing Fund Sources to Ensure Liquidity
- Continuous Enhancement of Skills and Processes in Credit Management & Revenue Generation

The Board sets, approves, and monitors the risk limits of different Bank activities especially in terms of Credit and Liquidity management. Other risk factors including but not limited to Operational Risk, Interest Rate Risk, Market Risk, Regulatory Risk, Reputational Risk, Compliance Risk, and Technology Risk are being reviewed and improved as the Bank's operations and activities continue to develop.

Management, with Board Oversight, and counter checks conducted by our Internal Audit and Compliance Teams, work in concert to create a culture of risk mitigation and control, documented by policies and procedures. This will be a continuous work-in-progress to become more responsive to the bank's operations and regulatory environment.

### BANK-WIDE RISK GOVERNANCE STRUCTURE

BRBI's Board of Directors takes on the ultimate responsibility and oversight of establishing and maintaining an effective risk management system to ensure that sound business practices and ethical standards are upheld, while also ensuring that regulatory frameworks are complied. It

shall regularly identify, assess, monitor, mitigate, and control the different risk areas present in the practice of banking services.

New policies and procedures are ultimately approved by the Board of Directors to ensure that such activities are aligned to the business strategy set and within the bank's risk tolerance.

Due to the current number of BOD members, only the following Board Level Committees have been constituted:

1. *Credit Committee* – Responsible for the approval of Credit-Specific Bank Transactions.
2. *Audit Committee* – Responsible for assessing effectiveness and independence of the bank's internal audit function and evaluation of controls over (1) financial reporting, (2) effectiveness of operations, and (3) compliance with laws and regulations.

## RISK MANAGEMENT PROCESS

The Risk Management Process is cultivated by conducting monthly reviews of performance across the different areas and activities in the bank, as reported by Management, but checked further by Compliance and Internal Audit.

At the Business Level, the Board of Directors in conjunction with the Management Committee formulate limits and evaluate actual performance of the bank as a whole.

At the Transaction Level, risk is managed by ensuring that each risk-taking activity has certain levels of dual or multiple controls, commensurate with its potential effect on the Bank's condition and performance.

## AML GOVERNANCE AND CULTURE

Binhi Rural Bank, Inc., develop sound risk management policies and practices that ensure risks associated with money laundering such as counterparty, reputational, operational, and compliance risks are identified, assessed, monitored, mitigated, and controlled, as well as ensuring that the bank shall not be used as a vehicle to legitimize proceeds of unlawful activity or to facilitate or finance terrorism.

The Four (4) 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 controls and audit.

1. Board and Senior Management Oversight – notwithstanding the provisions specifying the duties and responsibilities of the Compliance office and internal audit, it shall be the ultimate responsibility of the Board of Directors to fully comply with the provisions

of AMLA, as amended, and its RIRR. It shall ensure that oversight on the covered AML/combating the financing of terrorism (CFT) compliance management is adequate. Senior Management shall oversee the day-to-day management of BINHI RURAL BANK, INC., ensure effective implementation of AML/CFT policies approved by the Board and alignment of activities with the strategic objectives, risk profile, and corporate values set by the Board. Senior management shall establish a management structure that promotes accountability and transparency and upholds checks and balances.

- a. Compliance office. Management of the implementation of the BINHI RURAL BANK, INC.'s Money Laundering and Terrorist Financing Prevention Program (MLPP) shall be a primary task of 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 or approved committee on all matters related to AML and TF compliance and their risk management. It shall be principally responsible for the following functions among other functions that may be delegated by senior management and the board, to wit:
  - i. Ensure compliance by all responsible officers and employees in the AMLA, as amended, the RIRR and its own MLPP. It shall conduct periodic 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 money laundering transaction monitoring system and record retention system through sample testing and review of audit or examination reports. It shall also report compliance findings to the board or any board-level committee;
  - ii. Ensure that infractions, discovered either by internally initiated audits, or by special or regular examination conducted by the Bangko Sentral, or other applicable regulators, are immediately corrected;
  - iii. Inform all responsible officers and employees of all resolutions, circulars and other issuances by the Bangko Sentral and the AMLC in relation to matters aimed at preventing ML and TF;
  - iv. Alert senior management, the board of directors, or the board-level or approved committee if it believes that the BINHI RURAL BANK, INC. is failing to appropriately address AML/CFT issues; and
  - v. Organize the timing and content of AML training of officers and employees including regular refresher trainings

## 2. Money Laundering and terrorist financing prevention program



BINHI RURAL BANK, INC. shall adopt a comprehensive and risk-based MLPP geared toward the promotion of highly ethical and professional standards and the prevention of the bank being used, intentionally or unintentionally, for money laundering and terrorism financing. The MLPP shall be consistent with the AMLA, as amended, its RIRR and the provisions set out and designed according to the BINHI RURAL BANK INC.'s corporate structure and risk profile. It shall be in writing, approved by the board of directors or by the country/regional head or its equivalent for local branches of foreign banks, and well disseminated to all officers and staff who are obligated by law and by their program to implement the same. Where BINHI RURAL BANK, INC. has branches, subsidiaries, affiliates or offices located within and/or outside the Philippines, there shall be a consolidated ML/TF risk management system to ensure the coordination and implementation of policies and procedures on a group-wide basis, taking into account local business considerations and the requirements of the host jurisdiction.

The MLPP shall also be readily available in user-friendly form, whether in hard or soft copy. The BINHI RURAL BANK, INC. must put up a procedure to ensure an audit trail evidencing dissemination process for new and amended policies and procedures. The program shall embody the following at a minimum:

- a. Detailed procedures of the BINHI RURAL BANK, INC.'s compliance and implementation of the following major requirements of the AMLA, as amended, its RIRR, and this section, to wit:
  - i. Customer identification process including acceptance policies and on-going monitoring processes;
  - ii. Record keeping and retention;
  - iii. Covered transaction reporting; and
  - iv. ST reporting including the adoption of a system, electronic or manual, of flagging, monitoring and reporting of transactions that qualify as suspicious transactions, regardless of amount or that will raise a "red flag" for purposes of conducting further verification or investigation, or transactions involving amounts below the threshold to facilitate the process of aggregating them for purposes of future reporting of such transactions to the AMLC when their aggregated amounts breach the threshold. The ST reporting shall include a reporting chain under which a ST will be processed and the designation of a board-level or approved committee who will ultimately decide whether or not the BINHI RURAL BANK, INC. should file a report to the AMLC. If the resources of the BINHI RURAL BANK, INC. do not permit the designation of a committee,

it may designate the compliance officer to perform this function instead: Provided, That the board of directors is informed of his decision.

- v. An effective and continuous AML/CFT training program for all directors, and responsible officers and employees, to enable them to fully comply with their obligations and responsibilities under this section, the AMLA, as amended, its RIRR and their internal policies and procedures as embodied in the MLPP. The training program shall also include refresher trainings to remind these individuals of their obligations and responsibilities as well as update them of any changes in AML laws, rules and internal policies and procedures.
- vi. An adequate screening and recruitment process to ensure that only qualified personnel who have no criminal record/s are employed to assume sensitive banking functions;
- vii. An internal audit system in accordance with this Section;
- viii. An independent audit program with written scope of audit that will ensure the completeness and accuracy of the information and identification documents obtained from clients, the covered and suspicious transactions reports submitted to the AMLC, and the records retained in compliance with this section as well as adequacy and effectiveness of the training program on the prevention of money laundering and terrorism financing;
- ix. A mechanism that ensures all deficiencies noted during the audit and/or Bangko Sentral regular or special examination or other applicable regulator's examination are immediately corrected and acted upon;
- x. Cooperation with the AMLC;
- xi. Designation of an AML compliance officer, who shall at least be at senior officer level, as the lead implementor of the program within an adequately staffed compliance office. The AML compliance officer may also be the liaison between the BINHI RURAL BANK, INC., the Bangko Sentral and the AMLC in matters relating to the BINHI RURAL BANK, INC.'s AML/CFT compliance. Where resources of the BINHI RURAL BANK, INC. do not permit the hiring of an AML compliance officer, the compliance officer shall also assume the responsibility of the former; and
- xii. A mechanism where information required for customer due diligence and ML/TF risk management are accessible by the parent bank/entity and information are freely shared among branches, subsidiaries, affiliates and offices located within and/or outside the Philippines. Exchange of information among branches, subsidiaries, affiliates, and offices located within and/or

outside the Philippines shall not be deemed a violation of Rule 9, Item C of the RIRR as long this is done within the group. The MLPP may require a potential and/or existing customer to sign a waiver on the disclosure of information within the group.

3. Monitoring and Reporting Tools – BINHI RURAL BANK, INC. shall adopt an AML/CFT monitoring system that is appropriate for their risk profile and business complexity and in accordance with this section. The system should be capable of generating timely, accurate and complete reports to lessen the likelihood of any reputational and compliance risks, and to regularly apprise the board of directors and senior management on AML/CFT compliance.
4. Internal audit. The internal audit function associated with money laundering and terrorist financing should be conducted by qualified personnel who are independent of the office being audited. It must have the support of the board of directors and senior management and have a direct reporting line to the board or a board-level audit committee.
5. Risk assessment. Consistent with a risk-based approach, BINHI RURAL BANK, INC. is required to identify, understand and assess their ML/TF risks, arising from customers, countries or geographic areas of operations and customers, products, services, transactions or delivery channels. The assessment methodology shall be appropriate to the nature of operations and complexity of the business of the BINHI RURAL BANK, INC.

## SECTION 5. CORPORATE GOVERNANCE

As a fiduciary institution, BRBI is committed towards building an organization that upholds ethical standards, grounded by the principles of integrity, transparency and accountability.

### *GOVERNANCE STRUCTURE*

#### BOARD OF DIRECTORS

BRBI's Board of Directors takes on the ultimate responsibility and oversight for good governance, while providing direction and strategic guidance towards the long-term success of the organization by formulating the Bank's vision, mission, strategic objectives, policies and procedures.

It shall regularly review the financial plans and budgets, as well as evaluate and oversee capital expenditures, senior management performance, internal control systems, risk management systems, financial reporting and compliance, related party transactions, and other such key business affairs essential to sustain competitiveness and profitability consistent with corporate objectives and the best interest of its stakeholders.

The Board is composed of 5 members. It is led by a Non-Executive Chairperson with 2 Independent Directors, 1 Non-Executive Director and 1 Executive Director who concurrently serves as Bank President. Non-Executive Directors, who include Independent Directors, comprise 80% of the board. The two Board Committees namely the Audit Committee and Credit Committee are chaired by Independent Directors. This provides independent and objective judgement on key issues.

The Board is responsible for selection of nominees for directors, for eventual appointment or election. It leads the process of evaluating the qualifications, background, skills, knowledge, experience of any incoming director against the requirements of the Bank, as well as the individuals.

The Board is also responsible for approving the appointment of competent senior management led by the President, as well as control function heads such as the Chief Compliance Officer and the Chief Audit Executive. Likewise, proper standards are applied in this selection process giving utmost importance to integrity and technical expertise.

The Chairman of the Board provides leadership among the Board of Directors to ensure effective functioning of the board and ensuring that decisions made are sound and informed.

Annual review of Board composition will be conducted to ensure appropriate balance of skills, experience, and compliance to new regulations.

During the year, Board composition was not changed.

## BOARD COMPOSITION & STATISTICS

Name of the Member of the Board	Director Independence	Years Serving	Number of direct and indirect shares held	Percent to Total Outstanding Shares	Age	Background	Director Diversity
Ofelia A. Paguio	Non-Executive	8	123,138.00	20.02%	61	Entrepreneur	Female
Edward V. Argayoso	Non-Executive	8	122,860.00	19.98%	58	Entrepreneur	Male
Melissa Tamara O. Argayoso	Executive	3	92,250.00	15.00%	29	Banker	Female
Leonardo C. Sescon, Jr.	Independent Director	6	1.00	0.00%	67	Banker	Male
Manolo G. De Leon	Independent Director	5	1.00	0.00%	73	Entrepreneur	Male

Name of the Member of the Board	Director Independence	No of Meetings Attended	% Attendance
Ofelia A. Paguio	Non-Executive	12	100%
Edward V. Argayoso	Non-Executive	12	100%
Melissa Tamara O. Argayoso	Executive	12	100%
Leonardo C. Sescon, Jr.	Independent Director	12	100%
Manolo G. De Leon	Independent Director	12	100%

## BOARD EFFECTIVENESS

### BOARD PERFORMANCE

Annual self-assessment is conducted to evaluate performance of the Board, Directors, Committees and Senior Management, using a standard set of questionnaires. For 2021, the self-assessment test has been duly complied.

## CONTINUING ORIENTATION AND EDUCATION PROGRAM

The continuing education program ensures enhancement of skills and training from directors to employees. Each Director is required to attend a corporate governance seminar. Listed below are the training and seminars attended as of 2021:

Name of Director	Position	Birthdays	Date Elected/ Appointed	Educational Attainment	Shares Held	BSP & Other Trainings Attended
Ofelia A. Paguio	Director	March 13, 1961	November 6, 2013	BSBA Banking & Finance	123,138	New Accounts Clerk Corporate Governance Seminar-Workshop on Anti-Money Laundering (AML) and Briefing on the New AML Reporting Template
Edward V. Argayoso	Chairman of the Board	December 24, 1963	November 6, 2013	BS Mathematics	122,860	Rural Bank Management Course Corporate Governance Seminar-Workshop on Anti-Money Laundering (AML) and Briefing on the New AML Reporting Template Corporate Governance Asset and Liability Management for Countryside Financial Institutions Credit Risk Management Remedial Management Seminar 36th Annual Mindanao Credit Conference Advance Corporate Governance Course (Condensed Professional Directors Program for Rural Banks) Annual Credit Conference
Melissa Tamara O. Argayoso	President/Director	December 13, 1992	March 23, 2018	BS Management	92,250	Treasury Certification Program 36th Annual Mindanao Credit Conference Seminar-Workshop on Anti-Money Laundering (AML) and Briefing on the New AML Reporting Template Risk-Based Compliance Program Seminar Strengthening Internal Control System in Rural Banks Corporate Governance Course For Rural Bank Directors And Officers Delinquency and Fraud Management in Rural Banks
Leonardo C. Sescon, Jr.	Independent Director/Credit Committee Chairman	September 30, 1954	February 13, 2015	BS Commerce/Accounting	1	Core Credit Seminar Credit Initiation Process Customer Service Excellence Residential Free Patent Act of 2010 Corporate Governance Seminar-Workshop on Anti-Money Laundering (AML) and Briefing on the New AML Reporting Template Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) Training workshop
Manolo G. De Leon	Independent Director/Audit Committee Chairman	August 28, 1948	August 18, 2016	BS Industrial Engineering	1	Corporate Governance Seminar-Workshop on Anti-Money Laundering (AML) and Briefing on the New AML Reporting Template Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) Training workshop

## SUCCESSION PLANNING

The Board of Directors is responsible for the Bank's succession plan for the Board and senior management and setting up the succession framework and spearheading leadership development plans for senior and middle management. The succession framework and program shall be subjected to periodic review and as the need arises.

## REMUNERATION

BRBI's remuneration policy is approved by the Board geared towards retaining and motivating employees and members of the Board, as well as to start attracting new talent on board. The framework includes fixed-pay, performance-based increases, as well as provision for performance-driven incentives.

## RELATED PARTY TRANSACTIONS

BRBI's approved RPT policy includes the definition of related parties, the transactions covered by the policy, guidelines in ensuring proper arm's-length treatment of every transaction, identification and sound judgement to curb potential conflicts of interests, setting of internal limits for individual and aggregate exposures as prescribed in the MORB, establishment of whistle blowing mechanisms to encourage employees to raise questionable RPTs, and restitution of losses and other remedies for abusive RPTs.

BRBI ensures thorough evaluation of RPTs, and likewise submits to the BSP material exposures to related parties.

## DIVIDEND POLICY

BRBI has not yet begun declaring dividends.

## CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

BRBI has not yet begun CSR activities.

## BOARD OF DIRECTORS

### EDWARD V. ARGAYOSO

CHAIRMAN

Non – Executive Director

Edward is 58 years old and has been a member of the Board of Directors for 8 years and serves as Chairman of the Board. Concurrently, he is a member of the Credit Committee. Outside the finance industry, he has other businesses in agriculture, real estate and food sectors.

### OFELIA A. PAGUIO

Non – Executive Director

Ofelia is 59 years old and has been a member of the Board of Directors for 8 years. Concurrently, she is member of the Audit Committee. Outside the Bank, she has other businesses in agriculture and food sectors.

### MELISSA TAMARA O. ARGAYOSO

Executive Director

Melissa is 29 years old and has been a member of the Board of Directors for almost 4 years. Concurrently, she is member of the Credit Committee. Prior to BRBI, she began her career in banking with Unionbank of the Philippines.

### LEONARDO C. SESCON, JR.

Non - Executive Director

Leonardo is 67 years old and has been a member of the Board of Directors for 6 years. Concurrently, he is Chairman of the Credit Committee. Prior to joining the Board of BRBI, he has a storied career in banking, particularly in lending operations, having been previously connected with Secured Savings Bank, PCI Bank, Siam Bank, Penbank and Queenbank.

### MANOLO G. DE LEON

Non - Executive Director

Manolo is 73 years old and has been a member of the Board of Directors for 5 years. Concurrently, he is Chairman of the Audit Committee. Prior to joining the Board of BRBI, he served in various Boards including Copel and Ilipco, and has agri-related businesses.



## Senior Management & Officers

**CALVIN CEAZAR D. EMATA**  
VP-Operations

**FRANCES JOY G. TAN**  
Treasurer

**MERLYN D. CADELIÑA**  
Chief Compliance Officer

**MARISSA O. ARGAYOSO**  
Corporate Secretary

**ALDREN S. MASAS**  
Credit Head

## Board Committees

The Board has established two (2) committees to help in discharging of its duties and responsibilities. These committees derive their authority from and report directly to the Board, with specific scopes of responsibility. They are subject to annual review, update and or change. The committee is chaired by an Independent Director.

### AUDIT COMMITTEE

A 3-person committee chaired by Manolo G. De Leon, with Leonardo C. Sescon, Jr. and Ofelia A. Paguio as members. Functions are:

1. Investigation of any matter within its terms of reference, with full access to and cooperation by management.
2. Ensuring annual review of the soundness and effectiveness of internal controls, including financial, operations and compliance controls, risk management.
3. Setting up and organizing the internal audit department.
4. Assisting the Board in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process, and monitoring of compliance with applicable laws and regulations.
5. Providing oversight over Management's activities in managing credit, market, liquidity, operation, legal and other risks of the Bank.
6. Performing oversight functions over the corporation's internal and external auditors, ensuring that they act independently from each other, and reviewing reports submitted
7. Reviewing and approving the internal audit plan including all major changes thereafter, to ensure its conformity with the objectives of the Bank.

In 2021, there was no Audit Committee Meeting.

## CREDIT COMMITTEE

A 3-person committee chaired by Leonardo C. Sescon, Jr. with Edward V. Argayoso and Melissa Tamara O. Argayoso as members. The Credit Committee is responsible for the credit decision for loan application with endorsements above PHP1 Million up to PHP 5 Million.

In 2021, all Credit Committee agenda were taken up during Board Meetings.

## Independent Control Functions

### COMPLIANCE

BRBI's Compliance Office, through the Chief Compliance Officer (CCO) designs the Bank's Compliance System with review of implementation through a Compliance Program. The CCO reports directly to the Board of Directors & Audit Committee. This unit is responsible in the review of the (1) minutes of the Board of Directors and Audit Committee meeting (2) Internal audit's results of examinations; (3) Results of Bangko Sentral ng Pilipinas regular and special examinations; (4) compliance of products, services and processes; (5) compliance of filing of income tax returns and remittance of taxes due to the Bureau of Internal Revenue (BIR). The Compliance unit also (a) conducts visitation operating units / branches / units / departments of the Bank; (b) reviews submission of mandatory reports to the regulatory bodies by the accounting department to the BSP, PDIC, AMLC and Other agencies; (c) undertakes all other activities to measure and record the results of the compliance and non-compliance with banking laws, rules and regulations.

The Bank, through Compliance, aims to enhance profitability within the limitation of regulatory requirements and good business practice. Given the importance of this role, the compliance function remains independent at all times from the business activities of the Bank, but shall have right (1) to access information to carry out its responsibilities, (2) to conduct investigations of possible breaches of the compliance policy.

### INTERNAL AUDIT

The Audit function of BRBI is supervised by and directly reports to the Board Audit Committee. It provides reasonable assurance on (1) the achievement of objectives through efficient and effective operations, (2) reliable, complete and timely financial and management information; and (3) compliance with applicable laws, regulations, supervisory requirements and Bank's policies and procedures.

## CONSUMER PROTECTION PRACTICES

The Board and Senior Management are responsible for developing the bank's consumer protection strategy and establishing an effective oversight over the bank's consumer protection programs.

While Senior Management is responsible for the implementation of the consumer protection policies approved by the Board, the latter shall be responsible for monitoring and overseeing the performance of Senior Management in managing the day to day consumer protection activities of the bank. The Board may also delegate other duties and responsibilities to Senior Management and/or Committees created for the purpose but not to the function of overseeing compliance with the BSP-prescribed Consumer Protection Framework and the bank's own Consumer Protection Framework.

The Board and Senior Management periodically review the effectiveness of the CPRMS, including how findings are reported and whether the audit mechanisms in place enable adequate oversight. The Board and Senior Management also ensure that sufficient resources have been devoted to the program. The Board and Senior Management also make certain that CPRMS weaknesses are addressed and corrective actions are taken in a timely manner.

Continuing education of personnel about Consumer Protection laws, rules and regulations as well as related bank policies and procedures is essential to maintaining a sound Consumer Protection Compliance Program. Bank ensure that all relevant personnel, specifically those whose roles and responsibilities have customer interface, receive specific and comprehensive training that reinforces and helps implement written policies and procedures on consumer protection. The bank institutes a Consumer Protection Training Program that is appropriate to its organization structure and the activities it engages. The training program is able to address changes in consumer protection laws, rules and regulations, and to policies and procedures and should be provided in a timely manner.

Effective implementation is reviewed by the Internal Audit and Compliance Units, independently.

Consumer Assistance Group/Head Consumer Assistance Officer. The Consumer Assistance Group/Head Consumer Assistance Officer shall, as a minimum, perform the following:

1. Monitor consumer assistance process
2. Keep track, identify, and analyze the nature of complaints and recommend solutions to avoid recurrence;
3. Report to senior management the complaints received on a monthly basis including reasons for such complaints, the recommended solutions to avoid recurrence, and the suggestions for process or personnel competency needing improvement; and
4. Ensure immediate escalation of any significant complaint to the concerned unit of the Bank.

# FINANCIAL STATEMENTS

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

The management of Binhi Rural Bank, Inc. [Formerly: Rural Bank of Balingasag (Misamis Oriental), Inc.] is responsible for the preparation and fair presentation of its financial statements including the schedules attached therein, for the years ended December 31, 2021 and 2020, in accordance with Philippine Financial Reporting Standards (PFRSs), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.


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


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

The Board of Directors reviews and approves the financial statements and submits the same to the shareholders of the Bank.

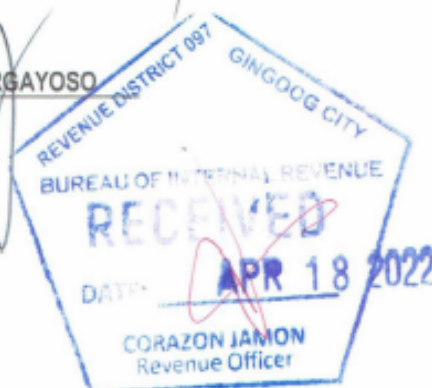
Lope Laranjo Bato & Co., CPAs, the independent auditors appointed by the Board of Directors for the period December 31, 2021 and 2020, have audited the financial statements of the Bank in accordance with Philippine Standards on Auditing, and in their reports to the Board of Directors, have expressed their opinions on the fairness of presentation upon completion of such audits.

February 15, 2022, Cagayan de Oro City, Philippines

  
EDWARD V. ARGAYOSO  
Chairman of the Board

  
CALVIN CEAZAR D. EMATA  
VP-Operations/Acting CFO

  
MELISSA TAMARA O. ARGAYOSO  
President / CEO



SUPPLEMENTAL STATEMENT OF INDEPENDENT AUDITORS

**Firm's Accreditations:**  
 BOA Accreditation No. 6358  
 Valid until September 13, 2024  
 BIR Accreditation No. 16-006925-000-2020  
 Valid until September 22, 2025  
 SEC Group C Accreditation No. 6358-SEC  
 Valid until December 31, 2025  
 BSP Group B Accreditation No. 6358-BSP  
 Valid until December 31, 2025  
 NEA Accreditation No. 2020-12-00068  
 Valid until December 10, 2023  
 CDA Accreditation No. 120-AF  
 Valid until April 7, 2024

**Branches:**

**Metro Manila Office**  
 Unit 827, South Star Plaza  
 Osmeña Highway  
 Benghal, Malati City  
 Cell (063)9177024175  
 jumbato@yahoo.com

**Cebu Branch**  
 c/o Reyes & Bato Consulting  
 Reyes Building  
 A. Del Rosario Street, Guizo,  
 Manduae City 6014  
 Cebu Province  
 Tel. No.: (032)272-3140

**Davao Branch**  
 2/F HP Outsourcing Building  
 Aurora Quizon corner  
 Bonifacio Streets  
 Davao City 8000 Philippines  
 Tel. No.: (082)300-5509

**General Santos Branch**  
 2/F AIM Medical Specialist  
 Bldg.  
 Aradaza St., Ergy- Lagao,  
 General Santos City  
 Tel. No.: (083)305-2509

**Butuan Branch**  
 No. 3373 Gacho Apartment  
 Charms Villa II, T. Esté. Fat.  
 Butuan City 8600  
 Tel. No.: (085)342-1946

**Ozamiz Branch**  
 C/F Medina Building  
 Gallardo Street  
 Ozamiz City  
 Tel. No.: (088)564-3591

**Malaybalay Branch**  
 2F Jamstar Building  
 Judge P. Carillo Street  
 Malaybalay City, Bukidnon  
 Tel. No.: (088)314-0694


**Siquijor Branch**  
 2F New Public Market Bldg.  
 Poblacion Siquijor, Siquijor  
 6225 Philippines  
 Tel. No.: (035) 480-9320

**SUPPLEMENTAL STATEMENT OF INDEPENDENT AUDITORS**

The Board of Directors  
**BINHI RURAL BANK, INC. .**  
**[FORMERLY: RURAL BANK OF BALINGASAG (MISAMIS ORIENTAL), INC.]**  
 Poblacion, Balingasag  
 Misamis Oriental

We have audited the financial statements of **BINHI RURAL BANK, INC. [FORMERLY: RURAL BANK OF BALINGASAG (MISAMIS ORIENTAL), INC.]** for the year ended December 31, 2021, in accordance with the Philippine Standards in Auditing (PSA) on which we have rendered the attached report dated February 15, 2022. We obtained a certification from the Bank's Corporate Secretary as to the number of stockholders and their corresponding shareholdings as at December 31, 2021 and conducted certain tests necessary to validate the related Bank's entries and balances.

In compliance with SRC Rule 68, we are stating that the said Bank has a total of sixty (60) stockholders owning one hundred (100) or more shares each as of December 31, 2021.

  
**LOPE L. BATO, JR.**  
 Managing Partner  
 CPA Cert. No. 73964

BIR Accreditation No. 16-006925-001-2020, valid until September 22, 2023  
 SEC Group C Accreditation No. 73964-SEC, valid until December 31, 2025  
 BSP Group B Accreditation No. 73969-BSP, valid until December 31, 2025  
 PTR No. 5226009- A, January 3, 2022, Cagayan de Oro City

February 15, 2022  
 Cagayan de Oro City, Philippines



**Firm's Accreditations:**  
 BOA Accreditation No. 6358  
 Valid until September 13, 2024  
 BIR Accreditation No. 16-006925-000-2020  
 Valid until September 22, 2023  
 SEC Group C Accreditation No. 6358-SEC  
 Valid until December 31, 2025  
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 Valid until December 31, 2025  
 NEA Accreditation No. 2020-12-00068  
 Valid until December 10, 2023  
 CDA Accreditation No. 120-AF  
 Valid until April 7, 2024

## REPORT OF INDEPENDENT AUDITORS

### Branches:

#### Metro Manila Office

Unit 827, South Star Plaza  
 Osmeña Highway  
 Bangkal, Makati City  
 (063)917-7024175  
[jurbato@yahoo.com](mailto:jurbato@yahoo.com)

#### Cebu Branch

c/o Reyes & Bato  
 Consulting  
 Reyes Building  
 A. Del Rosario Street,  
 Guizo,  
 Mandaua City 6014  
 Cebu Province  
 Tel. No.: (032)272-3140

#### Davao Branch

2/F HP Outsourcing Building  
 Aurora Quezon corner  
 Bonifacio Streets  
 Davao City 8000 Philippines  
 Tel. No.: (082)300-5509

#### General Santos Branch

2/F AJM Medical Specialist  
 Bldg.  
 Arradaza St., Brgy. Lagao  
 General Santos City  
 Tel. No.: (083)305-2569

#### Butuan Branch

No. 3373 Gacho  
 Apartment  
 Charito Ville II, T. Calo Ext.  
 Butuan City 8600  
 Tel. No.: (083)300-4835

#### Ozamiz Branch

G/F Medina Building  
 Gallardo Street  
 Ozamiz City  
 Tel. No.: (088)564-3481

#### Malaybalay Branch

2F Jamstar Building  
 Judge P. Carillo Street  
 Malaybalay City, Bukidnon  
 Tel. No.: (088)314-0694

#### Siquijor Branch

2F New Public Market Bldg.  
 Poblacion Siquijor, Siquijor  
 6225 Philippines  
 Tel No.: (035) 480-9320

The Board of Directors and Shareholders  
**Binhi Rural Bank, Inc.**  
 (Formerly: Rural Bank of Balingasag (Misamis Oriental), Inc.)

Poblacion, Balingasag  
 Misamis Oriental

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Binhi Rural Bank, Inc. (Formerly: Rural Bank of Balingasag (Misamis Oriental), Inc.), which comprise the statements of financial position as at December 31, 2021 and 2020, and the related statements of profit or loss, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Binhi Rural Bank, Inc. (Formerly: Rural Bank of Balingasag (Misamis Oriental), Inc.), as at December 31, 2021 and 2020, and of its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

#### Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Philippine Financial Reporting Standards (PFRS) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

LLB & Co.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern; and
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

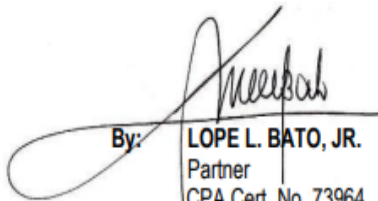
LLB & Co.

Report on the Supplementary Information Required by the Bureau of Internal Revenue

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information under Revenue Regulations No. 15-2010 and No. 34-2021 in Note 30 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue (BIR) and is not a required part of the basic financial statements. Such supplementary information is the responsibility of the management of Binhi Rural Bank, Inc. [Formerly: Rural Bank of Balingasag (Misamis Oriental), Inc.] and has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

In compliance with Revenue Regulations V-20, we are stating that we are not related by consanguinity or affinity to the President, Manager or any shareholder of the Bank.

**LOPE LARANJO BATO & Co.**

  
By: **LOPE L. BATO, JR.**  
Partner  
CPA Cert. No. 73964  
ITIN 102-081-516

BIR Accreditation No. 16-006925-001-2020, valid until September 22, 2023  
SEC Group C Accreditation No. 73964-SEC valid until December 31, 2025  
BSP Group B Accreditation No. 73964-BSP valid until December 31, 2025  
PTR No. 5226009-A, January 3, 2022, Cagayan de Oro City, Philippines

February 15, 2022  
Cagayan de Oro City, Philippines



## STATEMENTS OF FINANCIAL POSITION

### STATEMENTS OF FINANCIAL POSITION

Binhi Rural Bank, Inc.

[Formerly: Rural Bank of Balingasag (Misamis Oriental), Inc.]

<i>December 31</i>	<b>2021</b>	<b>2020</b>
<b>ASSETS</b>		
<b>Cash</b> <i>(Note 4)</i>	<b>₱81,137,381</b>	<b>₱75,807,782</b>
<b>Loans and Receivables</b> <i>(Note 5)</i>	<b>129,893,933</b>	<b>96,030,201</b>
<b>Financial Asset Measured at Amortized Cost</b> <i>(Note 6)</i>	<b>68,249,194</b>	<b>57,257,555</b>
<b>Bank Premises, Furniture and Equipment</b> <i>(Note 7)</i>	<b>25,145,093</b>	<b>24,071,224</b>
<b>Investment Properties</b> <i>(Note 8)</i>	<b>3,837,563</b>	<b>4,459,765</b>
<b>Other Assets</b> <i>(Note 9)</i>	<b>3,682,339</b>	<b>3,407,452</b>
<b>Total Assets</b>	<b>₱311,945,503</b>	<b>₱261,033,979</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Deposit Liabilities</b> <i>(Note 11)</i>	<b>₱198,031,600</b>	<b>₱157,422,952</b>
<b>Bills Payable</b> <i>(Note 12)</i>	<b>31,794,262</b>	<b>28,459,499</b>
<b>Retirement Benefits Obligation</b> <i>(Note 13)</i>	<b>1,157,318</b>	<b>1,007,070</b>
<b>Finance Lease Liability</b> <i>(Note 14)</i>	<b>18,815,227</b>	<b>16,723,642</b>
<b>Income tax payable</b> <i>(Note 22)</i>	<b>14,757</b>	<b>83,553</b>
<b>Other Liabilities</b> <i>(Note 15)</i>	<b>2,972,123</b>	<b>2,493,143</b>
<b>Total Liabilities</b>	<b>252,785,287</b>	<b>206,189,859</b>
<b>Shareholders' Equity</b>	<b>59,160,216</b>	<b>54,844,120</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>₱311,945,503</b>	<b>₱261,033,979</b>

*See Notes to Financial Statements.*

## STATEMENTS OF PROFIT OR LOSS

### STATEMENTS OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

Binhi Rural Bank, Inc.

[Formerly: Rural Bank of Balingasag (Misamis Oriental), Inc.]

<i>Years Ended December 31</i>	<b>2021</b>	<b>2020</b>
<b>INTEREST INCOME</b> <i>(Note 17)</i>		
On loans and receivables	<b>₱25,551,929</b>	₱18,843,465
On bank deposits and investments	<b>1,162,518</b>	1,953,332
Total Interest Income	<b>26,714,447</b>	20,796,797
<b>INTEREST EXPENSE</b> <i>(Note 18)</i>	<b>3,916,358</b>	3,484,533
<b>NET INTEREST INCOME</b>	<b>22,798,089</b>	17,312,264
<b>OTHER INCOME</b> <i>(Note 19)</i>	<b>16,022,253</b>	14,627,458
<b>INCOME BEFORE IMPAIRMENT LOSS</b>	<b>38,820,342</b>	31,939,722
<b>LESS IMPAIRMENT LOSS</b> <i>(Note 10)</i>	<b>4,908,361</b>	1,534,409
<b>INCOME AFTER IMPAIRMENT LOSS</b>	<b>33,911,981</b>	30,405,313
<b>OPERATING EXPENSES</b> <i>(Note 20)</i>	<b>29,220,442</b>	23,277,409
<b>PROFIT BEFORE INCOME TAX</b>	<b>4,691,539</b>	7,127,904
<b>INCOME TAX EXPENSE (BENEFIT)</b> <i>(Note 22)</i>		
Current	<b>540,754</b>	-
Deferred	<b>(576,571)</b>	(623,586)
<b>PROFIT FOR THE YEAR</b>	<b>₱4,727,356</b>	₱7,751,490
<b>OTHER COMPREHENSIVE INCOME</b>		
Items that will not be reclassified subsequently to profit or loss:		
Gain on remeasurement of post-employment <i>(Note 13)</i>	<b>₱32,795</b>	-
Interest income <i>(Note 13)</i>	<b>1,367</b>	-
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱4,761,518</b>	₱7,751,490
<b>EARNINGS PER SHARE</b> <i>(Note 24)</i>	<b>₱7.69</b>	₱12.60

See Notes to Financial Statements.

## STATEMENTS OF CASH FLOWS

### STATEMENTS OF CASH FLOWS

Binhi Rural Bank, Inc.

[Formerly: Rural Bank of Balingasag (Misamis Oriental), Inc.]

<i>Years Ended December 31</i>	<b>2021</b>	<b>2020</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax	<b>₱4,691,539</b>	<b>₱7,127,904</b>
Adjustments for:		
Other comprehensive income	<b>34,162</b>	-
Impairment loss <i>(Note 10)</i>	<b>4,908,361</b>	1,534,409
Depreciation <i>(Note 7)</i>	<b>4,697,819</b>	3,484,703
Adjustment to surplus <i>(Note 23)</i>	<b>(445,422)</b>	(195,737)
Changes in operating resources and liabilities:		
Increase in loans and receivables <i>(Note 5)</i>	<b>(38,772,093)</b>	(31,072,505)
Increase in other assets <i>(Note 9)</i>	<b>(274,887)</b>	(901,751)
Increase in finance lease liability <i>(Note 14)</i>	<b>2,091,585</b>	13,129,712
Increase in deposit liabilities <i>(Note 11)</i>	<b>40,608,648</b>	18,216,623
Increase in retirement benefits obligation <i>(Note 13)</i>	<b>150,248</b>	320,000
Increase in other liabilities <i>(Note 15)</i>	<b>478,980</b>	637,986
Cash Generated from Operations	<b>18,168,940</b>	12,281,346
Income tax paid <i>(Note 22)</i>	<b>(32,979)</b>	707,138
Net Cash from Operating Activities	<b>18,135,961</b>	12,988,484
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of bank premises, furniture and equipment <i>(Note 7)</i>	<b>(5,771,688)</b>	(18,333,575)
Additions to financial asset <i>(Note 6)</i>	<b>(161,147,639)</b>	(108,798,000)
Matured financial asset <i>(Note 6)</i>	<b>150,156,000</b>	101,802,576
Additions to investment property <i>(Note 8)</i>	<b>(1,143,714)</b>	-
Disposals of investment property <i>(Note 8)</i>	<b>1,765,916</b>	802,476
Cash Generated for Investing Activities	<b>(16,141,125)</b>	(24,526,522)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds of bills payable <i>(Note 12)</i>	<b>25,293,147</b>	50,015,686
Settlement of bills payable <i>(Note 12)</i>	<b>(21,958,384)</b>	(42,515,538)
Cash Generated from Financing Activities	<b>3,334,763</b>	7,500,148
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>5,329,599</b>	<b>(4,037,890)</b>
<b>CASH AT BEGINNING OF YEAR</b> <i>(Note 4)</i>	<b>75,807,782</b>	<b>79,845,672</b>
<b>CASH AT END OF YEAR</b> <i>(Note 4)</i>	<b>₱81,137,381</b>	<b>₱75,807,782</b>

See Notes to Financial Statements.

## STATEMENTS OF CHANGES IN EQUITY

### STATEMENTS OF CHANGES IN EQUITY

Binhi Rural Bank, Inc.

[Formerly: Rural Bank of Balingasag (Misamis Oriental), Inc.]

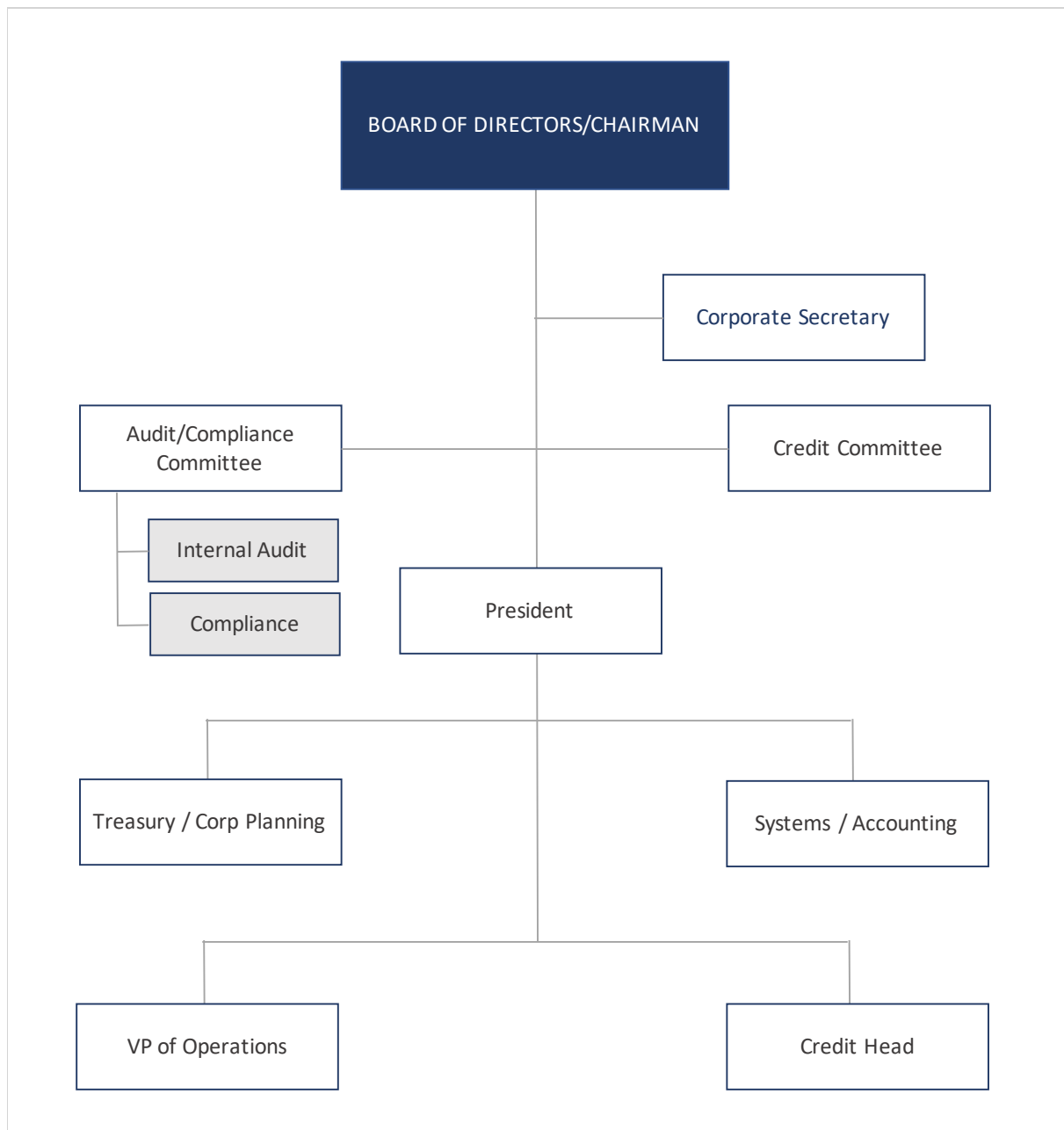
<i>December 31</i>	<b>2021</b>	2020
<b>SHARE CAPITAL</b> <i>(Note 16)</i>	<b>₱48,172,700</b>	₱48,172,700
<b>POST-EMPLOYED DEFINED BENEFIT RESERVE</b> <i>(Note 16)</i>	<b>34,162</b>	-
<b>SURPLUS FREE</b>		
Balance at beginning of year	6,671,420	(884,333)
Profit for the year	4,727,356	7,751,490
Adjustments <i>(Note 23)</i>	(445,422)	(195,737)
Balance at end of year	<b>10,953,354</b>	6,671,420
	<b>₱59,160,216</b>	₱54,844,120

*See Notes to Financial Statements.*

## SECTION 6. PRODUCTS AND SERVICES

Products/Services	Description
UNLAD I	Business/Personal Clean Loan, maximum of one (1) year, with PDC
UNLAD I-A	SPC Salary Loan, maximum of two (2) years, payroll deduction <b>(LIMITED TO RENEWALS ONLY)</b>
UNLAD I-B	Exclusive for Velez BLU, maximum of four (4) months, with PDC
UNLAD I-C	ATM Loan, maximum of two (2) years, with ATM card <b>(LIMITED TO RENEWALS ONLY, RELOANS ARE ALLOWED BUT LIMITED TO BORROWERS WITH CLEAN RECORDS)</b>
UNLAD I-C - 1	Revised ATM Loan, maximum of one (1) year, with ATM card <b>(LIMITED TO RENEWALS ONLY)</b>
UNLAD I-C - 2	ATM Loan for Private Corporate Regular Employee, max two (2) years with ATM Card <b>(TEMPORARILY SUSPENDED)</b>
UNLAD I-C - 3	ATM Loan for Government Employees, max two (2) years with ATM Card <b>(TEMPORARILY SUSPENDED)</b>
UNLAD I-D	Business Loan, maximum of four (4) months, cash payment (daily or weekly)
UNLAD I-E	AY Security Agency Salary Loan, maximum of two (2) years, payroll deduction <b>(LIMITED TO RENEWALS ONLY)</b>
UNLAD I-F	Motorcycle Finance Loan
UNLAD I-G	Rice Loan <b>(TEMPORARILY SUSPENDED)</b>
UNLAD I-H	Barangay Loan <b>(TEMPORARILY SUSPENDED)</b>
UNLAD I-J-1	Limited unsecured COVID assistance loan package during COVID to targeted accounts <b>(TERMINATED ALREADY)</b>
UNLAD I-J-2	Unsecured urban or rural essential business during COVID <b>(TERMINATED ALREADY)</b>
UNLAD II	Chattel Mortgage, maximum of two (2) years, with PDC
UNLAD II - A	Bongo Pangkabuhayan Loan, Chattel Mortgage, max of three (3) years <b>(TEMPORARILY SUSPENDED)</b>
UNLAD III	Real Estate Mortgage, maximum of three (3) years, with PDC
REVOLVING CREDIT LINE	Credit Line for established business owners - can be clean, chattel secured, real estate secured
BUILDING CONSTRUCTION SUPERVISED CREDIT	Credit Facility released for the purpose of commercial building construction, staggered based on actual completion.
LAP	Loans Against Deposit Placement
SAVINGS DEPOSIT	Savings Deposit is a regular savings deposit offered to clients. It is evidenced by a passbook. The minimum amount required to open a savings account with the Bank is P100.00. However, a minimum of P500.00 should be deposited to start gaining interest. It bears an interest rate 0.30% per annum. Interest is paid at the end of every quarter.
TIME DEPOSIT	Time Deposit refers to a deposit account, which requires the issuance of certificate, with a fixed term and interest rate over the period it is placed. Minimum maintaining balance and interest rate are set by the Board of Directors from time-to-time
POS	BRBI has a POS machine terminal which caters existing ATM Salary Loan borrowers. This POS facilitates the transfer of net salary amounts of borrowers to their respective cash cards issued by the Bank as replacement of their ATM
ATM MACHINE	BRBI has an automated teller machine (ATM)- It is a self-service electronic telecommunications device that dispenses cash. Also known as a cash machine, an ATM enables account holders to do financial transactions without passing through a bank teller. It caters other bank's atm cards.

# ORGANIZATIONAL STRUCTURE



## CORPORATE INFORMATION

### MAJOR STOCKHOLDERS

Name of Stockholder	Nationality	% of Stockholding	Voting Status
Ofelia A. Paguio	Filipino	20%	Common
Edward V. Argayoso	Filipino	20%	Common
Marissa O. Argayoso	Filipino	15%	Common
Jose Edison O. Argayoso III	Filipino	15%	Common
Melissa Tamara O. Argayoso	Filipino	15%	Common
Marielle Clarence O. Argayoso	Filipino	15%	Common

### BANKING UNITS - DIRECTORY

BRANCHES	ADDRESS	CONTACT DETAILS
Head Office	RBBI Building, Rizal corner Malvar St., Brgy. 5, Poblacion, Balingasag, 9005 Misamis Oriental	088-3332268 088-3335428
Baungon Branch	RBBI Building, Imbatug, Baungon, Bukidnon	(0917)-635-2346
Tiano-BLU	Tiano-Cruz Taal St., Cagayan de Oro City	(0917)-713-2486
CM Recto - BLU	Leope Building, #833, CM Recto Avenue, Cagayan de Oro City (Formerly Sacred Heart of Jesus Montessori School)	(0917)-702-9656 (088) 8584252
Balingasag-BLU	National Highway, Barangay 4, Balingasag, Misamis Oriental	(0917)-633-7672
Tin-ao-BLU	Tin-ao, Agusan, Cagayan de Oro City	(0917)-114-3208
Sugbongcogon BLU	Zone 1, Poblacion, Sugbongcogon, Misamis Oriental	(0917)-631-3794
Claveria BLU	Purok 9, 2nd Floor, Calingin Building, Poblacion, Claveria, Misamis Oriental	(0916)-126-1083

## COMPLIANCE WITH APPENDIX 63c of the MORB-DISCLOSURES IN THE ANNUAL REPORTS AND PUBLISHED STATEMENT OF CONDITION

Qualifying Capital			
		2021	2020
Tier 1 Capital			
	Paid up common stock	48,172,700.00	48,172,700.00
	Retained earnings	6,226,197.59	-1,082,579.10
	Undivided profits	5,283,644.75	6,913,529.48
	Less: Deferred tax asset, net of deferred tax liability	-3,290,223.43	-1,881,446.01
Total Core Tier 1 Capital		56,392,318.91	52,122,204.37
Tier 2 (Supplementary) Capital			
	Paid-up limited life redeemable preferred stock with the replacement requirement upon redemption	52,900.00	52,900.00
	General loan loss provision	774,856.94	595,687.11
Total Upper Tier 2 Capital [B.a (10 minus B.2 (5))]		827,756.94	648,587.11
Total Qualifying Capital [c minus D (6)]		57,220,075.85	52,770,791.48

### Risk-based capital ratios:

		2021	2020
	Net Tier 1 Capital	56,392,318.91	52,122,204.37
	Net Tier 2 Capital	827,756.94	648,587.11
	Total Qualifying Capital	57,220,075.85	52,770,791.48
	Risk Weighted Assets	255,618,592.97	210,538,875.23
	Tier 1 Capital Ratio	22.06%	24.76%
	Total Capital Ratio	22.38%	25.06%

The capital requirements for Credit, Market and Operational Risk are listed below:

Capital Requirement			
		2021	2020
	Credit Risk	227,752,530.96	186,439,534.40
	Market Risk		
	Operational Risk	27,866,062.01	24,099,340.83
	Total Capital Requirements	255,618,592.97	210,538,875.23



