

# CARD MRI'S

journey to 5-8-40...



CARD SME Bank, Inc.  
ANNUAL REPORT  
2017





powered by  
**TECHNOLOGY**

**CARD SME Bank, Inc.**  
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# ABOUT THE COVER

Since its humble beginnings, CARD MRI has always been eager in utilizing human ingenuity in its mission to uplift the lives of Filipino women and to eradicate poverty in the country. Our purposive journey together with technology can be traced back to our use of an old and battered typewriter and ever since then we have continued to integrate more and more innovations in our work and services.

CARD MRI's continuous shift to and integration of technology is reflected by our two covers, which aim to symbolize and portray CARD MRI's progress from the use of traditional or analog methods towards technologically-enabled solutions, and our constant improvement of our techniques and procedures.

At CARD MRI, we are passionate in transforming ourselves to adapt to the overwhelming technological changes that are affecting our daily lives and the world around us. It may be a challenging year ahead but we will make sure that all these innovations we are taking are always inclusive and grounded to the needs of our member-clients. No one will be left behind in this journey, this we assure.



# VISION

CARD SME Bank, Inc. supports CARD MRI's vision statement as a Group of Mutually Reinforcing Institutions that is dedicated to empower the poor by upholding the core values of competence, family spirit, integrity, stewardship, humility, culture of excellence, and simplicity. As one of the institutions that comprise the CARD MRI and in support of its mission, CARD SME Bank envisions building a sustainable financial and capacity building institution owned and led by socially-and-economically challenged families by providing integrated Microfinance, Small and Medium Enterprise (MSME) and social development (credit with education, leadership with a heart, innovative community programs) services to an expanding membership base by organizing and empowering women and their families; and continue upholding the highest standards of stewardship of financial, human, and institutional resources.

# MISSION

CARD SME Bank, Inc. is committed to:

- Provide banking services especially designed for landless rural workers by bringing bank services to community sites and accommodating the least financial transactions within their affordability
- Provide collateralized and non-collateralized loans to non-bankable but viable microfinance and SME projects
- Grow the bank's SME lending to become the pre-eminent SME Bank in the Philippines to be able to reach more SME beneficiaries



# REMARKABLE FEAT THROUGH THE RISING MIDDLE

CARD MRI, of which CARD SME Bank forms part of along with 20 other development institutions, has adopted the 5-8-40 goal in 2016. These numbers do not just indicate our targets to reach eight million borrowers and savers, and 40 million insured individuals in five years ending 2020; they embody our firm determination to end poverty in the Philippines soon. CARD SME Bank occupies a key role in this roadmap-to-progress being assigned to nurture emerging small and medium entrepreneurs (SMEs) whom we recognize as the engines of wealth and job creation in the countryside.

Despite the SMEs' potential as means for people-based socio-economic growth, there are only a few SMEs in the developing world. This matter has given rise to the phrase the 'missing middle'. A remarkable feat of CARD SME Bank is that it has gradually grown the few into thousands. It has shown the way for a 'graduation model' that supports progressive microentrepreneurs to become emerging SMEs. It has proven CARD MRI's conviction that given the right opportunities at the right time and the right reasons, progressive microentrepreneurs will 'rise and shine'— turn their microoperations into small or medium scale— and leave poverty behind for good.

The graduation model provides access to a holistic range of products and services that an emerging SME could ever need and want. In addition to providing funds to SMEs, the CARD SME Bank partners with other CARD MRI institutions to extend relevant services such as micro insurance, marketing and product development, and risk management, among others.

We also tap technology for improved efficiency and customer satisfaction. CARD Bank, another CARD MRI institution has successfully pilot-tested a core banking system that uses mobile phones for real time and paperless transactions. This will be rolled out to CARD SME Bank in 2018. As increased efficiency is achieved, we are prepared to reduce our interest rates on loans and subsequently reduce the cost of borrowings of our clients.

CARD SME Bank is witness to thousands of SMEs joining the middle class in their respective communities. As they move their families out of poverty, we have noted that they do not stop there. They, too, have learned to care for others and, like CARD MRI, take extra efforts to help others move out of poverty. In their commitment to service, many clients have become community leaders who help direct and determine the local development process and outcomes. We have contributed to the rise of a middle class of entrepreneurs. We call this a 'happy accident' resulting from their interaction with us for a reasonable period of time.

Truly, CARD SME Bank's motive is not for profit. We exist as a social business which aims to eradicate poverty. We support our SME clients create wealth to stimulate responsible growth in the countryside. CARD SME Bank is well placed in its role to extend a holistic range of products and services for emerging SMEs. On track and onward to 1,173,916 SME clients for CARD SME Bank by 2020!

*Jaime Alip*  
**Dr. Jaime Aristotle B. Alip**  
*Chairperson*



# REMARKABLE 2017

**ARISTEO A. DEQUITO**  
President and CEO

The year 2017 has been a remarkable year for CARD SME Bank. Our growth, as reflected in key performance indicators, took a giant leap. Resource-wise, total assets grew by 46.31% from PhP2.69 billion in 2016 to PhP3.93 billion. Not to be outdone, outreach expanded by 46.51% from 389,351 active clients composed of micro, small and medium entrepreneurs (MSMEs) in December 2016, to 550,182 clients by 2017. The confidence-boosting viability position of the Bank at 118.81% Financial Self-Sufficiency level in 2016 was further enhanced to 121.10% in 2017.

Our other key profitability ratios have exceeded levels of growth experienced by the Philippine financial sector in 2017. Our Return on Equity (ROE) at 33.29% is well above the 9.8% ROE collectively achieved by the sector [A Status Report on the Philippine Financial System, 1st Semester 2017, Bangko Sentral ng Pilipinas (BSP)]. Return on Assets (ROA) at 6.85% also surpassed the sector average of 1.2%. What a truly a remarkable year for CARD SME Bank!

#### **FUNDING MSMEs TO SCALE UP**

We disbursed a total of PhP10.43 billion and serviced close to a million loans within a twelve-month period. This brings our average loan size to PhP10,000. The small average loan size reflects the Bank's commitment to reach out to microentrepreneurs and help them grow and eventually become small or medium entrepreneurs. Clients transitioning from microenterprise levels to the Unlad (progressive) SME clients' status required and availed higher loans averaging PhP63,000. The more established SME clients enjoyed an even higher loan size average of PhP399,000. Agribusiness entrepreneurs recorded an average loan size of PhP142,000.

The Bank's loan portfolio by end of 2017 hit the PhP4.0 billion mark, from PhP2.74 billion in 2016 - yet showing another astonishing growth rate of 46%. Portfolio quality remained high and well under control. The Bank recorded an overall Portfolio At Risk (PAR) rate of 2.26%. Micro enterprise loans maintained an outstanding quality level below 1.0% ending the year with a 0.94% PAR 1 rate. SME loans posted a 5.31% PAR 1 rate. In terms of PAR 90, we registered a rate of 4.6%, which is better than the industry average of 5.52%.

### FUNDING COUNTRYSIDE ECONOMIC GROWTH

We adopted a deliberate expansion strategy to operate in economic growth areas in the countryside. Visayas and Mindanao regions beckoned and we responded enthusiastically. We opened four new branches, three of which are outside Luzon. MSMEs in Zamboanga City, Puerto Princesa, and Talisay, Cebu warmly welcomed the new branches. Attached to the 24 branches is a wide network of 173 Micro Banking Offices (MBOs) and 192 Units. These smaller operating structures enable our services to be brought closer to the target communities and the clients.

The declaration of Martial Law in Mindanao due to the peace and order situation marked by the siege in Marawi did not stop us. What continued to drive us is the call to serve and to heed the question: what can we do to help? Clear instructions and guidelines were provided to ensure that staff and client safety is addressed.

Ever driven to increase customer satisfaction, we also actively expanded our strategic partnership network and widened our influence in the SME industry and finance. We submitted a position paper to the Bangko Sentral ng Pilipinas (BSP) to allow MBOs to offer more SME-related transactions, traditionally done at the branches. Opening and accepting deposit of other regular savings account, and disbursing and collecting amortization and other related chargers of SME, consumer, agricultural and other loan products are among the proposed banking activities doable at the MBOs. If approved, transacting more services at the MBOs will save time and transportation cost for many of our clients who are widely dispersed in the countryside.

Such commitment to spur economic growth in the countryside coupled with excellent product and service delivery by our highly committed and capable staff, have captured the attention and admiration of regulators. CARD SME Bank, together with the other two financial institutions of CARD MRI, was awarded by BSP with the Gold Hall of Fame as an Outstanding Financial Inclusion Champion in 2017. The award recognizes the contribution of CARD SME Bank to bring financial services to socioeconomically challenged Filipino families.

### DESIGNING APPROPRIATE PRODUCTS AND SERVICES

We developed customer-centric products to cater to the requirements of SMEs. In addition to loan products, we also actively promoted savings and advocated the habit of regularly setting aside funds to pursue goals and to meet emergencies. Our deliberate savings campaign has resulted to a remarkable 52.8% growth rate from 2016-2017. Of the PhP2.90 billion in deposits portfolio, 70% is accounted for by MSME clients, up from the 66% share in 2016.

We also tapped technology to provide clients with faster and more convenient access to funds. As of 2017, eleven of 24 branches have automated teller machine (ATM) facilities.

And so, we face 2018 with as much anticipation to attain greater results. We will continue to dedicate our abilities, energies and resources to support the SME sector realize its full potentials and bring about people-centered progress in local economies - more decent jobs for the marginalized job-seekers, and fair trade practices for the local producers. We forge ahead backed up by solid support from our clients, staff, the CARD MRI family, and our industry partners.

***“CARD SME Bank is well on track to contribute its share in the 5-8-40 goal of the CARD MRI. Our remarkable accomplishments in 2017 strengthens our confidence that together with the 20 other member institutions of CARD MRI, we can reach eight million clients and insure 40 million individuals in 2020.”***

# FADULLO'S BAKERY

*A Remarkable Recipe of a Successful Bread Business*

## IRENE FADULLO

Client

*Inspired by our commitment to serve, complemented by a broad range of appropriate financial and non-financial products and services, our clients, too, have responded with as much responsibility, creativity, and hard work. Collectively, more than half a million growing enterprises that we support have generated thousands of jobs in the countryside. In this report, we feature the story of our microenterprise client, Irene Fadullo, who successfully scaled up her business operations to that of small enterprise level with a workforce of 70.*

### HUMBLE BEGINNINGS

Irene Fadullo and husband, Jailel, opened a bakery in 2010 with a capital of PhP70,000, partly sourced from savings and borrowings. Drawing on Jailel's previous work experience in a bakery and knowledge in bread making, they made the usual 'soft' bread such as pandesal (bread of salt) consumed daily by low to middle income families. It struggled to gain market acceptance as the products they offered were also readily available in other bakeries.

When capital dipped to a low of PhP3,000 in 2012, they decided to make a big change— to shift from soft bread to 'hard' bread. They chose Paborita, a kind of local biscuit or cracker. Desirable for its long storage life of up to six (6) months, affordability (PhP6.00-7.00/small pack), and high demand by wholesalers in public markets, Jailel persevered to come up with the best Paborita in the local market of Batangas province.

His efforts paid off! Five years later, the Fadullo's Bakery, with a team of 70 employees, churns 32,000 Paborita packs a day that the market snatches in a flash, still wanting for more. "We had a simple dream —to have a profitable business with enough income to support and sustain the needs of the family including good quality education to our



How the couple transformed the PhP3,000 capital to multi-million business operations in five years is truly remarkable. Irene cites three key ingredients to their business success:

## Recipe for Success #1

*Establish a clear market position for your products. Irene and Jailel wanted their Paborita to be known for its high quality—taste and crispness, at a low price that even the poor can afford. They knew exactly the size or quantity, quality, and price point that makes Paborita well-sought after by customers. Irene shares, "we knew that we have the right product for our target market when we no longer have to woe and convince the buyers; nowadays, the market comes to us."*

## Recipe for Success

# #2

*Come up with the right product/s by listening to the market and by persistent testing and refinement of the product/s to meet the market's preferences. Irene explains, "in the early period of developing the Paborita mixture, we received and welcomed constructive criticisms and suggestions from customers. We learned from them. We also made some adjustments especially on two of their main concerns-- taste and price. These days, we mainly get good comments like 'oohs and aahs' about the crispness and delicious taste of our special Paborita. We exert the same diligence and care in developing other baked products to expand our market reach and increase the satisfaction of our existing customers."*

two children. Having reached this dream, we now aim for a bigger dream—to set up bakery branches in our hometowns in Mindoro and Quezon, create local employment especially for our relatives, increase production and market network, and generate higher income for the business and the workers," shares Irene.

### IN PARTNERSHIP WITH CARD SME BANK

Fadullo Bakery and CARD can look back to many years of productive partnership. CARD was already a source of additional business capital in the early fledgling years of the bakery since 2012. Irene recalls, "when we had barely enough money to buy flour to keep the business operating profitably, CARD trusted us with the money to keep going. We got an initial loan of PhP2,000 at a reasonable interest rate. The good thing with the CARD loan product is that as we fully pay a loan, we can avail higher loan sizes. Over the years, our borrowings from CARD helped us to cross over from survival to growth and viability. The latest loan we took was PhP250,000, which we used to buy additional machines to improve our production efficiency. I always tell my family and friends that borrowing money is not bad practice. One must learn to spend money prudently and put it to good use. In our case, we used it only for productive purposes meant

to generate income to cover loan payment with surplus to spend for other needs, to save or to invest."

Irene adds, "at CARD, a client does not only get a business loan; she finds a stronghold. I find this reassuring as I have gone through a hard life filled with trials and challenges. I have learned to hold on to CARD in times of financial stress or need. Giving up is not an option when you have CARD to turn to for much needed support at the time you most need it. (Sa CARD, pwede akong kumapit tuwing may pagsubok. Walang sukuan kung may CARD kang maaasahan.)"

## Recipe for Success

# #3

*Build a happy, safe, and satisfying work place for the employees. It is important to treat them fairly and decently. Irene shares, "my husband Jaiel is my model of goodness. I take cues from him when dealing with our employees. We consider them as our extended family and as such provide them with a package of benefits. All employees, including their families, can avail of free housing and utilities (water, electricity, and cooking gas); free meals are also provided to single employees. Our employees, in return, are very loyal and hard working. Our bakers, for example, help us protect the secrecy of our Paborita recipe despite enticement of money offered by our competitors."*



# ACCOMPLISHMENTS



CLIENTS  
SERVED

609,700



CLIENTS  
& SAVERS

591,712



ACTIVE  
CLIENTS  
WITH LOAN

410,462



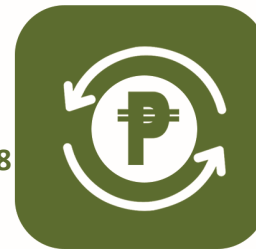
LOAN  
OUTSTANDING

PhP4,006,726,997



SAVINGS

PhP2,903,218,998



REPAYMENT  
RATE

99.23%



OPERATING  
SELF-SUFFICIENCY

122.20%



FINANCIAL  
SELF-SUFFICIENCY

121.10%



STAFF

1,901



HEAD  
OFFICE

1



BRANCHES

23



UNIT OFFICES  
& MBOS

365

# CORPORATE POLICY

## BANK'S BRAND

### Our company

We are the premiere financial institution in South Luzon with the credibility, integrity, and capital (human/financial) to assist the countryside SME in the expansion of their existing businesses.

### Our promise

Our brand promise is to build honest, long-term, and mutually-enriching relationships with our customers by being active partners in their business growth and self-development.



### Our Logo

Our logo is circular due primarily to the tradition of using the shape as the main theme of CARD MRI member logos. The circle, however, also represents Eternity - for our long term vision of alleviating poverty through principled yet sustainable business practices, and Innovation - for our ability to provide business-viable products and services to a market other financial institutions deem as high-risk and low-ROI.

The central image is a silhouette of people, joined together to appear like rich foliage. First, this depicts agriculture, a generally accepted theme representative of rural-based SMEs in South Luzon. Second, it represents the life-long and mutually-enriching partnerships between the bank and its clients. Lastly, the image highlights the very backbone of our group CARD MRI, which is the synergy between individuals and groups that make long-term economic growth through the alleviation of lower-income sectors of society, a reality.

Our logo's central image is wrapped around by an iconic letter C, signifying the first letter of CARD. The wrap-around concept also indicates how CARD MRI is the prime-mover behind the central image's representation of the SMEs, long-term partnerships, and community-based synergy towards poverty alleviation.

### Our Tagline

"Kaakbay sa Pag-unlad" communicates our dedication and passion for partnerships that aim to boost our clients' entrepreneurial mindset by assisting in the growth of their enterprises.

# FINANCIAL HIGHLIGHTS, CAPITAL STRUCTURE, AND CAPITAL ADEQUACY

Minimum Required Data	Current Year	Previous Year
<b>Profitability</b>		
Total Net Interest Income	1,400,273,666	963,091,801
Total Non-Interest Income	7,173,137	9,125,390
Total Non-Interest Expenses	964,682,926	701,722,077
<b>Pre-provision profit</b>		
Allowance for Credit Losses	130,205,306	93,574,325
Net Income	308,276,194	188,308,536
<b>Selected Balance Sheet Data</b>		
Liquid Assets	679,942,318	382,518,014
Gross Loans	4,057,932,876	2,773,465,206
Total Assets	5,069,214,600	3,433,206,958
Total Deposit	2,903,218,998	1,899,640,835
Total Equity	875,145,636	745,634,017
<b>Selected Ratios</b>		
Return on Equity	33.29%	29.76%
Return on Asset	6.85%	6.99%
<b>Others</b>		
Cash Dividend Declared	220,000,000	89,945,198
<b>Head Count</b>		
Officer	74	70
Staff	1,827	1,303

<b>Capital Structure and Capital Adequacy</b>	
<b>Tier 1 Capital</b>	
Paid up common stock	495,279,400.00
Deposit for Stocks Subscription	106,295,050.00
Retained earnings	39,948,415.40
Undivided profits	269,579,270.73
<b>Total Core Tier 1 Capital</b>	<b>911,102,136.13</b>
<b>Tier 2 Capital</b>	
General loan loss provision	41,539,281.89
<b>Total Core Tier 2 Capital</b>	<b>41,539,281.89</b>
<b>Gross Qualifying Capital</b>	952,641,418.02
Deductions from Tier 1 and Tier 2 capital;	<b>(18,815,811.79)</b>
<b>TOTAL QUALIFYING CAPITAL</b>	<b>933,825,606.23</b>
Capital Requirements for credit risk;	3,909,609,615.89
Capital Requirements for market risk;	-
Capital Requirements for operational risk	1,111,494,219.48
Capital Adequacy Ratio (CAR)	<b>18.60%</b>

# RISK MANAGEMENT FRAMEWORK

## OVERALL RISK MANAGEMENT CULTURE AND PHILOSOPHY

### RISK MANAGEMENT ADMINISTRATION

Risk management process is incorporated in the bank management system and all levels of operations/units involved. The respective unit head/supervisors are risk owners and are responsible in identifying risk at their levels thru regular monitoring. Risks are better managed if measured consistently, accurately, and to the full extent possible. Developing risk-return consciousness is done to preserve capital and ensure adequate return on capital.

### DEFINITIONS OF RISK

1. Risk is the possibility of a loss. In all its transactions, a bank faces risks- deposits, loans, trading, systems, and people. Risk is the common denominator.
2. Risk is an uncertainty of whether events expected or otherwise will have an adverse impact on the bank's capital.
3. Risk can be controlled completely by having a good risk management system.

### OBJECTIVES OF RISK MANAGEMENT

1. Risk management aims to give and to create value to stockholders' investment in a bank.
2. Risk management is not only aimed to avoid financial losses to the bank. It is associated with the downside threats and potential losses but there is also a proactive side to it – to optimize earnings potential. Banks not only want to mitigate risks they are also looking for business opportunities that will give a higher return from their operations.
3. Risk management aims to create an internal environment wherein everyone has the awareness in assessing risks for institutional gain in every transaction.

### CARD SME BANK RISK APPETITE STATEMENT (RAS)

The RAS refers to the articulation in written form of the individual and aggregate level and types of risk that a bank is willing to accept, or to avoid, in order to achieve its business objectives and considering its capability to manage risk. It includes qualitative statements as well as quantitative measures expressed relative to earnings, capital, risk measures, liquidity, and other relevant measures as appropriate.

#### a. Credit Risk – Significant risk area of CARD SME BANK

1. Based on the Manual of Regulations for Banks (MORB), the maximum single borrowing limit is 25%. CARD SME BANK, however, internally sets limit of 23% of the bank's net worth or PhP100 million, whichever is higher.

2. Total Loan Portfolio to Total Asset: at least 70%
3. Credit exposure to DOSRI (Directors, Officers, Stockholders, and Related Interests): maximum of 5% of Total Loan Portfolio. The BSP's limit is 15% of Total Loan Portfolio
4. Exposure limit to each industry or economic sector: not more than 25% of Total Loan Portfolio, maximum of 30% of TLP.

**b. Liquidity Risk**

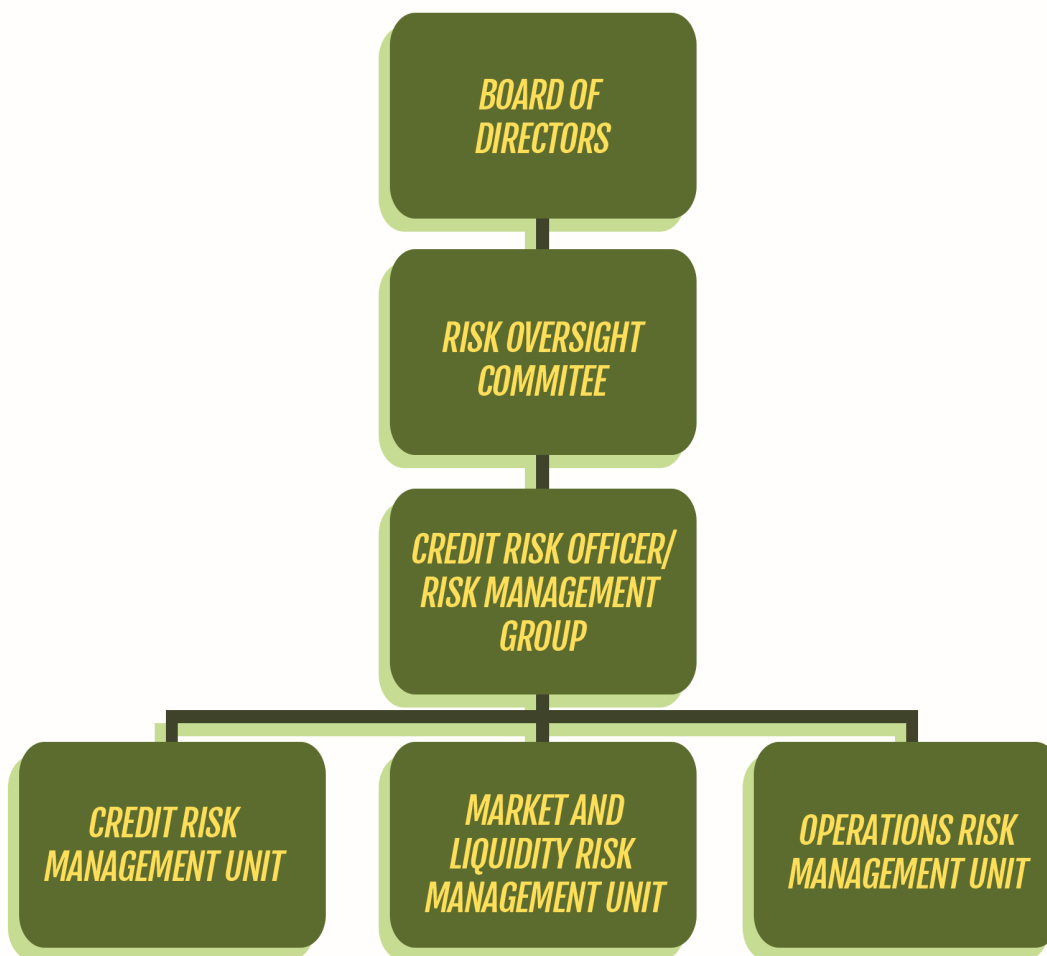
1. Liquidity ratio: minimum of 27%
2. Net Stable funding ratio: 105%

**c. Capital and Earning Risk**

1. Capital Adequacy Ratio (CAR): 2% above the current industry ratio
2. Return on Equity: minimum 15%
3. Administrative cost ratio: maximum of 45%

**RISK GOVERNANCE STRUCTURE AND RISK MANAGEMENT PROCESS**

**RISK MANAGEMENT STRUCTURE**



**Board and Senior Management Oversight –  
The Board of Directors (BOD) are responsible for:**

- a. Approving strategies and policies;
- b. Understanding the risks;
- c. Ensuring that senior management takes necessary steps to identify, measure, monitor, and control the risks;
- d. Approving organization structure; and,
- e. Ensuring that senior management is monitoring the continued effectiveness of the internal control system.

**RISK OVERSIGHT COMMITTEE**

CARD SME BANK has a founding vision of building a sustainable financial and capacity building institution by providing integrated Microfinance, Small, and Medium Enterprise (MSME) and social development (credit with education, leadership with a heart, innovative community programs) services.

In line with this vision is the Board of Directors and management’s concern on “risk management”. Other than being compliant to BSP Circular No. 456, as amended by Circular 749 and Circular 969, the creation and approval of Risk Oversight Committee is a vital move of CARD SME BANK Board of Directors. The Bank’s success is largely dependent on the ability of its directors and officers in managing risks. The Risk Oversight Committee is composed of three (3) Board of Directors, two (2) are independent directors with details as follows:

**1. Mr. Eduardo D. Jose Jr. – Chairperson**

He is the Independent Director of CARD SME BANK. He already worked with a Commercial Bank and with different financial institutions. He is also engaged in several consultancy works. Likewise, he has also attended international trainings related to Corporate Governance and SME risk based lending.

**2. Ms. Mary Jane A. Perreras – Vice Chairperson**

She is the Senior Management Adviser and former President and CEO of CARD SME BANK. She has more than

30 years of banking experience and has worked in two (2) large universal banks.

**3. Atty. Wilfredo Domo-ong - Member**

He has been an independent Director of CARD SME BANK since 2011. He had spent most of his career in Bangko Sentral ng Pilipinas (BSP) from being an Examiner to becoming a Director. He is a law graduate in Manuel L. Quezon University School of Law.

**Duties and responsibilities of the Risk Oversight Committee**

The ROC advises the board of directors on the bank’s overall current and future risk appetite, oversees senior management’s adherence to the risk appetite statement, and reports on the state of risk culture of the bank. The ROC shall:

- a. Oversee the bank’s risk management/governance framework and ensure that there is periodic review of the effectiveness of the risk management systems, programs and recovery plans. It shall ensure that corrective actions are promptly implemented to address risk management concerns.
- b. Ensure that the current and emerging risk exposures are consistent with the bank’s strategic direction and overall risk appetite. It shall assess the overall status of adherence to structure, policies, and procedures relating to risk management and control, and performance of management, among others.
- c. Be responsible for the appointment, selection, remuneration, and dismissal of the Chief Risk Officer (CRO). It also ensures that the risk management function has adequate resources and effectively oversees the risk-taking activities of the bank.

The Risk Committee is provided with adequate resources and has the authority to procure the services of

independent technical experts, locally and foreign, in carrying out its mandate.

The Committee shall report the proposed risk management framework, risk appetite statement with its current risk profiles, together with all information, its respective updates or amendments, solutions to risk exposures and actual losses, as well as the action taken by the Committee thereon, to the Board for notation, and if required, for approval.

The Senior Risk Officer (SRO) is responsible for overseeing the risk management function and shall support the board of directors in the development of the risk appetite and Risk Appetite Statement (RAS) of CARD SME BANK and for translating the risk appetite into a risk limits structure. The SRO shall likewise propose enhancements to risk management policies, processes, and systems to ensure that the BSFI's risk management capabilities are sufficiently robust and effective to fully support strategic objectives and risk-taking activities.

### **AML GOVERNANCE AND CULTURE**

In view of the Bangko Sentral ng Pilipinas (BSP), Anti-Money Laundering Rules and Regulations, a comprehensive and risk-based Money Laundering and Terrorist Financing Prevention Program (MLPP) was adopted to promote a high ethical and professional standards to ensure that CARD SME BANK is not being used for money laundering and terrorist financing activities. This Money Laundering and Terrorist Financing Program is also adopted to support governments, law enforcement agencies and international bodies such as the Financial Action Task Force in their efforts to combat the use of the financial system for the laundering of the proceeds crime and terrorism.

To ensure that the risks associated with money-laundering such as counterparty, reputational, operational, and compliance risks are identified, assessed, monitored and

mitigated, the following were adopted:

**Board and Senior Management Oversight** – CARD SME BANK board of directors have the ultimate duties and responsibilities to ensure full compliance with money laundering and terrorist financing prevention program. As such, the board through the Compliance Office and Internal Audit regularly updated on the matters related to Anti-Money Laundering and terrorist financing compliance and risk management.

**Compliance Office** – Compliance is the main responsible for the management of the implementation of this Money Laundering and Terrorist Financing Prevention Program (MLPP) of the bank including its subsidiaries and affiliates. This includes achieving the bank's goals through planning, organizing, leading, and controlling. Compliance office is independent and has direct access/reporting lines to board of directors. The compliance office conduct regular compliance checking covering the evaluation of AMLA process, policies and procedures in the customer identification and acceptance, reporting of Covered and Suspicious Transactions, and monitoring systems and record retentions. Senior management and board of directors are consistently informed on the non-compliance of the branch to money laundering and terrorist prevention program including management action to address deficiencies. A regular compliance orientation, where updated AMLA regulations are discussed, is conducted to all branch officers and staff.

**Senior Management** – In order to ensure consistent and full compliance with money laundering and terrorist financing prevention program, Regional Heads are also designated as the liaison officer of the compliance office in their respective branches. Regional Heads are responsible in ensuring that all AML polices, laws and regulations are being implemented in the branch and all matters needing assistance are reported to the AML Compliance Officer in Head Office.

# CORPORATE GOVERNANCE

## CORPORATE GOVERNANCE STRUCTURE AND PRACTICES

The board of directors, management, employees, and shareholders believe that corporate governance is a necessary component of what constitutes sound strategic business management and undertake every effort necessary to create awareness within the organization. Observance of the principles of good corporate governance shall start with the board of directors. It shall be the board's responsibility to foster the long-term success of the bank and assure its sustained competitiveness in a manner consistent with its fiduciary responsibility, which shall exercise in the best interest of the bank, its shareholders, and other stakeholders. The board shall conduct itself with utmost honesty and integrity in the discharge of its duties, functions, and responsibilities.

## CHAIRPERSON OF THE BOARD OF DIRECTORS

The Chairperson of the board of directors shall provide leadership in the board of directors. He shall ensure effective functioning of the board of directors, including maintaining a relationship of trust with members of the board of directors. Moreover, he shall:

- ensure that the meeting agenda focuses on strategic matters including discussion on risk appetites, and key governance concerns;
- ensure a sound decision making process;
- encourage and promote critical discussion;
- ensure that dissenting views can be expressed and discussed within the decision-making process; ensure that members of the board of directors receives accurate, timely, and relevant information;

- ensure the conduct of proper orientation for first time directors and provide training opportunities for all directors; and
- ensure conduct of performance evaluation of the board of directors at least once a year.

## BOARD OF DIRECTORS

A director's office is a position of trust and confidence. Directors shall act in a manner characterized by transparency, accountability and fairness. Directors are primarily responsible for approving and overseeing the implementation of the bank's strategic objectives, risk strategy, corporate governance, and corporate values. They are also responsible in overseeing the performance of senior management in as far as managing the day to day affairs of the bank. The Board shall approve policies on all major business activities such as investments, loans, assets and liability management, trust, business plan and budget. Moreover, defining the Bank's level of risk tolerance and mechanism to monitor in such business activities shall form part of its responsibilities.

Moreover, the Board shall be responsible in defining the Bank's level of risk tolerance and the oversight of the implementation of policies and procedures relating to the management of risk throughout the Bank, which includes:

- Comprehensive risk management approach;
- Detailed structure of limits, guidelines ,and other parameters used to govern risk-taking; Clear delineation of lines of responsibilities for managing risks;
- Adequate system for measuring risk; and
- Effective internal control and risk-reporting process.

There are 11 board of directors elected dated May 14, 2017; four of whom are independent directors.

Name of Director	Type of Directorship	Number of years served as Director	Percentage of Shares
Dr. Jaime Aristotle B. Alip	Non-Executive	11 years	4.20%
Ms. Flordeliza L. Sarmiento	Non-Executive	11 years	4.50%
Ms. Mary Jane A. Pererras	Non-Executive	8 years	1.12%
Ms. Milagros C. Rojas	Non-Executive	11 years	0.30%
Ms. Elma B. Valenzuela	Non-Executive	7 months	4.50%
Mr. Aristeo A. Dequito	Executive	2 years	0.82%
Ms. Maria Elena M. Ruiz	Non-Executive	7 years	0.00%
Dr. Gilberto M. Llanto	Independent	7 years	0.00%
Atty. Wilfredo B. Domo-ong	Independent	7 years	0.00%
Mr. Eduardo D. Jose Jr.	Independent	7 months	0.00%
Ms. Marlene B. Algire	Independent	1 year and 7 months	0.00%

Name of Director	Attended	Percentage
Dr. Jaime Aristotle B. Alip	12	100%
Ms. Flordeliza L. Sarmiento	12	100%
Ms. Mary Jane A. Pererras	12	100%
Ms. Milagros C. Rojas	11	92%
Ms. Elma B. Valenzuela*	8	100%
Mr. Aristeo A. Dequito	12	100%
Ms. Maria Elena M. Ruiz	11	92%
Dr. Gilberto M. Llanto	9	75%
Atty. Wilfredo B. Domo-ong	12	100%
Mr. Eduardo D. Jose Jr.*	6	75%
Ms. Marlene B. Algire	12	100%
<b>Total Number of Meetings for the Year</b>	<b>12</b>	

\*Elected in May 2017

<p>Dr. Jaime Aristotle B. Alip Chairman 60, Filipino</p>	<p>Dr. Alip is the founder of the Center for Agriculture and Rural Development Mutually Reinforcing Institutions or CARD MRI. He is a graduate of Bachelor of Science in Agriculture and earned his Master of Science in Professional Studies from the University of Philippines, Los Baños Campus. He finished his Doctorate in Organizational Development from Southeast Asia Interdisciplinary Development Institute and Owner/President Management Program from Harvard Business School. As a rural development practitioner and a banker, he worked with many different organizations both local and international.</p> <p>Currently, Dr. Alip sits on several board: SAMIC, University of New Hampshire - Social Sector Franchise Initiative, and CARD Pioneer Microinsurance, Inc. as Board Adviser; Population and Community Development Association (PDA), Bangkok, Thailand as Senior Adviser; Center for Agriculture and Rural Development (CARD), Inc. and RIMANSI Organization for Asia and Pacific as Chairman Emeritus; CARD Bank, Inc. and CARD-MRI Development Institute as Chairman; International Cooperative and Mutual Insurance Federation (ICMIF) as Board of Director/ Chairman of the Development Committee; Microventures Foundation and CARD-BDS Foundation Inc. as Trustee; and Rizal Bank, Inc. as Director.</p>
<p>Ms. Flordeliza L. Sarmiento Vice Chair for Administration 55, Filipino</p>	<p>Ms. Sarmiento is currently the Managing Director of CARD MRI. She is also the Chairman and previously the President and CEO of Rizal Bank, Inc., Vice Chairperson for Administration of CARD Bank Inc., President of CARD-MRI Development Institute and CARD, Inc. She completed her Bachelor of Science in Agriculture at Gregorio Araneta University Foundation, Master in Business Administration in Trinity College of Quezon City, Executive MBA in Asian Institute of Management, and Advance Management Program at Harvard Business School.</p>

<p>Ms. Mary Jane Perreras Vice Chair for External Affairs 61, Filipino</p>	<p>Ms. Perreras was formerly the President and CEO of CARD SME Bank. Prior to joining CARD SME Bank, she handled the CARD MRI Fund Resources Management Unit, worked at the Bank of the Philippine Islands as Head of Reserves and Liquidity Management and Securities Dealership Unit, and in City Trust Banking Corporation handling various positions in the Investment, Treasury, and Liquidity Management Unit. She finished her Bachelor of Science in Medical Technology at University of Sto. Tomas and Executive MBA at Asian Institute of Management.</p>
<p>Mr. Aristeo A. Dequito, President and Chief Executive Officer 50, Filipino</p>	<p>Mr. Dequito is a microfinance practitioner since 1988. He handled the operations of CARD, Inc. for nine years. Prior to joining CARD SME Bank, he worked with CARD Bank and CARD-Business Development Service Foundation Inc. for eight and 10 years, respectively. He earned his degree Bachelor of Science in Business Administration, Major in Accountancy at San Pablo Colleges in 1987. He finished his Master in Entrepreneurship at the Asian Institute of Management in 2008 and Advance Management Program in Harvard Business School in 2014.</p>
<p>Dr. Gilberto M. Llanto Independent Director 67, Filipino</p>	<p>Dr. Llanto is the President of Philippine Institute for Development Studies and an Independent Director of CARD Bank, Inc. He finished his Bachelor of Arts in Philosophy at St. Francis Seminary, Master of Arts in Economics and Doctorate in Economics at the University of Philippines.</p>
<p>Atty. Wilfredo B. Domo-ong Independent Director 77, Filipino</p>	<p>Atty. Domo-ong has worked with Bangko Sentral ng Pilipinas for almost 30 years. He was formerly an Examiner, Associate Director and later became Director of the Bangko Sentral ng Pilipinas Supervision and Examination Section II. He finished his Bachelor of Science in Commerce and Bachelor of Laws at Manuel L. Quezon University. Atty. Domo-ong sits as Director of 1st Valley Bank and Rizal Microfinance Bank.</p>

<p>Mr. Eduardo D. Jose Jr. Independent Director 69, Filipino</p>	<p>Mr. Jose was formerly a Senior Vice President of the Bank of the Philippine Island Special Lending, Microfinance Unit, Japanese Business Unit, and International and Corporate Banking Divisions. Moreover, he also worked as Executive Director of the BPI Foundation and was a Director of BPI Rental Corporation. He finished his Bachelor of Arts, major in Commerce and Political Science at De La Salle University and finished his Management Development Program at Asian Institute of Management.</p>
<p>Ms. Marlene B. Algire Independent Director 43, Filipino</p>	<p>Ms. Algire represents the client of the Bank. She owns and managed Queen Zone Internet Shop. She formerly worked with Universal Robina Corporation and Prima Lingerie, Inc. as Production QC Sampler and Line Mover, respectively. She earned units in Liberal Arts Commerce major in Management and Communication at Manuel S. Enverga University.</p>
<p>Ms. Milagros C. Rojas Director/Corporate Treasurer 49, Filipino</p>	<p>Ms. Rojas was formerly the General Manager and a Board of Director of Rural Bank of Sto. Tomas prior to acquisition of CARD MRI. She finished her Bachelor of Science in Commerce major in Entrepreneurship from Assumption College.</p>
<p>Ms. Elma B. Valenzuela Director 52, Filipino</p>	<p>Ms. Valenzuela is currently a Director, President and CEO of Rizal Bank, Inc. Prior to joining Rizal Bank, Inc., she is the President/ Executive Director of CARD, Inc. She is a seasoned rural development practitioner. Ms. Valenzuela completed her Bachelor of Science in Agriculture from Gregorio Araneta University Foundation, Master in Business Administration from Trinity College of Quezon City, Executive MBA from Asian Institute of Management, and Advance Management Program at Harvard Business School.</p>
<p>Ms. Maria Elena M. Ruiz Director 67, Filipino</p>	<p>Ms. Ruiz worked with HSBC for 26 years and currently a Board of Trustee of CARD, Inc. She earned a degree in Bachelor of Science in Commerce from College of the Holy Spirit.</p>

## QUALIFICATIONS OF THE BOARD OF DIRECTORS

### Directors

The board of directors must be at least 25 years of age at the time of his election or appointment. They must be a college graduate or have at least five years of experience in related business. The Board should have atleast attended a special seminar on corporate governance for board of directors conducted or accredited by the BSP. They must be fit and proper for the position of a director of the bank considering their integrity, probity, physical and mental fitness, competence, relevant education/financial literacy/training, diligence and knowledge/experience.

### Independent Directors

The independent directors must and have not been an officer or employee of the bank, its subsidiaries or affiliates or related interest during the past three years counted from the date of the board's election. They are not a director or officer of the related companies of the institution's majority stockholders. They are not stockholders with shares of stock sufficient to elect one seat in the board of directors of the institution, or any of its related companies or of its majority corporate stockholders. They should not have a relative within the fourth degree of consanguinity or affinity, legitimate or common-law of any director, officer or a stockholder holding a shares of stock sufficient to elect one seat in the board of the bank or any of its related companies. They are not acting as a nominee or representative of any director or substantial shareholder of the bank, any of its related companies or any of its substantial shareholders. They are not retained as professional adviser, consultant, agent or counsel of the institution, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm.

Moreover, the independent director is independent of management and free from any business or other relationship, and has not engaged and does not engage

in any transaction with the institution or with any of its related companies or with other persons or through firm of which, he is a partner or a company of which he is a director or substantial shareholder, other than transaction which are conducted at arm's length and could not materially interfere with or influence the exercise of his judgment.

An independent director may only serve as such for a maximum of cumulative term of nine years. After which, the independent director shall be perpetually barred from serving as independent director of the bank but may continue to serve as regular director.

### Board Selection Process

1. The Selection Committee is informed thru the Governance Committee of the need to conduct selection/nomination at least one year before the position will be vacated or replaced.
2. Nomination will be forwarded to the HR personnel who then will forward to the Selection Committee.
3. Personal interview will be conducted by the Selection Committee at the place where the nominees are residing. The Selection Committee shall consist of two Board of Directors and an HR.
4. Selection Committee prepares reports and conduct deliberation based on the selection criteria as to who shall be the shortlist nominees.
5. Result of the deliberation shall be submitted to the Governance Committee for review and approval for further endorsement to the Board.
6. The finalist/top selected nominees is the endorsed further to the Governance Committee for further endorsement to the board.
7. Once confirmed by the board, submission of the profile/bio-data to the BSP is done.
8. Elected Board of Director is also required to attend the Corporate Governance and Risk Management Seminar.

## BOARD COMMITTEES

### AUDIT COMMITTEE

Name of Director	Attendance	%
Dr. Jaime Aristotle B. Alip	12	100%
Dr. Gilberto M. Llanto	9	75%
Atty. Wilfredo B. Domo-ong*	5	100%
Ms. Milagros C. Rojas	11	100%
Ms. Marlene B. Algire*	7	100%
<b>Total Number of Meetings for the Year</b>	<b>12</b>	

*\*Elected in May 2017*

1. Provides oversight of the institution's financial reporting and control and internal and external audit functions.
2. Shall be responsible for the setting up of the internal audit department and for the appointment of the internal auditor as well as the independent external auditor who shall both report directly to the audit committee. In case of appointment or dismissal of external auditors, it is encouraged that the decision be made by independent and non-executive audit committee members;
3. Shall review and approve the audit scope and frequency and shall receive key audit reports and ensure that senior management is taking necessary corrective actions in a timely manner to address weaknesses, non-compliance with policies, laws and regulations identified by auditors;
4. Shall have explicit authority to investigate any matter within its terms of reference, full access to and cooperation by management and full discretion to invite any director or executive officer to attend its meetings, and with adequate resources to enable it to effectively discharge its functions;
5. Ensure that a review of the effectiveness of the

- institution's internal controls, including financial, operational and compliance controls, and risk management, is conducted at least annually; and
6. Establishes and maintains mechanisms by which officers and staff may, in confidence, raise concerns about possible improprieties or malpractices in matters of financial reporting, internal control, auditing or other issues to persons or entities that have the power to take corrective action; and ensures that arrangements are in place for the independent investigation, appropriate follow-up action, and subsequent resolution of complaints.

### GOVERNANCE COMMITTEE

Name of Director	Attendance	%
Dr. Jaime Aristotle B. Alip*	5	100%
Ms. Flordeliza Sarmiento*	7	100%
Atty. Wilfredo B. Domo-ong	12	100%
Ms. Ma. Elena M. Ruiz	10	83%
Ms. Marlene B. Algire	12	100%
<b>Total Number of Meetings for the Year</b>	<b>12</b>	

*\*Elected in May 2017*

1. Ensures board effectiveness and due observance of corporate governance principles and guidelines;
2. Reviews and evaluates the qualifications of all nominees to the board as well as those for other positions requiring appointment by the board of directors;
3. Oversees the periodic performance evaluation of the board and its committees and executive management and conducts an annual self-evaluation of its performance;
4. Decides whether or not a director is able to and has been adequately carrying out his duties as director bearing in mind his contribution and performance (e.g.

competence, candor, attendance, preparedness and participation). Internal guidelines shall be adopted that address the competing time commitments when directors serve on multiple boards;

5. Makes recommendations to the board regarding the continuing education of directors, assignment to board committees, succession plan for the board and senior officers, and their remuneration commensurate with corporate and individual performance;
6. Decides the manner by which the board’s performance may be evaluated and proposes an objective performance criteria for approval by the board; Such performance indicators shall show how the board has enhanced long-term shareholders’ value; and
7. Provides guidance to management in strategic issues and ensures that management oversees the implementation of the strategic plan.

**RISK OVERSIGHT COMMITTEE**

Name of Director	Attendance	%
Mr. Eduardo D. Jose Jr.*	5	71%
Atty. Wilfredo B. Domo-ong*	7	100%
Ms. Mary Jane Perreras	12	100%
Ms. Flordeliza L. Sarmiento*	5	100%
<b>Total Number of Meetings for the Year</b>	<b>12</b>	

*\*Elected in May 2017*

The ROC shall advise the board of directors on the bank’s overall current and future risk appetite, oversee senior management’s adherence to the risk appetite statement, and report on the state of risk culture of the bank.

- Oversees the risk management framework. The committee shall oversee the bank’s risk management/governance framework and ensure that there is periodic review of the effectiveness of the risk

management systems, programs and recovery plans. It shall ensure that corrective actions are promptly implemented to address risk management concerns;

- Ensures that the current and emerging risk exposures are consistent with the bank’s strategic direction and overall risk appetite. It shall assess the overall status of adherence to structure, policies, and procedures relating to risk management and control, and performance of management, among others;
- Responsible for the appointment, selection, remuneration, and dismissal of the Chief Risk Officer (CRO). It shall also ensure that the risk management function has adequate resources and effectively oversees the risk-taking activities of the bank; and,
- The Committee shall be provided with adequate resources and shall have the authority to procure the services of independent technical experts, locally and foreign, in carrying out its mandate.

**COMPLIANCE COMMITTEE**

Name of Director / Committee Member	Attendance	%
Atty. Wilfredo B. Domo-ong	11	92%
Ms. Mary Jane Perreras	11	92%
Mr. Benito R. Pagaspas	12	100%
Ms. Cynthia B. Baldeo	12	100%
<b>Total Number of Meetings for the Year</b>	<b>12</b>	

1. Ensures that compliance program is defined for the bank;
2. Ensures implementation of the compliance program and oversee implementation of the Money Laundering and Terrorist Financing Prevention Program;
3. Ensures that compliance issues are resolved and acted upon; and,
4. Ensures that duties and responsibilities stated in the subsec x141.3 of the MORB: Powers/responsibilities and duties of Director are done.

## RELATED PARTY COMMITTEE

Name of Director	Attendance	%
Atty. Wilfredo B. Domo-ong	3	75%
Ms. Mary Jane Perreras	3	75%
Dr. Gilberto M. Llanto	2	50%
Ms. Milagros C. Rojas	3	75%
Ms. Marlene B. Algire	3	75%
<b>Total Number of Meetings for the Year</b>	<b>4</b>	

1. Evaluates annually existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, related party transactions are monitored and including subsequent changes in relationship with counterparty.

2. Evaluates all material related party transactions based on the approved threshold to ensure that the terms are no less favorable than the terms generally available to non-related party under the same circumstances and that no resources of the bank are misappropriated or misapplied. Evaluation shall also determine any potential reputational risk issues that may arise with the transaction. In evaluating transaction, the following shall be considered:

- The related party's relationship to the bank and interest in the transaction;
- The material facts of the proposed RPT, including the proposed aggregate value of such transaction;
- The benefits to the bank of the proposed RPT;
- The availability of other sources of comparable products or services; and
- An assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The bank shall have in place

an effective price discovery system and have exercised due diligence in determining a fair price for RPTs.

3. Ensures that appropriate public disclosure is made, and/or information is provided to supervisors, relating to the bank's RPT exposures, policies on conflicts of interest and potential conflicts of interest. The disclosure shall include information on the approach to managing material conflicts of interest that are inconsistent with such policies; and conflicts that could arise as a result of the bank's affiliation or transactions with other related parties.

4. Reports to the board of directors on a regular basis, the status and aggregate exposures to each related party as well as the total amount of exposures to all related parties. Ensure that transactions with related parties, including write-off of exposures, are subject to periodic independent review or audit process.

5. Oversees the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including the periodic review of RPT policies and procedures.

## PERFORMANCE ASSESSMENT

**Board of Directors**

The corporate governance committee shall be responsible in ensuring the effectiveness and due observance of the board on the principles and guidelines stated in the Corporate Governance manual. It shall include overseeing periodic performance evaluation of the board and its committees including executive management. An annual self-assessment shall be conducted using performance rating code from 1 to 4 to assess their performance in accordance with the following criteria:

**A. Standard of Conduct**

1. Duty of care

- Attendance in the board meetings
- Reasonably informed
- Participation in the decision-making process
- Prudence in exercising judgment

2. Duty of loyalty

- Conflict of interest
- Corporate opportunity
- Confidentiality

3. Duty of obedience

- Conflict of interest
- Corporate opportunity
- Confidentiality

**B. Major Areas of Responsibility**

1. Management accountability

- Install management capacity
- Goal setting
- Performance monitoring
- Confronting weaknesses

2. Strategic planning and policy setting

- Providing direction
- Setting institutional policy
- Resolving strategic issues
- Self-regulation (Continuity, Renewal, and Evaluation)

The result of the evaluation should be forwarded to the committee who will be responsible in deciding whether each director has been adequately carrying out his duties using the criteria stated in the evaluation form. The result of the evaluation shall be the basis of the committee in recommending continuing education of directors and succession plan for the board members and senior officers

**Officers and Staff**

CARD SME BANK conducts Performance Evaluation

for all regular employees annually. Results are reviewed covering the twelve months to serve as the Annual Performance Rating of the employee. Performance Evaluation takes into consideration both quantitative and qualitative performance indicators. In the conduct of the Performance Evaluation, standardized form is used.

Depending on specific needs e.g. transfer of assignment, vacancies for any position, CARD SME BANK also conducts Special Performance Evaluation as part of the regular procedure and requirement for these personnel actions.

Any personnel action related to the conduct of performance appraisal should be taken action on time. It is the responsibility of the staff and respective officers to ensure that report on individual performance is documented properly and submitted to corresponding offices on time.

**ORIENTATION TRAINING AND EDUCATION**

CARD SME BANK places high value on its human resource and recognizes the importance of competent and committed staff. Hence, it is the priority of CARD SME BANK to provide all its employees the training and development inputs and opportunities to effectively and efficiently perform designated functions as well as to promote, facilitate and advance the professional and personal growth of CARD SME BANK employees.

All employees are required to have at least 24 hours training within the year. Moreover, full-scholarship is granted by the CARD SME BANK to formal studies for selected Management Officials. All regular employees who wish to get involved in further studies to earn Degree Course or Master's Degree can avail a Scholarship Plan.

**RETIREMENT AND SUCCESSION PLANNING**

All regular employees of CARD SME BANK are entitled with the bank retirement benefits.

As the bank expands its operations, corporate governance committee ensures that the review of the succession planning process is being done. This is in preparation for filling up of vacancies brought about by expansion, promotion, retirement, among others. This succession plan is created to ensure that qualified employees are recruited and developed to fill each key role within the bank.

## REMUNERATION POLICY

### Executive and Non-Executive Directors

CARD SME Bank ensures that Executive and Non-Executive Directors are well covered and protected with the following access to financial assistance as follows:

- Medical coverage per sickness per year and hospitalization income;
- Based on assessment, while on duty, coverage cost of hospitalization and medical procedures in excess of normal medical coverage;
- Accidental coverage for physical injury per year;
- Property insurance coverage;
- Accidental death insurance coverage;
- Death due to natural causes insurance coverage;
- Financial Assistance for death of immediate family member;
- Access to staff loan through CARD Employee Multi Purpose Cooperative; and
- Company ensures that whenever an employee resigned or retires, fund for retirement plan will be available to provide benefits for qualified employees

### Officers and Staff

CARD SME BANK maintains a salary and benefits structure competitive with the prevailing rates/system of similar agencies and organizations compatible with the financial condition and objectives of the institution. The value of all jobs within the institution is established at rates of pay that are fair and equitable in relation to the job requirements in terms of complexity, responsibility,

skills and qualifications, and in relation to all other jobs in the institution.

The remuneration policy of CARD SME BANK is also in accordance with the provisions of the applicable labor law and all other appropriate legal authorities.

### Employee Benefits

The Bank conducted Annual Physical Exam for its staff and provided free healthcare benefits and health facilities such as fitness center and medical clinics manned by occupational health practitioners. As a member institution of CARD MRI, CARD SME Bank, Inc. continuously pursues competence and high regards on our human resources. To further build on their skills and capabilities in running our banking, SME and microfinance operations, our board members and officers undergo continuous capacity building through local and international trainings, seminars, workshops, and conferences. Selected officers of the Bank are also given an opportunity to study Master Degree Program.

## POLICIES ON RELATED PARTY TRANSACTIONS

The Policy of CARD SME BANK on related party cover transactions or dealings of the bank with related parties as defined under the Manual of Regulations for Bank (MORB) such as bank's subsidiaries, affiliates, directors, officers, stockholders, and their related interest and other related parties as identified and approved by the board of directors regardless of whether or not the price is charged.

The Bank's Related Party Committee is composed of five Board of Directors, three of whom are Independent Directors, that evaluate all material related party transactions based on the approved threshold to ensure that the terms are no less favorable than the terms generally available to non-related party under the same circumstances and that no resources of the bank are misappropriated or misapplied. The evaluated transactions are endorsed for board approval.

To ensure that potential or actual conflict of interest is identified and prevented, members of the board are required to disclose and execute certification prior to approval of related party transaction whether they are directly or indirectly or on behalf of a third party, have financial interest in any transaction.

### SELF ASSESSMENT FUNCTION

To ensure robust and exemplary banking operations, CARD SME Bank, Inc. implements the following independent functions:

#### Internal Auditor

Under the direct supervision of the Audit Committee, the Internal Audit evaluates and ensures the adequacy and effectiveness of the internal controls of the Bank. The Internal Audit Department is mandated to conduct financial audit, compliance audit, operations audit, management audit, and information system audit. It also holds full access rights to all activities, information, records, properties, and personnel relevant to the internal audit activity.

#### External Auditor

Sycip Gorres Velayo & Co. (SGV) is the authorized External Auditors of the Bank. It presents an audit plan to the Audit Committee and performs audit risk assessment. It also reviewed the internal audit report and compliance with accounting standards and regulatory requirements.

#### Compliance System

The Bank's compliance system was designed to identify and mitigate business risks, which may erode the franchise value of the bank. Business risks include but not limited to the following:

- Risks to reputation that arise from internal decisions that may damage a bank's market standing
- Risks to reputation that arise from internal decision

and practices that ultimately impinge on the public trust of a bank;

- Risks from the action of a bank that are contrary to the existing regulations and identified best practices and reflect weaknesses in the implementation of codes of conduct and standard of good practice; and
- Legal risks to the extent that changes in the interpretation or provisions of regulations directly affect the bank's business model.

The Compliance unit/department is responsible for ensuring that the Bank complies with the requirements, policies, circulars, and guidelines issued by BSP, BRI, LGUs, and other government agencies. It is headed by a Chief Compliance Officer (CCO), which is appointed by the Bank's board of directors.

### DIVIDEND POLICY

The basis of dividend declaration is from the income of the previous year and the capital adequacy ratio not less than the regulatory requirement and not far from the industry ratio.

### CORPORATE SOCIAL RESPONSIBILITY

CARD SME BANK, in collaboration with CARD MRI's Community Development group, provides health protection program for its clients. This is the Bank's way of making sure that its clients are in good health condition. The Bank also provides scholarship grants for its client and their children. This is inline of CARD MRI's "One Family, One Graduate" Program where it is envisioned that every household should at least have one college graduate. To avail the program, clients should be at least three years member with good repayment and business performance.

The Bank also conducts regular "Negosyo Talk" to its clients where it invites various resource speakers from different sector/industry to discuss current trends in

business.

### CONSUMER PROTECTION PRACTICES

To ensure that inherent consumer protection risks are identified, measured, monitored and controlled, the bank adopted Consumer Protection Risk Management System. Likewise, this system will ensure the bank's adherence to consumer protection standards, compliance with consumer protection laws, rules, and regulations.

1. Board and Senior Management Oversight – CARD SME BANK board of directors have the ultimate duties and responsibilities to ensure full compliance with the consumer protection policies and procedures. The board shall be responsible for the development and maintenance of a sound Customer Protection and Risk Management System for all products and services life cycle. Board and Senior Management shall ensure that effectiveness of this system is periodically reviewed including reporting of findings and audit mechanism in place. As such, board of directors through the Compliance Office and Internal Audit are regularly updated on the matters related to consumer protection compliance and risk management of the bank.

2. Consumer Protection Compliance Program (CPCP) – this program was adopted to guide all the staff, officers, management and the board of directors in ensuring the bank's adherence to consumer protection standards, compliance with consumer protection laws, rules and regulations. Compliance Office is designated as the responsible office to handle the implementation of this program.

3. Internal Audit - Simultaneous with operations and financial audit, Internal Audit ensure that bank's consumer protection practices, adherence to internal policies and procedures and compliance with the existing laws, rules and regulations are reviewed. A well-designed Consumer Protection Audit Program is used to ensure that the board can make an assessment on the effectiveness of the implementation of the approved policies and standards to meet consumer protection objectives.

4. Training – Bank's personnel and customers' continuing education is vital towards maintaining a sound consumer protection compliance program. As such, the bank sees to it that all bank employees and customers shall be given appropriate training on consumer protection.

### CONSUMER ASSISTANCE MANAGEMENT SYSTEM (CAMS)

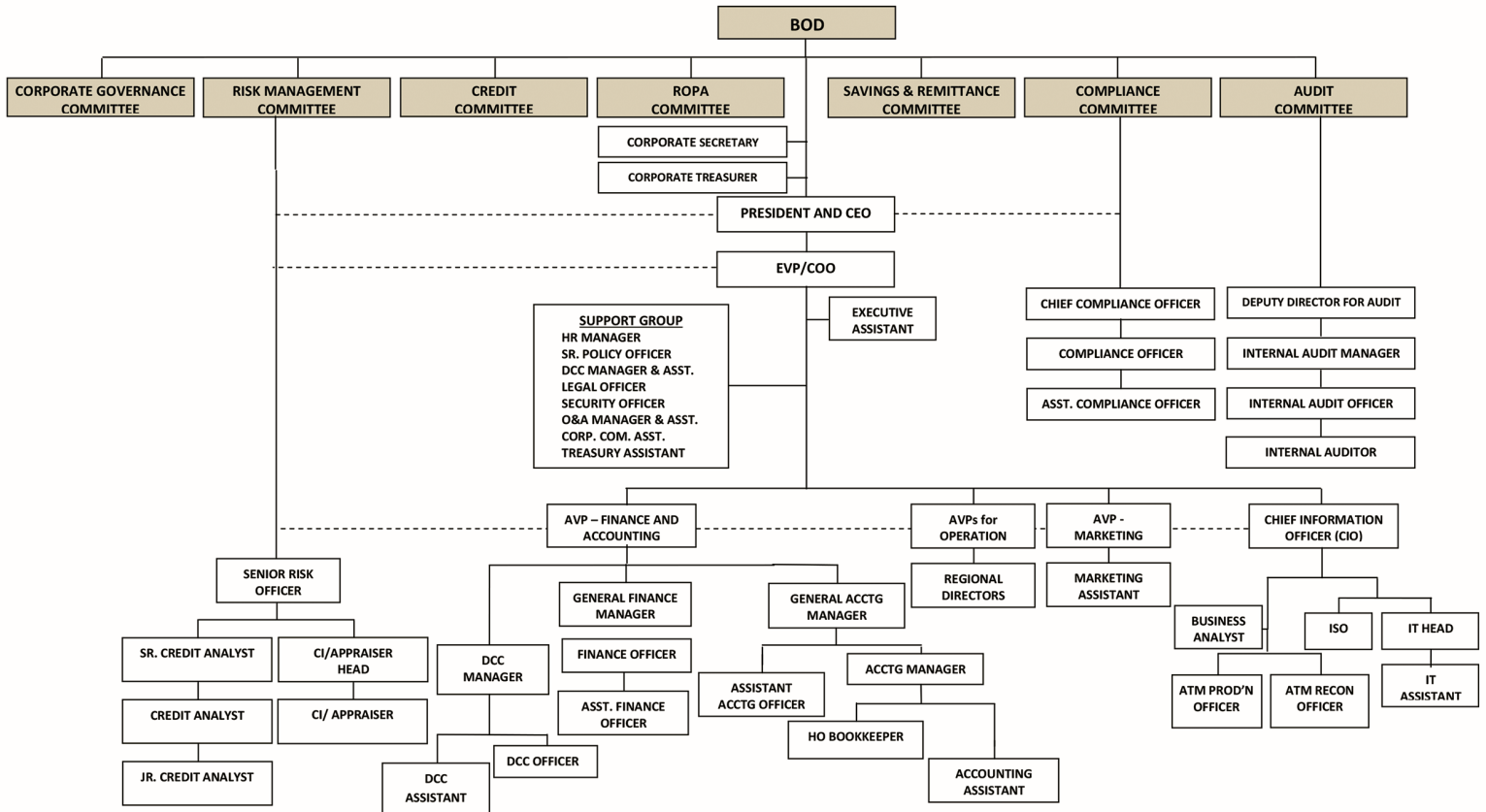
The bank recognizes the major role of customer in achieving its objective of a stable banking operation apart from being the reason of its existence as part of the CARD MRI goal of poverty alleviation. In support also to the initiative of BSP towards bringing a strong and stable financial system, it is the policy of the bank to support the protection of customer's rights at all times.

The main objective of the policy is to obtain 100% clients satisfaction on products and services of CARD SME BANK, develop customer care service, and to be more aware of the needs of members and become proactive in addressing future demands and concerns.

# CORPORATE INFORMATION

CARD SME BANK, INC., A Thrift Bank

ORGANIZATIONAL CHART  
(HEAD OFFICE)



<p>Mr. Aristeo A. Dequito, President and Chief Executive Officer 51, Filipino</p>	<p>Mr. Dequito is a microfinance practitioner since 1988, he handled the operations of CARD, Inc. for nine years. Prior to joining CARD SME Bank, he worked with CARD Bank and CARD-Business Development for eight and 10 years, respectively. He earned his degree of Bachelor of Science in Business Administration, Major in Accountancy at San Pablo Colleges in 1987. He finished his Master in Entrepreneurship at the Asian Institute of Management in 2008 and Advance Management Program in Harvard Business School in 2014.</p>
<p>Ms. Cynthia B. Baldeo Executive Vice President and Chief Operating Officer 54, Filipino</p>	<p>Ms. Baldeo has been a banker for almost 20 years. She is a graduate of Laguna State Polytechnic College in 1988, finished her MBA from Trinity College of Quezon City in 2004 and EMBA from Asian Institute of Management in 2010.</p>
<p>Ms. Cherry B. Boncajes Assistant Vice President for Operation 42, Filipino</p>	<p>Ms. Boncajes has been with microfinance and SME banking operations for 17 years. She is a graduate of University of the Philippines Los Baños Campus with the degree of Bachelor of Science in Forestry in 1998. She also finished her Master of Arts in Organizational Development in Southeast Asia Interdisciplinary Development Institute in 2010.</p>
<p>Ms. Anita F. Rapera Assistant Vice President for Operation 50, Filipino</p>	<p>Ms. Rapera joined CARD SME Bank as Regional Director from July 2012 to January 2017 and now the Bank's AVP for operation. She finished her bachelor's degree in Accountancy from Masbate Colleges in 1994 and her Master of Arts in Organizational Development in Southeast Asia Interdisciplinary Development Institute in 2011.</p>
<p>Ms. Florence C. Castillo Senior Regional Director 40, Filipino</p>	<p>Ms. Castillo has been with CARD SME Bank since February 2016 as Regional Director. She finished her Bachelor of Science in Commerce major in Management at Colegio Dela Milagrosa in 1997 and finished her Master in Productivity and Quality Management at the Development Academy of the Philippines. She also finished Management Development Program at the Asian Institute of Management in 2016.</p>

<p>Ms. Jeannie T. La Rosa Assistant Vice President for Finance (OIC) 41, Filipino</p>	<p>Ms. La Rosa, finished her Bachelor of Science in Commerce major in Banking and Finance at Divine World College of Calapan in 1996 and Master of Arts in Organizational Development in Southeast Asia Interdisciplinary Development Institute in 2013. Prior to joining CARD SME Bank, she has been with the Finance and Accounting of CARD Bank, Inc. for almost 12 years.</p>
<p>Mr. Manolo C. Martinez Head of Marketing and product Development 50, Filipino</p>	<p>Mr. Martinez was formerly a Business Manager of UNIONBANK, Sales Executive of Petron Corporation, and Corporate Sales Manager of BANKARD, Inc. He completed his Bachelor of Science in Business Administration degree at the University of Sto. Tomas in 1992.</p>
<p>Mr. Allan D. Dimaano Chief Information Officer 44, Filipino</p>	<p>Mr. Dimaano has been a banker for almost 19 years. He joined CARD SME Bank since 2010 as Bank Manager and Senior Program Manager from 2013 to 2016. He finished Marine Engineering from Technological Institute of the Philippines in 1997 and earned his Master in Productivity and Quality Management from Development Academy of the Philippines in 2013</p>
<p>Mr. Benedict A. Ame Chief Compliance Officer 37, Filipino</p>	<p>Prior to joining CARD SME Bank, Mr. Ame has been with CARD Bank for more than 10 years. He earned his Bachelor of Science in Commerce, degree major in Management from Quezon Colleges of the North in 2002. He finished his Master in Productivity and Quality Management at Development Academy of the Philippines in 2017.</p>
<p>Mr. Jerry V. Montejo Head of Risk Management 43, Filipino</p>	<p>Mr. Montejo has been with CARD SME Bank operation for more than nine years. He earned his Bachelor of Science in Business Administration degree, major in Management, in 2002 and finished his Master in Productivity and Quality Management at the Development Academy of the Philippines in 2017.</p>
<p>Ms. Ma. Charissa M. Adorna Deputy Director for Audit 34, Filipino</p>	<p>Prior to joining CARD SME Bank, she served as Audit Expert in CARD Inc., International Group in Cambodia from January 2012 to November 2014 and later on become Audit and Risk Manager of SAMIC Plc in Cambodia. Ms. Adorna finished her degree Bachelor of Science in Accountancy at the University of Nueva Caceres in 2006.</p>

## MAJOR STOCKHOLDERS

NAME OF STOCKHOLDER	NATIONALITY	%
Center for Agriculture and Rural Development (CARD), Inc.	FILIPINO	33.81%
CARD EMPC	FILIPINO	26.62%

## PRODUCTS AND SERVICES

### Savings

#### Micro Deposit

**1.Pledge-** The Pledge Savings represents each member's deposits and also acts as loan guarantee given that loans are non-collateralized

**2.Maagap-** The Maagap savings represents deposit accounts specifically designed for kids.

**3. Katuparan-** Savings account with fixed deposit amount and microinsurance coverage based on the desired target savings in a given period of time supported by a signed agreement.

#### Regular Savings

**1.iSave-** A regular savings accounts evidenced by passbook.

**2.MyA Account-** ATM savings account.

**3.EarnMore-** EarnMore Account represents special savings account (time deposit), which helps the client to secure savings for a better future. Interest rate depends on the amount of deposit and term.

#### Checking Account

**My BizCheck-** My BizCheck Account is a deposit account with check book facility. It is also known as current or demand account. Typically this is used for making business payments.

#### Loans

**Microfinance Loan-** This product includes all loans intended for business or enterprises of the microfinance clients such as working capital, purchase of equipment and assets for use in the business, buying raw materials, etc. Clients can borrow up to a maximum of Php150,000.

**Quick SME Loan-** QSL is a loan product designed to help micro and small entrepreneurs located in semi-urban and urban areas. The loan aims to give financial support to micro and small entrepreneurs who are facing problems in deficiency of working capital. QSL loan up to a maximum of Php300,000 can support micro and small enterprises in order to promote income, production and employment generation

**SME UNLAD Loan-** The SME UNLAD Loan seeks to assist microfinance clients with good credit performance and showing potential to become regular SME. Maximum loan amount is up to Php300,000.

#### SME Loan

**Express Working Capital-** Working capital loans are loans that would be repaid out of operating funds in the normal course of business. Short-term working capital may be used to finance seasonal needs of the company. This can be in the form of a term loan or a revolving credit line.

**Express Investment Capital Loan (EIL)-** Investment loans are used to finance the acquisition of fixed assets and/or building renovation/ construction and financed by a term loan.

**Agrifinance Loans-** Loan product for the agri-related business and agribusiness production

**Consumer Loans-** Loan Product specific for the need to acquire/ invest on vehicle, house and lot.

- Drive Ur Wheels (Car Loan)
- Bahay Katuparan (Housing Loan)

**Wholesale Lending** - Loans intended for microfinance retailing, and/or relending to small and medium entrepreneurs.

#### Other Services

Remittance

- CARD Sulit Padala
- Cebuana Lhuillier

*In this age of technology, our journey to 5-8-40 has been challenged to its core. There were adjustments made but what remained is our commitment to eradicate poverty in the country. This year, we opened branches, organized Savings Caravan and a Family Fun Run activity, and visited our member-clients in Hong Kong. All these are our ways of making a better Philippines.*







# ***THE BOARD OF DIRECTORS***



**Dr. Jaime Aristotle B. Alip**  
*Chairperson*

**Ms. Mary Jane A. Perreras**  
*Vice-Chairperson for External Affairs*

**Ms. Flordeliza L. Sarmiento**  
*Vice Chairperson for Administration*

**Ms. Milagros C. Rojas**  
*Corporate Treasurer/Director*

**Mr. Aristeo A. Dequito**  
*President and CEO/Director*

**Ms. Maria Elena M. Ruiz**  
*Director*

**Ms. Elma B. Valenzuela**  
*Director*

**Ms. Marlene B. Algire**  
*Independent Director*

**Atty. Wilfredo B. Domo-ong**  
*Independent Director*

**Dr. Gilberto M. Llanto**  
*Independent Director*

**Mr. Eduardo D. Jose Jr.**  
*Independent Director*

**Dr. Edzel A. Ramos**  
*Corporate Secretary*

**Atty. Edgardo R. Marilim**  
*Legal Counsel*



# ***THE MANAGEMENT COMMITTEE***

**Mr. Aristeo A. Dequito**  
*President and CEO*

**Ms. Cynthia B. Baldeo**  
*Executive Vice President and COO*

**Ms. Cherry A. Boncajes**  
*Assistant Vice President – Operations*

**Mr. Jerry V. Montejo**  
*Head of Risk Management*

**Mr. Allan D. Dimaano**  
*Chief Information Officer*

**Mr. Florence B. Castillo**  
*Senior Regional Director*

**Mr. Rodel T. Bombase**  
*Senior Regional Director*

**Mr. Frederick Nicasio M. Torres**  
*Regional Director*

**Ms. Leonida M. Gutierrez**  
*Regional Director*

**Ms. Jeannie T. La Rosa**  
*Assistant Vice President – Finance (OIC)*

**Ms. Anita F. Rapera**  
*Assistant Vice President - Operations*

**Mr. Benedict A. Ame**  
*Chief Compliance Officer (OIC)*

**Mr. Manolo M. Martinez**  
*Head – Marketing and Product Development*

**Ms. Noralyn D. Silvestre**  
*Senior Regional Director*

**Mr. Dennis O. Dimaculangan**  
*Regional Director*

**Ms. Joy G. Palomique**  
*Regional Director*

**Ms. Patricia G. Saballo**  
*Regional Director*

**Ms. Juliana M. Salcedo**

*Regional Director (OIC)*

**Ms. Maritess O. Angara**

*Regional Director (OIC)*

**Ms. Josefina F. dela Cruz**

*Senior Area Manager*

**Mr. Joven N. Robes**

*Senior Personnel Manager*

**Ms. Amalia R. Ditchoso**

*Senior Area Manager*

**Ms. Jeaniebeth A. Mangundayao**

*DCC Manager*

**Ms. Mary Ann C. Resplandor**

*General Accounting Manager*

**Mr. Eduardo L. Dimaano Jr.**

*Information Security Officer*

**Ms. Rosella F. Sansano**

*Regional Director (OIC)*

**Ms. Lourdes A. Marasigan**

*Senior Area Manager*

**Ms. Rossana A. Cacha**

*Senior Credit Policy Officer*

**Ms. Maria Charissa M. Adorna**

*Deputy Director for Audit (OIC)*

**Mr. Shielo K. Reyes**

*Senior Area Manager*

**Mr. Ross Meinard C. Ramos**

*Senior Information Technology Officer*

**Ms. Mildred dT. Ballares**

*General Finance Manager*

**Mr. Peter C. Pasia**

*Legal Officer*

**Mr. Ariel F. De Villa**

*Security Officer*

# OUR PARTNERS

## PARNTERSHIPS / COLLABORATIONS

- Agricultural Guarantee Fund Pool (AGFP)
- Banco de Oro (BDO)
- Bank of the Philippine Islands (BPI)
- Bellavita Land Corporation
- Calmar Land Development Corporation
- ChinaBank Savings
- Department of Trade and Industry (DTI)
- Development Bank of the Philippines (DBP)
- German Savings Bank Foundation, Germany
- Gervacio Home Management Aide Services (GHMAS)
- International Finance Corporation (IFC)
- Landbank of the Philippines (LBP)
- Maybank
- Metro Commercial and Industrial Services Corporation
- Metropolitan Bank and Trust Corporation ( MBTC)
- New Armstrong Security Agency
- Philippine Center for Entrepreneurship (PCE) – Go Negosyo
- Philippine Savings Bank (PS Bank)
- Philippine National Bank (PNB)
- Rizal Commercial Banking Corporation (RCBC)
- Rocking Moon Foundation
- Savings Bank Foundation for International Cooperation (SBFIC), Germany
- Security Bank
- SGV & Co.
- Small Business Corporation
- Social Security System
- Sparkasse Essen, Germany
- Sparkasse Rothenburg

- Sparkassen International Development Trust
- Superguard Security Corporation
- Union Bank of the Philippines
- United Coconut Planters Bank (UCPB)
- Philippine Bank of Communications (PBCOM)

## REGULATORY BODIES

- Bangko Sentral ng Pilipinas (BSP)
- Philippine Deposit Insurance Corporation (PDIC)
- Securities and Exchange Commission (SEC)

## AFFILIATIONS

- Bankers Institute of the Philippines, Inc. (BAIPHIL)
- BancNet Inc.
- BAP Credit Bureau
- Chamber of Thrift Banks
- Micro Finance Data Sharing (MIDAS)
- Philippine Chamber of Commerce and Industry (PCCI) Batangas
- Philippine Chamber of Commerce and Industry (PCCI) San Pablo Chapter
- San Pablo Bankers' Association



# OUR BRANCHES



WE SERVE FILIPINOS NATIONWIDE THROUGH OUR 23 BRANCHES AND 173 MICROBANKING OFFICES

## SAN PABLO CITY HEAD OFFICE

120 M. Paulino corner Burgos Streets, San Pablo City, Laguna

Customer Service Hotline  
Tel. No. 049-503-2671 / 049-503-2672  
Mobile No. 0998-886-4486  
Email: [sme.sanpablo@cardbankph.com](mailto:sme.sanpablo@cardbankph.com)

## CALABARZON -REGION IV-A

### CALAMBA CITY BRANCH

High Rise Business Center,  
Brgy. Halang, Calamba City, Laguna  
049-508-3544

### STA ROSA CITY BRANCH

Casita Building, Brgy. Dila  
Sta. Rosa City, Laguna  
049-502-4786

### SAN PEDRO BRANCH

94 Mabini Street, Poblacion  
San Pedro, Laguna  
02-805-8295

### STO TOMAS BRANCH

General Malvar corner Manalo  
Street, Sto. Tomas, Batangas  
043-778-3626

### LIPA CITY BRANCH

General Luna Street., Brgy. Sabang,  
Lipa City, Batangas  
043-756-1177

### BALAYAN BRANCH

Union Street, Poblacion 5,  
Balayan, Batangas  
043-211-6748

### BATANGAS CITY BRANCH

G/F JCC Building, Zone 12  
P. Burgos Street, Batangas City  
043-702-1317

### LEMERY BRANCH

Ilustre Avenue, District 4  
Lemery, Batangas  
043-774-4782

### CAVITE CITY BRANCH

Corner P. Pio Street, Burgos Avenue,  
Caridad, Cavite City  
046-431-2762

### TAGAYTAY CITY BRANCH

Blk 1 Lot 1 and 2, Foggy Heights Village,  
Brgy. San Jose, Purok 157, Tagaytay City  
046-413-4641

### DASMARIÑAS CITY BRANCH

104 P. Campos Avenue, San Agustin  
Dasmariñas City, Cavite  
046-416-0695

### GENERAL MARIANO ALVAREZ (GMA) BRANCH

Block 5 Lot 5 Congressional Road,  
Poblacion 1, GMA, Cavite  
046-412-1257

**CENTRAL LUZON – REGION III**

**SAN JOSE DEL MONTE CITY BRANCH**

Blk 1 Lot 9 BC Diamond Crest, Brgy San Manuel,  
San Jose Del Monte City, Bulacan

**BALANGA CITY BRANCH**

Balanga Market Access Road,  
Corner Capitol Drive, San Jose,  
Balanga City, Bataan  
047-935-0965

**SUBIC BRANCH**

Baraca-Camachile,  
Subic, Zambales  
047-232-0180

**MIMAROPA – REGION IV-B**

**PUERTO PRINCESA CITY BRANCH**

36 S. Bonoan Rd. (New Market Road)  
Brgy. Tagumpay, Puerto Princesa City, Palawan  
048-433-9588

**BICOL REGION – REGION V**

**NAGA CITY BRANCH**

Unit # 3 MMCN Bldg., Panganiban Drive,  
Naga City  
054-881-3778

**ILOCOS REGION – REGION 1**

**DAGUPAN CITY BRANCH**

AB Fernandez Avenue,  
Dagupan City  
075-540-2970

**VIGAN CITY BRANCH**

Calle Quirino corner Calle Salcedo,  
Vigan City, Ilocos Sur  
077-674-1568

**VISAYAS – REGION VII**

**LAPU - LAPU CITY BRANCH**

Cagodoy Road, Brgy. Basak  
Lapu-Lapu City, Cebu  
032-888-9518

**TALISAY CITY BRANCH**

Talisay Town Center, Victoria Street,  
Brgy Tabunok, Talisay City, Cebu  
032-383-3654

**MINDANAO – REGION XII**

**GENERAL SANTOS CITY BRANCH**

Upper Acharon, Brgy. Calumpang  
General Santos City, South Cotabato  
083-887-1139

**ZAMBOANGA CITY BRANCH**

WLK Bldg., Veterans Avenue, Zone 3,  
Zamboanga City  
062-983-1800



# OUR MICROBANKING OFFICES

## CALABARZON -Region IV-A

### San Pablo City Branch

San Pablo City  
Candelaria, Quezon

### GMA, Cavite Branch

GMA, Cavite  
Carmona, Cavite

### Calamba City Branch

Calamba City, Laguna

### San Pedro Branch

San Pedro, Laguna

### Sto Tomas Branch

Sto Tomas, Batangas  
Tanauan City, Batangas  
Malvar, Batangas  
Talisay, Batangas  
Laurel, Batangas

### Balayan Branch

Balayan, Batangas  
Calaca, Batangas  
Calatagan, Batangas  
Lian, Batangas  
Nasugbu, Batangas  
Tuy, Batangas

### Batangas City Branch

Batangas City  
Lobo, Batangas  
Bauan, Batangas  
San Pascual, Batangas  
Mabini, Batangas

### Lemery, Branch

Lemery, Batangas  
Taal, Batangas  
Agoncillo, Batangas  
San Luis, Batangas  
Alitagtag, Batangas

### Lipa City Branch

Lipa City, Batangas  
Mataas na Kahoy, Batangas  
Balete, Batangas  
Ibaan, Batangas  
Padre Garcia, Batangas  
Rosario, Batangas  
Cuenca, Batangas  
San Jose, Batangas

### Sta Rosa City Branch

Sta Rosa City, Laguna  
Cabuyao, Laguna  
Biñan, Laguna

### Tagaytay City Branch

Tagaytay City, Cavite  
Silang, Cavite  
Mendez, Cavite  
Naic, Cavite  
Indang Cavite  
Alfonso, Cavite  
Maragondon, Cavite

### Dasmariñas City

Dasmariñas City, Cavite  
Imus, Cavite  
General Trias, Cavite  
Trece Martires, Cavite

### Cavite City Branch

Cavite City  
Noveleta, Cavite  
Kawit, Cavite  
Rosario, Cavite  
Bacoor, Cavite  
Tanza, Cavite

## CENTRAL LUZON – REGION III

### San Jose Del Monte City Branch

San Jose Del Monte City, Bulacan  
Marilao, Bulacan  
Meycauyan, Bulacan  
Norzagaray, Bulacan  
Sta Maria, Bulacan

### Subic Branch

Subic, Zambales  
Olongapo, Zambales  
Castillejos, Zambales  
San Narciso, Zambales  
San Marcelino, Zambales

### Balanga City Branch

Balanga City, Bataan  
Orion, Bataan  
Orani, Bataan  
Mariveles, Bataan  
Dinalupihan, Bataan  
Bagac, Bataan  
Morong, Bataan  
Samal, Bataan  
Hermosa, Bataan  
Pilar, Bataan  
Limay, Bataan

## ILOCOS REGION – REGION I

### Dagupan City Branch

Dagupan City, Pangasinan  
Sta Barbara, Pangasinan  
Calasiao, Pangasinan  
Binmaley, Pangasinan  
Mangaldan, Pangasinan  
San Fabian, Pangasinan  
Sison, Pangasinan  
San Jacinto, Pangasinan  
Pozorrubio, Pangasinan  
Manaog, Pangasinan  
San Manuel, Pangasinan  
Binalonan, Pangasinan

### Vigan City Branch

Vigan City, Ilocos Sur  
Caoayan, Ilocos Sur  
Bantay, Ilocos Sur  
San Juan, Ilocos Sur  
Sinait, Ilocos Sur  
Magsingal, Ilocos Sur  
Sto. Domingo, Ilocos Sur  
Badoc, Ilocos Norte

## IMIMAROPA – REGION IV B

### Puerto Princesa City Branch

Puerto Princesa City, Palawan

## BICOL REGION

### Naga City Branch

Iriga, Cam Sur  
Nabua, Cam Sur  
Baa, Cam Sur  
Sipocot, Cam Sur

## VISAYAS

### Lapu Lapu City Branch

Lapu Lapu City, Cebu  
Cordova, Cebu  
Mandaue, Cebu  
Talamban, Cebu  
Lilo-an, Cebu  
Sta Rosa, Cebu

### Talisay City Branch

Talisay City, Cebu

## MINDANAO

### General Santos City Branch

General Santos City  
Polomolok, South Cotabato

### Zamboanga City Branch

Zamboanga City



***AUDITED FINANCIAL  
STATEMENTS***

**CARD SME BANK, INC., A THRIFT BANK**  
**STATEMENTS OF FINANCIAL POSITION**

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
Cash and Other Cash Items (Note 6)	<b>₱16,419,549</b>	₱8,550,182
Due from Bangko Sentral ng Pilipinas (Notes 6 and 12)	<b>233,021,335</b>	156,044,613
Due from Other Banks (Note 6)	<b>430,501,434</b>	217,923,219
Loans and Receivables (Note 7)	<b>4,057,932,876</b>	2,773,465,206
Property and Equipment (Note 8)	<b>152,464,228</b>	129,507,157
Investment Properties (Note 9)	<b>7,781,349</b>	8,357,492
Intangible Assets (Note 10)	<b>6,131,180</b>	8,795,939
Retirement Asset (Note 17)	<b>102,426,693</b>	75,590,128
Deferred Tax Assets (Note 18)	<b>18,364,365</b>	16,396,816
Other Assets (Note 11)	<b>44,171,591</b>	38,576,206
<b>TOTAL ASSETS</b>	<b>₱5,069,214,600</b>	<b>₱3,433,206,958</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
Deposit Liabilities (Notes 12 and 19)		
Demand	<b>₱9,410,781</b>	₱7,911,981
Savings	<b>2,893,808,218</b>	1,891,728,854
	<b>2,903,218,999</b>	1,899,640,835
Bills Payable (Note 13)	<b>1,038,425,577</b>	694,069,886
Income Tax Payable	<b>53,152,097</b>	28,093,464
Other Liabilities (Note 14)	<b>199,272,291</b>	65,768,756
	<b>4,194,068,964</b>	2,687,572,941
<b>Equity</b>		
Common Stock (Note 16)	<b>495,279,400</b>	469,917,000
Surplus	<b>354,459,052</b>	266,182,858
Remeasurement Gains on Retirement Plan (Note 17)	<b>25,407,184</b>	9,534,159
	<b>875,145,636</b>	745,634,017
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱5,069,214,600</b>	<b>₱3,433,206,958</b>

*See accompanying Notes to Financial Statements.*

**CARD SME BANK, INC., A THRIFT BANK**  
**STATEMENTS OF INCOME**

	<b>Years Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
<b>INTEREST INCOME</b>		
Loans and receivables (Note 7)	₱1,473,715,149	₱1,015,542,517
Due from other banks (Note 6)	2,642,778	2,846,661
	<b>1,476,357,927</b>	<b>1,018,389,178</b>
<b>INTEREST EXPENSE</b>		
Deposit liabilities (Notes 12 and 19)	45,300,782	33,659,960
Bills payable (Note 13)	30,033,318	21,476,385
Others	750,161	161,032
	<b>76,084,261</b>	<b>55,297,377</b>
<b>NET INTEREST INCOME</b>	<b>1,400,273,666</b>	<b>963,091,801</b>
<b>OTHER INCOME (LOSS)</b>		
Gain (loss) on sale of assets - net (Notes 8 and 9)	(842,917)	4,491,830
Miscellaneous	8,021,054	4,633,560
<b>TOTAL OPERATING INCOME</b>	<b>1,407,451,803</b>	<b>972,217,191</b>
<b>OPERATING EXPENSES</b>		
Compensation and fringe benefits (Notes 17 and 19)	408,220,070	293,536,563
Taxes and licenses (Note 9)	83,053,364	59,077,255
Transportation and travel (Note 19)	79,899,977	61,903,741
Occupancy and equipment-related cost (Notes 19 and 20)	73,448,592	48,174,374
Stationery and office supplies	58,061,712	33,544,035
Employee trainings (Note 19)	42,005,271	34,395,470
Provision for credit and impairment losses (Note 7)	40,701,770	37,095,217
Depreciation and amortization (Notes 8, 9 and 10)	32,220,527	24,140,022
Security, messengerial and janitorial	28,601,633	18,635,849
Information technology (Note 19)	26,470,916	18,961,392
Program monitoring	15,080,858	9,631,354
Representation and entertainment (Note 18)	11,016,028	9,736,713
Power, light and water	10,413,797	6,936,872
Fines, penalties and other charges	9,981,963	-
Postage, telephone and cable	8,116,057	5,741,664
Meetings and seminars (Note 19)	7,951,877	8,109,779
Insurance	6,137,325	6,766,400
Repairs and maintenance	5,906,067	4,404,536
Honorarium and directors' fees (Note 19)	5,162,869	5,251,392
Professional fees	4,227,415	5,414,473
Community development	1,982,980	3,122,990
Miscellaneous (Note 9)	6,021,858	7,141,986
<b>TOTAL OPERATING EXPENSES</b>	<b>964,682,926</b>	<b>701,722,077</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>442,768,877</b>	<b>270,495,114</b>
<b>PROVISION FOR INCOME TAX</b> (Note 18)	<b>134,492,683</b>	<b>82,186,578</b>
<b>NET INCOME</b>	<b>₱308,276,194</b>	<b>₱188,308,536</b>

See accompanying Notes to Financial Statements.

**CARD SME BANK, INC., A THRIFT BANK**  
**STATEMENTS OF COMPREHENSIVE INCOME**

	<b>Years Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
<b>NET INCOME</b>	<b>₱308,276,194</b>	<b>₱188,308,536</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
<i>Other comprehensive income (loss) not recycled to profit or loss in subsequent periods:</i>		
Changes in remeasurement gain (loss) on retirement plan (Note 17)	22,675,750	(8,332,119)
Income tax effect	<b>(6,802,725)</b>	2,499,636
	<b>15,873,025</b>	<b>(5,832,483)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱324,149,219</b>	<b>₱182,476,053</b>

*See accompanying Notes to Financial Statements.*

**CARD SME BANK, INC., A THRIFT BANK**  
**STATEMENTS OF CHANGES IN EQUITY**

	Common Stock (Note 16)	Surplus	Remeasurement Gains on Retirement Plan (Note 17)	Total
<b>Balance at January 1, 2017</b>	<b>₱469,917,000</b>	<b>₱266,182,858</b>	<b>₱9,534,159</b>	<b>₱745,634,017</b>
Collection of subscriptions receivable	25,362,400	–	–	25,362,400
Total comprehensive income for the year	–	308,276,194	15,873,025	324,149,219
Cash dividends declared (Note 17)	–	(220,000,000)	–	(220,000,000)
<b>Balance at December 31, 2017</b>	<b>₱495,279,400</b>	<b>₱354,459,052</b>	<b>₱25,407,184</b>	<b>₱875,145,636</b>
Balance at January 1, 2016	₱408,656,400	₱167,819,526	₱15,366,642	₱591,842,568
Collection of subscriptions receivable	61,260,600	–	–	61,260,600
Total comprehensive income (loss) for the year	–	188,308,536	(5,832,483)	182,476,053
Cash dividends declared (Note 17)	–	(89,945,204)	–	(89,945,204)
Balance at December 31, 2016	₱469,917,000	₱266,182,858	₱9,534,159	₱745,634,017

*See accompanying Notes to Financial Statements.*

**CARD SME BANK, INC., A THRIFT BANK**  
**STATEMENTS OF CASH FLOWS**

	<b>Years Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	<b>₱442,768,877</b>	₱270,495,114
Adjustments for:		
Provision for credit and impairment losses (Note 7)	<b>40,701,770</b>	37,095,217
Depreciation and amortization (Notes 8, 9 and 10)	<b>32,220,527</b>	24,162,368
Retirement expense (Note 17)	<b>11,131,442</b>	7,756,290
Amortization of discount on bills payable (Note 13)	<b>4,434,321</b>	1,708,386
Loss (gain) on sale of assets (Notes 8 and 9)	<b>842,917</b>	(4,491,830)
Amortization of finance lease obligation	<b>110,012</b>	64,344
Amortization of discount on unquoted debt securities (Notes 7)	<b>(5,007)</b>	(12,933)
Amortization of premium on held-to-maturity	-	468,557
Reversal for impairment losses on investment property	-	(143,697)
Changes in operating assets and liabilities:		
Increase in the amounts of:		
Loans and receivables	<b>(1,325,164,433)</b>	(996,609,041)
Other assets	<b>(5,595,385)</b>	(13,374,435)
Increase (decrease) in the amounts of:		
Deposit liabilities	<b>1,003,578,164</b>	669,742,425
Other liabilities	<b>23,640,583</b>	(6,979,511)
Net cash generated from (used in) operations	<b>228,663,788</b>	(10,118,746)
Income taxes paid	<b>(118,204,324)</b>	(80,451,709)
Retirement contributions paid (Note 17)	<b>(15,292,257)</b>	(46,397,966)
Net cash provided by (used in) operating activities	<b>95,167,207</b>	(136,968,421)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of:		
Property and equipment (Notes 8 and 21)	<b>(42,443,700)</b>	(30,057,145)
Intangible assets (Note 10)	<b>(2,104,450)</b>	(7,729,392)
Investment properties (Note 9)	<b>(450,000)</b>	-
Proceeds from sale or maturities of:		
Investment properties (Note 9)	<b>750,000</b>	13,006,537
Held-to-maturity investments	-	10,967,990
Property and equipment (Note 8)	<b>27,228</b>	899,357
Net cash used in investing activities	<b>(44,220,922)</b>	(12,912,653)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Availments of bills payable (Note 13)	<b>1,134,561,370</b>	627,575,618
Settlement of bills payable (Note 13)	<b>(794,640,000)</b>	(422,320,000)
Cash dividends paid (Note 16)	<b>(219,898,901)</b>	(92,526,801)
Collections of subscriptions receivable (Note 16)	<b>25,362,400</b>	61,260,600
Deposit for future stock subscription	<b>101,093,150</b>	5,201,900
Net cash provided by financing activities	<b>246,478,019</b>	179,191,317

(Forward)

	<b>Years Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>₱297,424,304</b>	<b>₱29,310,243</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		
Cash and other cash items	8,550,182	9,582,664
Due from Bangko Sentral ng Pilipinas	156,044,613	106,715,506
Due from other banks	217,923,219	236,909,601
	<b>₱382,518,014</b>	<b>₱353,207,771</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		
Cash and other cash items	16,419,549	8,550,182
Due from Bangko Sentral ng Pilipinas	233,021,335	156,044,613
Due from other banks	430,501,434	217,923,219
	<b>₱679,942,318</b>	<b>₱382,518,014</b>
<b>OPERATIONAL CASH FLOWS FROM INTEREST</b>		
Interest received	₱1,453,178,865	₱1,010,840,025
Interest paid	71,990,843	49,347,756

*See accompanying Notes to Financial Statements.*

## CARD SME BANK, INC., A THRIFT BANK

### NOTES TO FINANCIAL STATEMENTS

#### 1. Corporate Information

CARD SME Bank Inc., A Thrift Bank (the Bank) was incorporated in the Philippines on October 4, 1961. The Bank was granted the authority to operate by the Bangko Sentral ng Pilipinas (BSP) on May 10, 1962. Its principal place of business is at 120 M. Paulino St., corner Burgos St., San Pablo City, Laguna. The Bank offers a wide range of products and services such as deposit and loan products mainly to the consumer market. As of December 31, 2017 and 2016, the Bank has 24 and 15 branches, respectively.

In 2007, the Bank (with existing branches in Sto. Tomas and Lipa City Batangas and Tagaytay City, Cavite) became a member of Center for Agriculture and Rural Development (CARD) - Mutually Reinforcing Institutions (MRI) when CARD, Inc. and CARD Employees Multi-Purpose Cooperative (EMPC) acquired the majority of its voting stock. The rehabilitation court and the BSP approved the sale and transfer of shares of stock on September 5, 2007 and February 7, 2008, respectively. This strategic move supports the graduating microenterprises clients of CARD - MRI, by empowering them through continuous access to financial resources and nonfinancial services. CARD - MRI's social mission of poverty alleviation has been folded into bank's operation through its microfinance operation.

On May 20, 2010, the Monetary Board of BSP approved the increase in the authorized capital stock of the Bank from ₱20.00 million to ₱500.00 million and the number of Board of Directors (BOD) from five (5) to nine (9) members. Likewise on December 9, 2010, the Monetary Board of BSP thru its Resolution No. 1757 approved the conversion of the operation of the Bank from rural bank category to a regular thrift bank.

The BSP and Philippine Securities and Exchange Commission (SEC) approved on April 8, 2011 and May 11, 2011, respectively, the Bank's amended Articles of Incorporation (AOI) and new by-laws. The approved amendments to the Bank's AOI follow:

- a. Change of the corporate name from 'Rural Bank of Sto. Tomas (Batangas), Inc.' to 'CARD SME Bank, Inc., A Thrift Bank';
- b. Change of the primary and secondary purposes from that of rural banking to thrift banking;
- c. Change of the principal office address from 'General Malvar Avenue, Sto. Tomas, Batangas' to 'San Pablo City, Laguna'; and
- d. Extension of the Bank's corporate life for another fifty (50) years from the date of expiration on February 6, 2012.

The Bank was granted by the BSP the authority to operate as a thrift bank on June 15, 2011. On July 25, 2011, the Bank formally started its operations as a thrift bank.

As a thrift bank, the Bank can (1) provide short term working capital, medium and long-term financing, to business engaged in agricultural services, industry and housing; (2) provide diversified financial and allied services for its chosen market and constituents especially for small and medium enterprises, microfinance and individuals; and (3) carry on activities specified under Section 10 of Republic Act (RA) No. 7906, otherwise known as 'Thrift Banks Act of 1995'.

As of December 31, 2017 and 2016, the Bank is 33.8% owned by CARD, Inc.

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## 2. Summary Significant Accounting Policies

### Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis. The financial statements are presented in Philippine peso, which is the Bank's functional currency. All values are rounded to the nearest peso unless otherwise indicated.

### Statement of Compliance

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

### Presentation of Financial Statements

The statements of financial position of the Bank are presented in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities within 12 months after the reporting date (current) and more than 12 months after the reporting date (noncurrent) is presented in Note 15.

### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. The Bank assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Bank and all of the counterparties.

Income and expense are not offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation and as specifically disclosed in the accounting policies of the Bank. This is not generally the case with master netting agreements, where the related assets and liabilities are presented gross amounts in the statement of financial position.

### **Changes in Accounting Policies and Disclosures**

The accounting policies adopted are consistent with those of the previous financial year except for the following amendments and improvements to PFRS which are effective beginning on or after January 1, 2017.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)
- Amendments to Philippine Accounting Standard (PAS) 7, *Statement of Cash Flows, Disclosure Initiative*

On January 1, 2017, the Bank adopted the amendments to PAS 7. The amendments require to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financial activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information to preceding periods.

The reconciliation analysis of liabilities arising from financing activities is presented in Note 21.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses - Clarification on the accounting for deferred tax assets on debt instruments measured at fair value*

The aforementioned new and amended standards and interpretations did not have any impact on the financial position or performance of the Bank.

### **Significant Accounting Policies**

#### Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks that are highly liquid, readily convertible to known amounts of cash, with original maturities of three months or less from dates of placements and that are subject to an insignificant risk of changes in value. Due from BSP includes statutory reserves required by the BSP, which the Bank considers as cash equivalents wherein drawings can be made to meet cash requirement.

#### Fair Value Measurement

The Bank measures assets and liabilities at fair value on initial recognition date. Also, fair values of financial instruments measured at amortized cost and investment properties are disclosed in Note 4.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

If an asset or a liability measured at fair value has a bid price and ask price, the price within the bid-ask spread that is most representative of fair value in the circumstance shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy.

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statement are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities in the absence of a principal market, in the most advantageous market for the asset or liability
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statement at fair value on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Bank does not have assets and liabilities carried at fair value as of December 31, 2017 and 2016.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as disclosed above (Note 4).

#### Financial Instruments - Initial Recognition and Subsequent Measurement

##### *Date of recognition*

Purchases or sales of financial assets that require delivery of the assets within the time frame established by regulation or convention in the marketplace are recognized on settlement date, the date that an asset is delivered to or by the Bank. Deposits and loans and receivables are recognized when cash is received by the Bank or advanced to the borrowers.

##### *Initial recognition of financial instruments*

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

As of December 31, 2017 and 2016, the Bank has no outstanding financial instruments at FVPL, HTM and AFS investments.

##### *'Day 1' difference*

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Bank recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of income under 'Miscellaneous' unless it qualifies for recognition as some other type of asset. In cases where the transaction price used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the 'Day 1' difference amount.

*Loans and receivables*

This accounting policy relates to ‘Due from BSP’, ‘Due from other banks’, ‘Loans and receivables’ and refundable deposits under ‘Other assets’. These are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market other than:

- those that the Bank intends to sell immediately or in the near term and those that the Bank, upon initial recognition, designates as FVPL;
- those that the Bank, upon initial recognition, designates as AFS; and
- those for which the Bank may not cover substantially all of its initial investment other than because of credit deterioration.

After initial measurement, these are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in ‘Interest income’ in the statement of income. Losses arising from impairment are recognized in ‘Provision for credit and impairment losses’ in the statement of income.

*Other financial liabilities*

These are issued financial instruments or their components, which are not designated at FVPL where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, other financial liabilities not qualified and not designated as FVPL, are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account the impact of applying the effective interest method of amortization for any related premium, discount and any directly attributable transaction costs.

When the Bank breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the reporting period and before the authorization of the financial statement for issue, not to demand payment as a consequence of the breach. The Bank classifies the liability as current because, at the end of the reporting period, it does not have an unconditional right to defer its settlement for at least twelve months after that date.

These policies apply to liabilities classified under ‘Deposit liabilities’, ‘Bills payable’ and other financial liabilities under ‘Other liabilities’ in the statement of financial position.

Derecognition of Financial Assets and Liabilities*Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; or

- the Bank has transferred its rights to receive cash flows from the asset either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred control over the asset.

Where the Bank has transferred its rights to receive cash flows from an asset or has entered into a ‘pass-through’ arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control over the asset, the asset is recognized to the extent of the Bank’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

#### *Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

#### Impairment of Financial Assets

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after initial recognition of the asset (an incurred ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *Financial assets at amortized cost*

For financial assets carried at amortized cost, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset’s original EIR.

If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If the Bank determines that no objective evidence that an impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics

are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparties' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

For the purpose of a collective assessment of impairment, financial assets are grouped on the basis of credit risk characteristics such as past due status of the borrowers. Future cash flows in a group of financial assets that are collectively assessed for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in property prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the statement of income under 'Provision for credit and impairment losses'. Interest income continues to be recognized based on the original EIR of the asset. The financial assets, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized.

If, subsequently, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited under 'Miscellaneous income' in the statement of income.

#### *Restructured loans*

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

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

The initial cost of property and equipment consists of its purchase price, including nonrefundable taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after items of property and equipment have been put into operation, such as repairs and maintenance are normally charged against operations in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation is computed using the straight-line method over the estimated useful lives (EUL) of the respective assets. Leasehold improvements are amortized over lease term and the shorter of the terms of the covering leases and EUL of the improvements.

The range of the EULs of the property and equipment follows:

Building and improvements	5 to 15 years
Leasehold improvements	3 to 5 years
Furniture, fixtures and equipment	2 to 3 years
Transportation equipment	3 to 5 years

The depreciation method and the EULs are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is credited against profit or loss.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income under 'Gain on sale of asset - net' in the period the asset is derecognized.

The carrying values of the property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, an impairment loss is recognized under 'Provision for credit and impairment losses' in the statement of income.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of asset given up. Foreclosed properties are classified under 'Investment properties' upon either: a) entry of judgment in case of judicial foreclosure, b) execution of sheriff's certificate of sale in case of extra-judicial foreclosure; or c) notarization of the deed of dacion in case of payment in kind (dacion en pago).

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

Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation (for depreciable investment properties) and accumulated impairment losses, if any.

Depreciation on buildings and improvements is calculated on a straight-line basis over the EUL of ten years from the time of acquisition of the depreciable investment properties.

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

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

#### Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income in the expense category that is consistent with the function of the intangible assets.

Intangible assets consist of software costs which are amortized on a straight-line basis over three years.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of income when the asset is derecognized.

#### Impairment of Nonfinancial Assets

At each reporting date, the Bank assesses whether there is any indication that its nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use (VIU) and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case the recoverable amount is assessed as part of the cash generating unit (CGU) to which it belongs.

Where the carrying amount of an asset exceeds its recoverable amount, the asset (or CGU) is considered impaired and is written down to its recoverable amount. In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

#### Retirement Benefits

##### *Defined benefit plan*

The Bank operates a defined benefit retirement plan and a hybrid retirement plan which require contribution to be made to a separately administered fund. The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets and adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- service cost;
- net interest on the net defined benefit liability or asset; and
- remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expenses in the statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the statement of income. Retirement expense is presented under 'Compensation and fringe benefits' in the statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in the statement of financial position with a corresponding debit or credit to 'Changes in remeasurement gain (loss) on retirement liabilities' under other comprehensive income (OCI) in the period in which they arise. Remeasurements are not reclassified to the statement of income in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Bank, nor can they be paid directly to the Bank. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

#### *Employee leave entitlement*

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before 12 months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

#### Equity

##### *Common stock*

Common stock represents the aggregate amount of paid capital stock which is determined using the nominal or par value of shares that have been issued. When the shares are sold at a premium, the difference between the proceeds and par value is credited to 'Capital paid in excess of par value', net of direct costs incurred related to the equity issuance. If 'Capital paid in excess of par value' is not sufficient, the excess is charged against surplus.

Subscribed common stock is recognized at subscribed amount net of subscription receivable. This will be debited upon full payment of the subscription and issuance of the shares of stock.

Subscriptions receivable pertains to uncollected portion of subscribed stocks. The Bank accounts for the subscription receivable as a contra equity account.

##### *Surplus*

Surplus represents the accumulated earnings, dividend contributions, prior period adjustments, effect of changes in accounting policy and other capital adjustments.

Own equity instruments which are reacquired (treasury stocks) are recognized at cost and deducted from equity. No gain or loss is recognized in the statement of income on the purchase, sale, issue or cancellation of the Bank's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in 'Capital paid in excess of par value'. Voting rights related to treasury stocks are nullified for the Bank and no dividends are allocated to them. When the stocks are retired, the 'Common stock' account is reduced by its par value and the excess of cost over par value upon retirement is debited to 'Capital paid in excess of par value' at the time the stocks were retired and to surplus for the remaining balance.

*Cash dividends*

Dividend distributions are at the discretion of the Bank. A dividend distribution to the Bank's shareholders is accounted for as a deduction from retained earnings. A proposed cash dividend is recognized as a liability in the period in which it is approved by the BOD.

Deposit for Future Stock Subscription

Deposit for future stock subscription (DFS) shall be classified under equity account if all of the following conditions are present as of reporting date:

- the unissued authorized capital stock of the Bank is insufficient to cover the amount of shares indicated in the contract;
- there is BOD approval on the proposed increase in authorized capital stock (for which a deposit was received by the Bank);
- there is stockholders' approval of said proposed increase; and
- the application for the approval of the proposed increase has been filed with the BSP and the SEC.

DFS does not meet the foregoing provisions and is treated as a non-financial liability.

As of December 31, 2017 and 2016, the Bank has DFS subscription recorded under 'Other liabilities' in the statement of financial position amounting to ₱106.3 million and ₱5.2 million, respectively (Note 17).

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured regardless of when payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Bank assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Bank has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

*Interest income*

Interest on financial instruments is recognized based on the effective interest method of accounting. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and allocating the interest income over a relevant period.

The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees (such as service fees) or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as 'Interest income'. Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

'Unearned interest income' is recognized as income over the terms of the receivables using the effective interest method and shown as deduction from loans.

*Gain (loss) on sale of assets - net*

Gain or loss from exchange or sale of assets is recognized upon completion of the earning process. For disposal of nonfinancial assets, this will include whether the collectability of the consideration is reasonably assured.

*Loan fees, service fees and penalties*

Loan fees are recognized over the term of the credit lines granted to each borrower. Service fees are accrued when earned. Penalties are recognized only upon collection or where there is a reasonable degree of certainty as to their collectability. These items are recognized under 'Miscellaneous income' in the statement of income.

Expense Recognition

Expense is recognized when it is probable that decrease in the future economic benefits related to decrease in an asset or an increase in liability has occurred and that the decrease in economic benefits can be measured reliably. Revenues and expenses that relate to the same transaction or other event are recognized simultaneously.

Expenses encompass losses as well as those expenses that arise in the course of the ordinary activities of the Bank. Expenses are recognized when incurred.

*Interest expense*

Interest expense for all interest-bearing financial liabilities is recognized in 'Interest expense' in the statement of income using the EIR of the financial liabilities to which they relate.

*Taxes and licenses*

This includes all other taxes, local and national, including gross receipts taxes (GRT), documentary taxes, real estate taxes, licenses and permit fees that are recognized when incurred.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- (a) there is a change in contractual terms, other than renewal or extension of the arrangement;
- (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or
- (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios 'a', 'c' or 'd' above, and at the date of renewal or extension period for scenario 'b'.

*Bank as a lessee*

Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense under 'Occupancy and equipment-related cost' in the statement of income on a straight-line basis over the lease term.

### Income Taxes

Income tax on profit or loss for the year comprises current and deferred taxes. Income tax is determined in accordance with tax laws and is recognized in the statement of income, except to the extent that it relates to items directly recognized in OCI.

#### *Current tax*

Current tax assets and liabilities for the current periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

#### *Deferred tax*

Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that future taxable income will be available against which the deductible temporary differences and carryforward benefits of unused excess MCIT over RCIT and unused NOLCO can be utilized.

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

Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current and deferred taxes relating to items recognized directly in equity are recognized in OCI, and not in the statement of income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred taxes relate to the same taxable entity and the same taxation authority.

### Provisions and Contingencies

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Bank expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized under 'Interest expense' in the statement of income.

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

#### Events After the Reporting Date

Any post-year-end events that provide additional information about the Bank's position at the reporting date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

#### **Standards Issued but not yet Effective**

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are listed below. The Bank intends to adopt these standards when they become effective. Unless otherwise stated, adoption of these standards and interpretations are not expected to have any significant impact on the financial statements of the Bank.

##### *Effective beginning on or after January 1, 2018*

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*
- PFRS 15, *Revenue from Contracts with Customers*
- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*
- Amendments to PAS 28, *Investments in Associates and Joint Ventures - Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014-2016 Cycle)*
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

##### *Effective beginning on or after January 1, 2019*

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

##### *Deferred effectivity*

- Amendments to PFRS 10, *Consolidated Financial Statements* and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Pronouncements that are deemed to have significant impact on the financial statements of the Bank are described below:

##### *Effective beginning on or after January 1, 2018*

- *PFRS 9, Financial Instruments*  
PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Bank plans to adopt the new standard on the mandatory effective date and will not restate comparative information.

The Bank is currently assessing the impact of adopting PFRS 9.

*Effective beginning on or after January 1, 2019*

- *PFRS 16, Leases*

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The Bank is currently assessing the impact of adopting PFRS 16.

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### 3. Significant Accounting Judgments and Estimates

The preparation of the Bank's financial statements in accordance with PFRS requires the management to make judgments and estimates that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and contingent liabilities, if any. Future events may occur which will cause the judgments used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

As of December 31, 2017 and 2016, management assessed that there is no significant accounting judgment exercised in respect to the preparation of the financial statements

#### Estimates

##### *(a) Credit losses on loans and receivables*

The Bank reviews its loans and receivables to assess impairment at each reporting date. In determining whether an impairment loss should be recorded in the statement of income, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or national or local economic conditions that correlate with defaults on the loans and receivables. Past-due accounts for more than 90 days, and loans wherein the borrower requested moratorium but no subsequent collection is made after the moratorium period ends as of year-end, fall under specific loan loss.

In addition to specific allowance against individually significant loans and receivables, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. For the purpose of a collective impairment, loans and receivables are grouped on the basis of their credit risk characteristics. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical experience for assets with credit risk characteristics similar to those on the group.

As of December 31, 2017 and 2016, the carrying values of loans and receivables and related allowance for credit losses are disclosed in Note 7.

*(b) Present value of defined benefit obligation*

The cost of defined benefit plan, as well as the present value of defined benefit obligation, is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases and mortality rates. Due to the complexity of the valuation, the underlying assumptions and long term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of reporting date, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. Future salary increases are based on expected future inflation rates of the Philippines. The present value of the retirement liability and fair value of plan assets are disclosed in Note 17.

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#### 4. Fair Value Measurement and Fair Value Hierarchy

##### Fair Value Measurement

As of December 31, 2017 and 2016, except as discussed below, the carrying values of the Bank's financial assets and financial liabilities as reflected in the statements of financial position and related notes approximate their fair values.

Inputs used in estimating fair values of financial instruments carried at cost and categorized under Level 3 include risk-free rates and applicable risk premium.

The methods and assumptions used by the Bank in estimating fair values of financial instruments and nonfinancial asset for which fair value is disclosed are as follows:

*Cash and other cash items, due from BSP, due from other banks, current portion of receivables and unquoted debt securities, accrued interest receivable, refundable deposits, current portion of deposit liabilities, bills payable and finance lease liabilities, accrued expenses, accrued interest payable, accounts payable and dividends payable*

Fair values of these financial instruments approximate their carrying values in view of the short term maturities of these instruments.

*Noncurrent portion of receivables and unquoted debt securities*

Fair values of noncurrent portion of receivables and unquoted debt securities are estimated using the discounted cash flow methodology using interest rates offered for similar loans to borrowers with similar credit ratings and taking into account the remaining maturities ranging from 3.5% to 5.9% and 2.3% to 5.4% in 2017 and 2016, respectively.

*Noncurrent portion of deposit liabilities, bills payable and finance lease liabilities*

Fair values of noncurrent deposit liabilities are estimated using the discounted cash flow methodology using the Bank's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued, if any ranging from 3.5% to 4.5% and 2.3% to 3.9% in 2017 and 2016, respectively.

Fair values of noncurrent portion of bills payable are estimated using the discounted cash flow methodology, using incremental borrowing rates for similar financial liabilities, taking into account the remaining maturities and applicable spreads of the counterparties.

*Investment properties*

Fair values of the Bank's investment properties have been determined based on valuations made by independent external appraiser based on the recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made and comparability of similar properties sold with the property being valued.

The Bank uses a hierarchy for determining and disclosing the fair value of its assets and liabilities (Note 2).

The following table summarizes the valuation techniques used and the significant unobservable inputs valuation for investment properties held by the Bank:

	<b>Valuation Techniques</b>	<b>Significant Unobservable inputs</b>
Land	Market Data Approach	Location, size, shape, utility/neighborhood, improvements and time element
Building	Modified Quantity Survey Approach	Depreciated replacement cost

Description of the valuation techniques, inputs and assumptions used to value the Bank's investment properties are as follows:

<b>Valuation Techniques, Inputs and Assumptions</b>	<b>Description</b>
Market Data Approach	A process of comparing the subject property being appraised to similar comparable properties recently sold or being offered for sale.
Modified Quantity Survey Approach	A method wherein each building component is priced based on the current cost of materials and labor and indirect costs such as contractor's profits, overhead, taxes, fees and other related expenses are then added in lump sum.

Fair Value Hierarchy

The following table summarizes the carrying values and the fair values by level of the fair value hierarchy of the Bank's assets and liabilities as of December 31, 2017 and 2016 for which fair values are required to be disclosed.

2017					
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
<b>Assets and liabilities for which fair values are disclosed*:</b>					
<i>Financial assets</i>					
Loans and receivables					
SME (Small and medium-sized enterprises) loans	P375,910,336	P-	P-	P326,824,366	P326,824,366
Unquoted debt securities	116,749,391	-	-	90,222,119	90,222,119
<i>Nonfinancial asset</i>					
Investment properties	7,781,349	-	-	8,717,765	8,717,765
<i>Financial liabilities</i>					
Deposit liabilities	1,571,881	-	-	1,002,887	1,002,887
Bills payable	97,964,677	-	-	118,157,298	118,157,298
Finance lease payable	5,633,357	-	-	5,313,292	5,313,292
<i>* Pertains to noncurrent assets and liabilities</i>					
2016					
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
<b>Assets and liabilities for which fair values are disclosed*:</b>					
<i>Financial assets</i>					
Loans and receivables*					
SME (Small and medium-sized enterprises) loans	P254,420,379	P-	P-	P233,763,569	P233,763,569
Unquoted debt securities	85,482,031	-	-	73,891,658	73,891,658
<i>Nonfinancial asset</i>					
Investment properties	8,357,492	-	-	8,833,224	8,833,224
<i>Financial liabilities</i>					
Deposit liabilities	2,642,382	-	-	2,492,417	2,492,417
Bills payable	119,429,886	-	-	129,913,873	129,913,873
Finance lease payable	890,745	-	-	977,351	977,351
<i>* Pertains to noncurrent assets and liabilities</i>					

As of December 31, 2017 and 2016, the Bank has no financial instruments carried at fair value.

There were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements in 2017 and 2016.

## 5. Financial Risk Management Objectives and Policies

In the course of the business cycle, the Bank has exposure to the following risks from its use of financial instruments: (a) credit risk; (b) market risk; and (c) liquidity risk.

The Bank adheres to the proactive and prudent approach of managing the business that recognizes and manages risks to continuously provide quality financial services to clients and to protect shareholders' value.

Risk management process involves setting of revenue goals, definition of risk philosophy and creating risk culture, determining opportunities that would create risk in the future, identifying and assessing the risk, evaluating and defining risk tolerance, taking actions to mitigate and control the risks through defined roles and responsibilities, close monitoring of the scenarios, reporting of risk taking performance, revalidation of risk methodologies and adjustment of the systems and policies necessary to effectively minimize risk level.

The BOD through its Credit Risk Management Committee (CRMC) is responsible for the development and oversight of the Bank's risk management program, identification and evaluation of risk exposures, monitoring the Bank's implementation of risk management policies and procedures, and for reviewing and evaluating the adequacy of risk management framework in relation to the risks faced by the Bank. The CRMC regularly reports to the BOD the results of reviews of actual implementation of risk management policies. Risk management of the Bank is strengthened in conjunction with Audit Committee (AC) and Internal Audit (IA) functions. IA undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the AC.

#### Credit risk

Credit risk is the risk of financial loss to the Bank if the counterparty to a financial instrument fails to meet its contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

#### *Management of credit risk*

Credit risk is being managed by instilling credit discipline both among the Bank's staff and the borrowers. The Bank's staff performs in-depth credit evaluation and close monitoring of account throughout the borrowing period, hence, on-time service delivery motivates the borrowers to fulfill their financial obligation to the highest standards. Borrowers are well-oriented on the credit repayment design they undertake.

For microfinance loans, loan portfolio is diversified in different economic activities or projects. There is geographical diversification to spread the risk brought about by natural calamities. Proper target market selection, rigorous character and background investigation, members' or borrowers' education or training on credit discipline in microfinance and validation of utilization of loan proceeds are applied. Intensive monitoring of all branches is conducted by the Area Manager (AM), Regional Director (RD) and Executive Vice President (EVP). Staff skills and competencies are regularly updated. Strategies are identified to manage competitors. Development of new client or market-oriented loan or deposit products and enhancement of product design systems and procedures, monitoring of members without loans and motivating qualified members to borrow are regularly done. Cost-cutting measures were planted to achieve improved profitability. Financial ratios and evaluation of compliance with BSP standards are regularly monitored.

Furthermore, the Bank has a preventive delinquency management approach through proper and strict credit delivery, monitoring and collection. Close monitoring through conduct of weekly center meetings is being implemented allowing the early determination of early warning signals on each borrower-member. A daily monitoring on the number of defaulted members and intensive follow-up areas are strictly being implemented. Various remedial measures are likewise being implemented to allow rehabilitation of defaulted borrowers. Defaulted borrowers which failed to cooperate despite remedial efforts done are referred to the Bank's legal counsel for collection or filing of appropriate legal action.

In general, borrowers are also perpetual savers. Consequently, their Pledge Savings accounts are pledged and serve as guarantee to their loans, which increase their borrowing capacity. Each business unit has a Unit Manager who reports on all credit-related matters to the local management consisting of the AM, RD and EVP.

Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolio. Regular audits of business units and credit processes are undertaken by Internal Auditors.

All past due or impaired accounts are reported on a daily, weekly and monthly bases to the BOD. Consistent monitoring for this group of accounts is established by competent and diligent staff to maximize recovery. Incentives have been established and subjected to review and assessment periodically. These are given to staff to recover from the accounts and to fully instill credit discipline to borrowers. Restructuring of loan payments are done after full compliance of approved policies and procedures. Writing-off bad accounts is approved by the BOD and reported to the BSP in compliance with the Manual of Regulations for Banks.

*Maximum exposure to credit risk*

The tables below provide the analysis of the maximum exposure to credit risk of the Bank's financial instruments, excluding those where the carrying values as reflected in the statements of financial position and related notes already represent the financial instrument's maximum exposure to credit risk, before and after taking into account collateral held or other credit enhancements.

2017				
	Maximum Exposure to Credit Risk*	Fair Value of Collateral and Credit Enhancements	Financial Effect of Collateral or Credit Enhancements	Net Exposure to Credit Risk
Loans and receivables:				
Microfinance loans	₱3,388,059,761	₱1,918,735,261	₱800,789,259	₱2,587,270,502
SME loans	551,497,227	318,961,860	275,089,156	276,408,071

\* Includes accrued interest receivable and net of unearned discount and allowance for credit losses

2016				
	Maximum Exposure to Credit Risk*	Fair Value of Collateral and Credit Enhancements	Financial Effect of Collateral or Credit Enhancements	Net Exposure to Credit Risk
Loans and receivables:				
Microfinance loans	₱2,310,820,654	₱1,226,763,648	₱545,766,611	₱1,765,054,043
SME loans	376,189,555	123,716,863	145,992,056	230,197,499

\* Includes accrued interest receivable and net of unearned discount and allowance for credit losses

Credit enhancement for microfinance loans pertains to deposit hold-out from center fund savings equivalent to 15.0% of the loaned amount of the member as of December 31, 2017 and 2016. Credit enhancement for SME loans consists of chattel and real estate mortgages.

As of December 31, 2017 and 2016, the Bank has no financial assets with rights to offset in accordance with Amendments to PAS 32, *Financial Instruments - Offsetting Financial Assets and Financial Liabilities*. There are also no financial instruments that are subject to an enforceable master netting arrangements or similar agreements which require disclosure in the financial statements in accordance with PFRS.

Additionally, the tables below show the distribution of maximum credit exposure by industry sector of the Bank as of December 31, 2017 and 2016:

2017				
	Due from BSP and other banks	Loans and receivables	Refundable deposits*	Total
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	₱-	₱2,219,958,225	₱-	₱2,219,958,225
Other community, social and personal service activities	-	546,695,184	-	546,695,184
Real estate and construction	-	535,708,453	5,942,471	541,650,924
Agriculture, hunting and forestry	-	484,096,457	-	484,096,457
Financial intermediaries	430,501,434	-	-	430,501,434

	2017			
	Due from BSP and other banks	Loans and receivables	Refundable deposits*	Total
Government	233,021,335	128,828,378	–	361,849,713
Manufacturing	–	274,665,535	–	274,665,535
	663,522,769	4,189,952,232	5,942,471	4,859,417,472
Allowance for credit losses	–	(130,205,306)	–	(130,205,306)
Unearned interest and discount	–	(1,814,050)	–	(1,814,050)
<b>Total</b>	<b>₱663,522,769</b>	<b>₱4,057,932,876</b>	<b>₱5,942,471</b>	<b>₱4,727,398,116</b>

\* Included under 'Other assets' (Note 12)

	2016			
	Due from BSP and other banks	Loans and receivables	Refundable deposits*	Total
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	₱–	₱1,372,542,770	₱–	₱1,372,542,770
Other community, social and personal service activities	–	887,390,884	–	887,390,884
Real estate and construction	–	111,482,231	5,832,155	117,314,386
Agriculture, hunting and forestry	–	298,508,790	–	298,508,790
Financial intermediaries	217,923,219	–	–	217,923,219
Government	156,044,613	85,482,033	–	241,526,646
Manufacturing	–	113,063,015	–	113,063,015
	373,967,832	2,868,469,723	5,832,155	3,248,269,710
Allowance for credit losses	–	(93,574,325)	–	(93,574,325)
Unearned interest and discount	–	(1,430,192)	–	(1,430,192)
<b>Total</b>	<b>₱373,967,832</b>	<b>₱2,773,465,206</b>	<b>₱5,832,155</b>	<b>₱3,153,265,193</b>

\* Included under 'Other assets' (Note 12)

*Credit quality per class of financial assets*

Loans and receivables rated as high and standard grades refer to those accounts that do not have greater than normal risk or have potential weaknesses only.

It is the Bank's policy to dispose repossessed properties in an orderly transaction. The proceeds are used to reduce or repay the outstanding claims. In general, the Bank does not occupy repossessed properties for business use. The Bank has a program of disposal of its investment properties to reduce the nonperforming assets in its books. Investment properties may be disposed through redemption, negotiated sale or lease purchase.

High grade represents receivables and investments which have a high probability of collection. The counterparty has the apparent ability to satisfy its obligation and the securities, such as real estate mortgage on the receivables are readily enforceable. These also include deposits with reputable institutions from which the deposits may be withdrawn and recovered with certainty.

Standard grade represents deposits, receivables and investments where collections are probable due to the reputation and the financial ability of the counterparty to pay but with experience of default.

The tables below show the credit quality per class of financial assets (gross of allowance for credit losses and unearned interest income) as of December 31, 2017 and 2016:

	2017						
	Neither Past Due Nor Impaired			Unrated	Past Due but not Impaired	Individually Impaired	Total
	High Grade	Standard Grade	₱–				
Due from BSP	₱233,021,335	–	–	–	–	–	₱233,021,335
Due from other banks	–	430,501,434	–	–	–	–	430,501,434
Loans and receivables:							
Loans and discounts:							
Microfinance	–	3,364,778,551	–	8,943,043	34,058,446	–	3,407,780,040
SME	186,365,630	364,923,392	–	5,337,188	42,255,769	–	598,881,979

2017							
	Neither Past Due Nor Impaired			Unrated	Past Due but not Impaired	Individually Impaired	Total
	High Grade	Standard Grade					
Real estate mortgage	-	-	-	-	-	64,980	64,980
Unquoted debt securities	-	116,749,390	-	-	-	9,078,988	125,828,378
Other receivables:							
Accrued interest receivable	-	54,971,664	-	-	-	-	54,971,664
Accounts receivable	-	-	908,367	-	-	1,516,824	2,425,191
Other assets - refundable deposits	-	-	5,942,471	-	-	-	5,942,471
	<b>₱419,386,965</b>	<b>₱4,331,924,431</b>	<b>₱6,850,838</b>	<b>₱14,280,231</b>	<b>₱86,975,007</b>	<b>₱4,859,417,472</b>	

2016							
	Neither Past Due Nor Impaired			Unrated	Past Due but not Impaired	Individually Impaired	Total
	High Grade	Standard Grade					
Due from BSP	₱156,044,613	₱-	₱-	₱-	₱-	₱-	₱156,044,613
Due from other banks	-	217,923,219	-	-	-	-	217,923,219
HTM investments							
Loans and receivables:							
Loans and discounts:							
Microfinance	-	2,316,009,626	-	5,830,581	17,142,690	2,338,982,897	
SME	108,754,146	252,506,781	-	9,365,922	31,265,333	401,892,182	
Real estate mortgage	-	-	-	-	64,980	64,980	
Unquoted debt securities	-	85,482,031	-	-	9,078,988	94,561,019	
Other receivables:							
Accrued interest receivable	383,329	31,409,273	-	-	-	31,792,602	
Accounts receivable	-	-	907,986	-	268,057	1,176,043	
Other assets - refundable deposits	-	-	5,832,155	-	-	5,832,155	
	<b>₱265,182,088</b>	<b>₱2,903,330,930</b>	<b>₱6,740,141</b>	<b>₱15,196,503</b>	<b>₱57,820,048</b>	<b>₱3,248,269,710</b>	

As of December 31, 2017 and 2016, the Bank's receivables that are past due for more than 90 days are considered impaired.

*Aging analysis of past due but not impaired loans and receivables*

The following table shows the total aggregate amount of loans and discounts that are contractually past due but not considered as impaired per delinquency bucket as of December 31, 2017 and 2016.

2017				
	Less than			Total
	30 days	31 to 60 days	61 to 90 days	
Microfinance	₱1,399,441	₱3,899,596	₱3,644,006	₱8,943,043
SME	1,049,529	2,200,425	2,087,234	5,337,188
	<b>₱2,448,970</b>	<b>₱6,100,021</b>	<b>₱5,731,240</b>	<b>₱14,280,231</b>
2016				
	Less than			Total
	30 days	31 to 60 days	61 to 90 days	
Microfinance	₱1,495,495	₱2,585,806	₱1,749,280	₱5,830,581
SME	5,024,431	2,618,884	1,722,607	9,365,922
	<b>₱6,519,926</b>	<b>₱5,204,690</b>	<b>₱3,471,887</b>	<b>₱15,196,503</b>

Liquidity Risk

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

The Asset-Liability Management Committee is responsible in formulating the Bank's liquidity risk management policies. 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.

The Treasury Group uses liquidity forecast models that estimate the Bank's cash flow needs based on the Bank's actual contractual obligations and under normal circumstances and extraordinary circumstances.

*Analysis of financial assets and financial liabilities by remaining maturities*

The table below shows the maturity profile of the Bank's financial assets and financial liabilities based on contractual undiscounted cash flows as of December 31, 2017 and 2016:

	2017				Total
	Up to 1 month	More than 1 month to 6 months	More than 6 months to 1 year	Beyond 1 year	
<b>Financial Assets</b>					
Cash and other cash items	P16,419,549	P-	P-	P-	P16,419,549
Due from BSP	233,021,335				233,021,335
Due from other banks*	425,689,493	-	15,600,295	-	441,289,788
Loans and receivables*:					
Loans and discounts	3,880,054,713	413,655,965	419,831,260	95,658,318	4,809,200,256
Unquoted debt securities	-	-	3,082,854	167,661,294	170,744,148
Other receivables:					
Accounts receivable	908,367	-	-	-	908,367
	<b>P4,556,093,457</b>	<b>P413,655,965</b>	<b>P438,514,409</b>	<b>P263,319,612</b>	<b>P5,671,583,443</b>

(Forward)

	2017				Total
	Up to 1 month	More than 1 month to 6 months	More than 6 months to 1 year	Beyond 1 year	
<b>Financial Liabilities</b>					
Deposit liabilities:					
Demand	₱9,410,781	₱–	₱–	₱–	₱9,410,781
Savings*	2,610,763,719	27,266,808	99,309,945	233,770,853	2,971,111,325
Bills payable*	28,187,500	269,000,000	671,684,500	103,320,000	1,072,192,000
Other liabilities					
Accrued expenses	–	43,710,208	–	–	43,710,208
Accounts payable	–	11,156,794	–	–	11,156,794
Finance lease payable	322,227	1,933,365	1,933,365	6,122,285	10,311,243
Dividends payable	–	182,191	–	–	182,191
	2,648,684,227	353,249,366	772,927,810	343,213,138	4,118,074,542
<b>Net undiscounted financial assets (liabilities)</b>	<b>₱1,907,409,230</b>	<b>₱60,406,599</b>	<b>(₱334,413,401)</b>	<b>(₱79,893,526)</b>	<b>₱1,553,508,901</b>

\* Includes future interests

	2016				Total
	Up to 1 month	More than 1 month to 6 months	More than 6 months to 1 year	Beyond 1 year	
<b>Financial Assets</b>					
Cash and other cash items	₱8,550,182	₱–	₱–	₱–	₱8,550,182
Due from BSP	156,044,613	–	–	–	156,044,613
Due from other banks*	197,831,874	20,149,136	–	–	217,981,010
Loans and receivables*:					
Loans and discounts	103,098,210	2,011,966,204	518,657,595	1,169,764,907	3,803,486,916
Unquoted debt securities	250,417	85,251	14,073,510	108,766,399	123,175,577
Other receivables:					
Accounts receivable	–	907,986	–	–	907,986
	₱465,775,296	₱2,033,108,577	₱532,731,105	₱1,278,531,306	₱4,310,146,284
<b>Financial Liabilities</b>					
Deposit liabilities:					
Demand	7,911,981	–	–	–	7,911,981
Savings*	1,495,805,074	21,855,124	338,350,359	39,281,146	1,895,291,703
Bills payable*	–	352,320,000	222,320,000	123,040,000	697,680,000
Other liabilities					
Accrued expenses	–	28,915,238	–	388,703	29,303,941
Accounts payable	–	10,435,444	–	–	10,435,444
Finance lease payable	60,583	363,498	363,498	1,151,070	1,938,649
Dividends payable	–	81,092	–	–	81,092
	1,503,777,638	413,970,396	561,033,857	163,860,919	2,642,642,810
<b>Net undiscounted financial assets (liabilities)</b>	<b>(₱1,038,002,342)</b>	<b>₱1,619,138,181</b>	<b>(₱28,302,752)</b>	<b>₱1,114,670,387</b>	<b>₱1,667,503,474</b>

\* Includes future interests

As of December 31, 2017 and 2016, the Bank had a total of ₱1,330.0 million and ₱930.0 million credit lines with local banks, respectively, out of which, ₱1,140.0 million and ₱550.0 million had been drawn as of December 31, 2017 and 2016, respectively.

### Market Risk

Market risk is the risk of loss to future earnings, fair values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates. The financial instruments of the Bank have fixed interest rates, and therefore are not subject to any interest rate risk.

*Interest rate risk*

The Bank's nominal interest rate for REM loans are set at a fixed rate of 21.0% in 2017 and 2016. Microfinance loans earn nominal interest rates ranging from 2.6% to 28.0% with equivalent effective interest rate ranging from 32.8% to 62.5% per annum in 2017 and 2016. For SME loans, interest rate charged to a borrower depends on the credit risk rating classification, the deposit level of the client as a percentage of the loan, and the internal basic interest rate.

As of December 31, 2017, repricing debt instrument only comprise 2% of total loan, thus the effect of interest repricing on loans is immaterial to the Bank. As of December 31, 2016, the Bank has no repricing financial instruments.

The Bank's savings deposit liabilities include compulsory and voluntary savings that earn 1.5% to 6.0% interest per annum in 2017 and 2016. Special savings deposits earn 1.75% to 3.0% and 1.8% to 3.0% interest annum in 2017 and 2016. These special savings deposits are concentrated on 30 days to one year maturity.

The Bank pays fixed interest rates on bills payable from 3.0% to 6.6% in 2017 and from 4.2% to 6.6% in 2016.

In order to manage its interest rate risk, the Bank places its excess funds in high yield investments and other short-term time deposits and treasury notes. It also matches its interest rate and maturity to avoid negative gaps between the sources and applications.

*Foreign currency risk*

The Bank has no foreign currency-denominated transactions, thus, it has no exposure to changes in foreign exchange rates.

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**6. Cash and Cash Equivalents**

The composition of this account follows:

	2017	2016
Cash and other cash items	<b>₱16,419,549</b>	₱8,550,182
Due from BSP	<b>233,021,335</b>	156,044,613
Due from other banks	<b>430,501,434</b>	217,923,219
	<b>₱679,942,318</b>	₱382,518,014

Due from BSP represents the aggregate balance of noninterest-bearing peso deposit account with the BSP which the Bank maintains in compliance with the BSP requirements to meet regular and liquidity reserves on deposits. As of December 31, 2017 and 2016, the Bank is compliant with the applicable reserve requirements (Note 12).

Due from other banks consists of:

	2017	2016
Demand deposit	<b>₱12,550,480</b>	₱145,272,747
Savings deposit (Note 20)	<b>307,207,631</b>	52,559,127
Time deposit	<b>110,923,323</b>	20,091,345
	<b>₱430,681,434</b>	₱217,923,219

Due from other banks consist of funds deposited in domestic banks which are used as part of the Bank's working capital. These deposits bear annual interest rates ranging from 0.3% to 1.0% and 0.3% to 2.3% for the years ended December 31, 2017 and 2016, respectively.

Time deposits earn interests ranging from 1.5% to 1.8% and from 1.5% to 2.2% with maturity ranging from 30 to 90 days in 2017 and 2016, respectively.

Interest income on due from other banks amounted to ₱2.6 million and ₱2.8 million in 2017 and 2016, respectively.

## 7. Loans and Receivables

This account consists of:

	2017	2016
Loans and discounts:		
Microfinance	₱3,407,780,040	₱2,338,982,898
SME	598,881,979	401,892,181
Real estate mortgage	64,980	64,980
	<b>4,006,726,999</b>	2,740,940,059
Unquoted debt securities	125,828,378	94,561,019
	<b>4,132,555,377</b>	2,835,501,078
Unearned interest income	(1,814,050)	(1,430,192)
	<b>4,130,741,327</b>	2,834,070,886
Other receivables:		
Accrued interest receivable	54,971,664	31,792,602
Accounts receivable (Note 19)	2,425,191	1,176,043
	<b>4,188,138,182</b>	2,867,039,531
Allowance for credit losses	(130,205,306)	(93,574,325)
	<b>₱4,057,932,876</b>	₱2,773,465,206

Loans and discounts earn interest at rates ranging from 32.8% to 62.5% in 2017 and 2016.

Unquoted debt securities include Micro, Small and Medium Enterprise Notes and Agrarian Reform Bonds with maturity ranging from one to ten years and interest ranging from 1.5% to 2.3% in 2017 and 2016, respectively. Amortization amounted to ₱1.4 million and ₱0.5 million in 2017 and 2016, respectively.

The following table shows the interest income per class of loans and receivables:

	2017	2016
Loans and discounts:		
Microfinance (Note 12)	₱1,386,819,510	₱957,674,624
SME	85,059,331	57,355,000
REM	-	154,302
Unquoted debt securities	1,836,308	358,591
	<b>₱1,473,715,149</b>	₱1,015,542,517

No interest income is accreted on individually-impaired loans in 2017 and 2016.

The movements in allowance for credit losses follow:

	2017			
	Loans and discounts	Unquoted debt securities	Accounts receivable	Total
<b>Balance at beginning of year</b>	<b>₱84,227,280</b>	<b>₱9,078,988</b>	<b>₱268,057</b>	<b>₱93,574,325</b>
Provisions	39,391,003	–	1,310,767	40,701,770
Write-offs and others	(4,008,789)	–	(62,000)	(4,070,789)
<b>Balance at end of year</b>	<b>₱119,609,494</b>	<b>₱9,078,988</b>	<b>₱1,516,824</b>	<b>₱130,205,306</b>
Individually-impaired	₱76,379,195	₱9,078,988	₱1,516,824	₱86,975,007
Collectively-impaired	43,230,299	–	–	43,230,299
	<b>₱119,609,494</b>	<b>₱9,078,988</b>	<b>₱1,516,824</b>	<b>₱130,205,306</b>
Gross amounts of loans individually determined to be impaired, before deducting any individually assessed impairment losses	<b>₱76,379,195</b>	<b>₱9,078,988</b>	<b>₱1,516,824</b>	<b>₱86,975,007</b>
	2016			
	Loans and discounts	Unquoted debt securities	Accounts Receivable	Total
Balance at beginning of year	₱56,894,464	₱9,078,988	₱89,288	₱66,062,740
Provisions	36,916,448	–	178,769	37,095,217
Write-offs and others	(9,583,632)	–	–	(9,583,632)
Balance at end of year	₱84,227,280	₱9,078,988	₱268,057	₱93,574,325
Individually-impaired	₱48,473,003	₱9,078,988	₱268,057	₱57,820,048
Collectively-impaired	35,754,277	–	–	35,754,277
	<b>₱84,227,280</b>	<b>₱9,078,988</b>	<b>₱268,057</b>	<b>₱93,574,325</b>
Gross amounts of loans individually determined to be impaired, before deducting any individually assessed impairment losses	<b>₱48,473,003</b>	<b>₱9,078,988</b>	<b>₱268,057</b>	<b>₱57,820,048</b>

### Regulatory Reporting

In accordance with BSP regulations, the Bank considers loans with one-day past due as part of its portfolio-at-risk (PAR). As of December 31, 2017 and 2016, the Bank's PAR amounted to ₱99.7 million and ₱73.0 million, respectively. The allowance for credit losses recognized for past due loans amounted to ₱91.4 million and ₱61.0 million as of December 31, 2017 and 2016, respectively.

As of December 31, 2017 and 2016, nonperforming loans (NPLs) based on Circular No. 772 and as reported to the BSP amounted to 99.7 million and 73.0 million, respectively.

Loans are classified as nonperforming in accordance with BSP regulations, or when, in the opinion of management, collection of interest is doubtful. Loans are not reclassified as performing until interest and principal payments are brought current or the loans are restructured in accordance with existing BSP regulations, and future payments appear assured.

Generally, NPLs refer to loans whose principal and/or interest is unpaid for thirty days or more after due date or after they have become past due in accordance with existing BSP rules and regulations. This shall apply to loans that are payable in lump sum and loans that are payable in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof shall be considered nonperforming.

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

In the case of loans that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered nonperforming at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches ten percent (10.0%) of the total receivable balance.

In the case of microfinance loans, past due/PAR accounts shall be considered as NPLs.

The following table shows the secured and unsecured portions of loans and discounts as of December 31, 2017 and 2016:

	2017	2016
Secured portion		
Deposit hold-out (Note 12)	<b>₱3,407,780,035</b>	₱2,338,982,898
REM	<b>186,365,630</b>	108,819,128
Chattel mortgage	<b>88,723,526</b>	37,172,928
	<b>3,682,869,191</b>	2,484,974,954
Unsecured portion	<b>1,293,857,808</b>	255,965,105
	<b>₱4,976,726,999</b>	₱2,740,940,059

Information on the concentration of credit as to industry of loans and receivables (gross of unearned discounts and allowance for impairment and credit losses) follows:

	2017		2016	
	Amount	%	Amount	%
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	<b>₱2,165,561,370</b>	<b>54.0</b>	₱1,745,846,895	63.7
Other community, social and personal service activities	<b>546,695,184</b>	<b>13.6</b>	472,039,128	17.2
Real estate and construction	<b>535,708,453</b>	<b>13.4</b>	111,482,231	4.1
Agriculture, hunting and forestry	<b>484,096,457</b>	<b>12.1</b>	298,508,790	10.9
Manufacturing	<b>274,665,535</b>	<b>6.9</b>	113,063,015	4.1
	<b>₱4,006,726,999</b>	<b>100.0</b>	₱2,740,940,059	100.0

The BSP considers that loan concentration exists when total loan exposure to a particular industry or economic sector exceeds 30.0% of total loan portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

## 8. Property and Equipment

The composition of and movements in this account follow:

	2017						Total
	Land	Building and Improvements	Leasehold Improvements	Furniture, Fixtures and Equipment	Transportation Equipment	Construction in Progress	
<b>Cost</b>							
Balance at beginning of year	₱46,915,616	₱46,776,778	₱33,524,360	₱49,780,645	₱7,093,130	₱-	₱184,090,529
Acquisition	-	1,098,394	15,262,950	21,048,263	-	13,592,784	51,002,391
Disposals	-	-	(2,211,763)	(963,349)	(1,240,015)	-	(4,415,127)
Transfers	-	7,752,944	2,842,400	-	-	(10,595,344)	-
<b>Balance at end of year</b>	<b>46,915,616</b>	<b>55,628,116</b>	<b>49,417,947</b>	<b>69,865,559</b>	<b>5,835,115</b>	<b>2,997,440</b>	<b>230,677,793</b>
<b>Accumulated Depreciation</b>							
Balance at beginning of year	-	7,682,418	11,120,616	29,948,675	5,831,663	-	54,583,372
Depreciation	-	5,326,825	8,692,219	12,844,510	584,371	-	27,447,925
Disposals	-	(2,354)	(1,626,593)	(948,779)	(1,240,006)	-	(3,817,732)
<b>Balance at end of year</b>	<b>-</b>	<b>13,006,889</b>	<b>18,186,242</b>	<b>41,844,406</b>	<b>5,176,028</b>	<b>-</b>	<b>78,213,565</b>
<b>Net Book Value</b>	<b>₱46,915,616</b>	<b>₱42,621,227</b>	<b>₱31,231,705</b>	<b>₱28,021,153</b>	<b>₱659,087</b>	<b>₱2,997,440</b>	<b>₱152,464,228</b>

	2016						Total
	Land	Building and Improvements	Leasehold Improvements	Furniture, Fixtures and Equipment	Transportation Equipment	Construction in Progress	
<b>Cost</b>							
Balance at beginning of year	₱46,330,516	₱34,735,938	₱27,250,575	₱35,625,049	₱7,317,074	₱14,184,000	₱165,443,152
Acquisition	585,100	1,160,787	13,137,389	16,868,216	-	-	31,751,492
Disposals	-	(3,303,947)	(6,863,604)	(2,712,620)	(223,944)	-	(13,104,115)
Transfers	-	14,184,000	-	-	-	(14,184,000)	-
<b>Balance at end of year</b>	<b>46,915,616</b>	<b>46,776,778</b>	<b>33,524,360</b>	<b>49,780,645</b>	<b>7,093,130</b>	<b>-</b>	<b>184,090,529</b>
<b>Accumulated Depreciation</b>							
Balance at beginning of year	-	5,612,919	11,371,073	23,262,587	5,259,276	-	45,505,855
Depreciation	-	4,639,190	5,537,665	9,370,043	796,325	-	20,343,223
Disposals	-	(2,569,691)	(5,788,122)	(2,683,955)	(223,938)	-	(11,265,706)
<b>Balance at end of year</b>	<b>-</b>	<b>7,682,418</b>	<b>11,120,616</b>	<b>29,948,675</b>	<b>5,831,663</b>	<b>-</b>	<b>54,583,372</b>
<b>Net Book Value</b>	<b>₱46,915,616</b>	<b>₱39,094,360</b>	<b>₱22,403,744</b>	<b>₱19,831,970</b>	<b>₱1,261,467</b>	<b>₱-</b>	<b>₱129,507,157</b>

The Bank received ₱0.03 million and ₱0.9 million in 2017 and 2016, respectively, for the disposal of property and equipment. Loss on disposal of property and equipment amounted to ₱0.6 million and ₱0.9 million in 2017 and 2016, respectively.

The total cost of fully depreciated assets still in use is ₱33.4 million and ₱20.3 million as of December 31, 2017 and 2016, respectively.

There are no restrictions on titles on property and equipment and the Bank does not have any contractual commitments for the acquisition of property and equipment as of December 31, 2017 and 2016.

9. Investment Properties

The composition of and movements in this account follow:

	2017			Total
	Land	Building	Asset held by SPV	
<b>Cost</b>				
Balance at beginning of year	₱8,457,123	₱231,001	₱5,351,413	₱14,039,537
Additions	450,000	-	-	450,000
Disposals	(727,650)	-	(454,000)	(1,181,650)
Balance at end of year	8,179,473	231,001	4,897,413	13,307,887
<b>Accumulated Depreciation</b>				
Balance at beginning of year	-	227,607	-	227,607
Depreciation	-	3,393	-	3,393
Balance at end of year	-	231,000	-	231,000
<b>Allowance for Impairment Losses</b>				
Balance at beginning of year	2,758,282	-	2,696,156	5,454,438
Disposals	-	-	(158,900)	(158,900)
Reversal	-	-	-	-
Balance at end of year	2,758,282	-	2,537,256	5,295,538
<b>Net Book Value</b>	<b>₱5,421,191</b>	<b>₱1</b>	<b>₱2,360,157</b>	<b>₱7,781,349</b>

	2016			Total
	Land	Building	Asset held by SPV	
<b>Cost</b>				
Balance at beginning of year	₱16,214,277	₱231,001	₱5,351,413	₱21,796,691
Disposals	(7,757,154)	-	-	(7,757,154)
Balance at end of year	8,457,123	231,001	5,351,413	14,039,537
<b>Accumulated Depreciation</b>				
Balance at beginning of year	-	204,507	-	204,507
Depreciation	-	23,100	-	23,100
Balance at end of year	-	227,607	-	227,607
<b>Allowance for Impairment Losses</b>				
Balance at beginning of year	3,083,478	-	2,696,156	5,779,634
Disposals	(181,499)	-	-	(181,499)
Reversal	(143,697)	-	-	(143,697)
Balance at end of year	2,758,282	-	2,696,156	5,454,438
<b>Net Book Value</b>	<b>₱5,698,841</b>	<b>₱3,394</b>	<b>₱2,655,257</b>	<b>₱8,357,492</b>

Direct operating expenses on investment properties amounting to ₱0.4 million and ₱0.1 million in 2017 and 2016 are included under 'Taxes and licenses' and ₱0.3 million and nil in 2017 and 2016, respectively are included in 'Miscellaneous expense'. In 2017 and 2016, all of the Bank's investment properties are non-revenue generating.

The Bank received ₱0.8 million and ₱13.0 million in 2017 and 2016, respectively, for the sale of investment properties. Total net gain (loss) on sale of investment properties amounted to (₱0.3 million) and ₱5.4 million in 2017 and 2016, respectively.

*Assets held by a Special Purpose Vehicle*

Assets held by a Special Purpose Vehicle (SPV) represents foreclosed properties (land) which have been specifically identified for sale under a sale and purchase agreement (SPA) with an SPV.

Under RA No. 9182, *The Special Purpose Vehicle Act of 2002*, the sale of assets to the SPV under the SPA is a true sale, as approved by the BSP. However, under PFRS, the assets sold remain to be recognized by the Bank since the risks and rewards of ownership over the assets are not yet transferred to the SPV.

Major provisions of the SPA follow:

- The proceeds of the sale shall be paid by the buyer to the Bank on or before November 20, 2018. The payment shall not be subject to any interest;
- The buyer covenants and undertakes that any and all proceeds from any subsequent sale, disposition or settlement of any asset shall be earmarked for the payment of the purchase price; and
- If on the due date, the amount of the net proceeds is less than the purchase price, the difference between the net proceeds and purchase price shall be applied against the unpaid balance.

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## 10. Intangible Assets

The composition of and movements in this account follow:

	2017	2016
<b>Cost</b>		
Balance at beginning of year	₱13,860,534	₱6,131,142
Acquisition	2,104,450	7,729,392
Balance at end of year	15,964,984	13,860,534
<b>Accumulated Amortization</b>		
Balance at beginning of year	5,064,595	1,290,896
Amortization	4,769,209	3,773,699
Balance at end of year	9,833,804	5,064,595
<b>Net Book Value</b>	<b>₱6,131,180</b>	<b>₱8,795,939</b>

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## 11. Other Assets

This account consists of

	2017	2016
<b>Financial assets</b>		
Refundable deposits	₱5,942,471	₱5,832,155
<b>Nonfinancial assets</b>		
Prepaid expenses	19,766,536	21,124,814
Stationeries and supplies	16,625,178	11,469,237
Chattel mortgage	1,305,890	—
Miscellaneous	531,516	150,000
	38,229,120	32,744,051
	<b>₱44,171,591</b>	<b>₱38,576,206</b>

The chattel mortgage refers to the repossessed vehicle in 2017. No gain or loss was recognized during the repossession of the vehicle.

## 12. Deposit Liabilities

The Bank's savings deposit liabilities include pledge savings amounting to ₱1.9 billion and ₱1.2 billion as of December 31, 2017 and 2016, respectively. These represent the aggregate compulsory savings of ₱50.0 per week collected from each microfinance member in 2017 and 2016. Under an assignment agreement, the pledge savings earn annual interest of 2.0% in 2017 and 2016. Pledge savings equivalent to 15.0% of the loan proceeds serves as guarantee fund of outstanding receivables from members (Note 7).

Savings deposits include regular and special savings deposits. Regular savings deposits include "Isave", "Tagumpay", "Maagap" and "Pangarap" savings which earn annual interest ranging from 1.5% to 6.0% in 2017 and 2016. Special savings deposits include "Earnmore" savings. This account earns interest ranging from 1.8% to 3.0% in 2017 and 2016.

Details of interest expense on deposit liabilities follow:

	2017	2016
Savings deposit	₱33,808,547	₱22,368,008
Special savings deposit	11,492,235	11,279,282
Demand deposit	—	12,670
	<b>₱45,300,782</b>	<b>₱33,659,960</b>

BSP Circular No. 832 requires 8.0% reserve requirement for thrift banks. Available reserves as of December 31, 2017 and 2016 amounted to ₱233.0 million and ₱156.0 million, respectively (Note 6).

As of December 31, 2017 and 2016, the Bank is compliant with the applicable reserve requirements.

## 13. Bills Payable

The composition of and movements in this account follow:

	2017	2016
<b>Face value</b>		
Balance at beginning of year	₱697,680,000	₱490,000,000
Availments	1,140,000,000	630,000,000
Principal payments	(794,640,000)	(422,320,000)
Balance at end of year	1,043,040,000	697,680,000
<b>Unamortized transaction cost</b>		
Balance at beginning of year	3,610,114	2,894,118
Availments	5,438,630	2,424,382
Amortization	(4,434,321)	(1,708,386)
Balance at end of year	4,614,423	3,610,114
<b>Carrying value</b>	<b>₱1,038,425,577</b>	<b>₱694,069,886</b>

### Local banks

These are promissory notes from various local banks with term of one year obtained for working capital requirement of the Bank with annual interest rates ranging from 3.0% to 4.0% and from 4.2% to 5.0% in 2017 and 2016, respectively.

International Finance Corporation (IFC)

On December 16, 2016, the Bank entered into a Loan Agreement (Agreement) with IFC for the availing of loan amounting to ₱160.0 million which will mature on December 15, 2022 (the Loan). The purpose of the loan is to provide funds to be used by the Bank for financing its lending operations to small and medium-sized enterprises and microfinance entities. The note bears a Philippine fixed base rate of 6.6%, inclusive of 2.7% spread, and has a tenor of seven years. The principal of the note is repaid semi-annually.

Borrowings from IFC contain the following embedded derivatives:

- a. Prepayment option which allows the Bank to redeem the loan (or portion of the loan not less than ₱45.0 million) prior to respective maturities; and
- b. Cross currency swap which allows the parties to exchange interest payments and principals denominated in different currencies (in USD and Philippine Pesos).

The Bank assessed that these embedded derivatives are clearly and closely related to the host bond instruments, since their redemption price approximate the bonds' amortized cost on redemption dates. Accordingly, these embedded derivatives were not accounted for separately from the host bond instruments.

*Debt covenants*

The Agreement covering the loan with IFC provides for restrictions and requirements which include the following negative and financial covenants, among others:

## a. Negative covenants

Unless IFC otherwise agrees, the Bank shall not take action on the following, among others:

- Declare or pay any dividend or make any distribution on its share capital (other than dividends or distribution payable in shares of the Bank) unless: (i) the proposed payment or distribution is out of net income of the current Financial Year (excluding any amount resulting from the revaluation of any of the Borrower's assets); (ii) no Event of Default or Potential Event of Default has occurred and is then continuing; and (iii) after giving effect to any such action the Borrower is in compliance with the financial covenants;
- Purchase, redeem or otherwise acquire any shares of the Bank or any option over them;
- Incur, create, assume or permit to exist any liability that is covered or ranks prior or senior to the Loan, except those that is in existence as of the date of the Agreement;
- Create or permit to exist any lien on any property, revenues or other assets, present or future, of the Bank subject to exceptions indicated in the Agreement;
- Enter into any transaction except in the ordinary course of business on ordinary commercial terms and on the basis of arm's-length arrangements;
- Enter into or establish any partnership, profit-sharing or royalty agreement or other similar arrangement whereby the Bank's income or profits are, or might be, shared with any other person; or enter into any management contract or similar arrangement whereby its business or operations are managed by any other persons;
- Have any subsidiaries subject to exceptions indicated in the Agreement;
- Change its charter in any manner which would be inconsistent with the provisions of the agreement or any other transaction document, its financial year, or the nature or scope of its present or contemplated business or operations;
- Undertake or permit any merger, spin-off, consolidation or reorganization; or sell, transfer, lease or otherwise dispose of all or a substantial part of its assets, other than assets acquired in

the enforcement of security created in favor of the Bank in the ordinary course of its banking business, whether in a single transaction or in a series of transaction; and

- Prepay or repurchase any long-term debt (other than the Loan) subject to conditions indicated in the Agreement.

b. Financial covenants

The Bank agreed to prudently manage its financial position in accordance with sound banking and financial practices, applicable laws and the prudential standards of the BSP. To the extent that the banking regulation imposes financial requirements or ratios that are more stringent than the following, the Bank shall observe and comply with those more stringent requirements or ratios.

- a Risk Weighted Capital Adequacy Ratio of not less than 10.0%
- an Equity to Assets Ratio of not less than 5.0%
- an Economic Group Exposure Ratio of not more than 15.0%
- an Aggregate Large Exposure Ratio of not more than 400.0%
- a Related Party Exposure Ratio of not more than 15.0%
- an Open Credit Exposures Ratio of not more than 25.0%
- a Fixed Assets Plus Equity Participants Ratio of not more than 35.0%
- an Aggregate Foreign Exchange Risk Ratio of not more than 25.0%
- a Single Currency Foreign Exchange Risk Ratio of not more than 10.0%
- an Interest Rate Risk Ratio of not less than -10.0% and not more than 10.0%
- an Aggregate Interest Rate Risk Ratio of not less than -20.0% and not more than 20.0%
- a Foreign Currency Maturity Gap Ratio of not less than (i.e., more negative than) -150.0%;
- an Aggregate Negative Maturity Gap Ratio of not less than (i.e., more negative than) -300.0%.

The period of compliance with the above covenants commenced on March 31, 2017. Microfinance loans amounting to ₱192.4 million were held as collateral for the above borrowings as of December 31, 2017 and 2016 (Note 7).

Interest expense on bills payable in 2017 and 2016 amounted to ₱30.0 million and ₱21.5 million, respectively. Amortization of bills payable amounted to ₱4.4 million and ₱1.7 million in 2017 and 2016, respectively.

As of December 31, 2017 and 2016, the Bank is in compliance with the debt covenants.

#### 14. Other Liabilities

This account consists of:

	2017	2016
<b>Financial liabilities</b>		
Accrued expenses	₱43,710,208	₱29,303,941
Accounts payable (Note 19)	11,156,794	10,435,444
Accrued interest payable	10,579,210	7,490,101
Finance lease payable (Note 20)	9,487,782	1,678,324
Dividends payable	182,191	81,092
	<b>75,116,185</b>	<b>48,988,902</b>
<b>Nonfinancial liabilities</b>		
Deposit for future stock subscription (Note 16)	106,295,050	5,201,900
Accrued taxes	11,462,993	7,848,206
Others	6,398,063	3,729,748
	<b>124,156,106</b>	<b>16,779,854</b>
	<b>₱199,272,291</b>	<b>₱65,768,756</b>

Accrued taxes include withholding taxes and documentary stamps tax payable. Others include accruals for operating expenses and employee bonuses and benefits.

#### 15. Maturity Analysis of Assets and Liabilities

The following table shows an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within one year and beyond from reporting date:

	2017			2016		
	Less than Twelve Months	Over Twelve Months	Total	Less than Twelve Months	Over Twelve Months	Total
<b>Financial Assets</b>						
Cash and other cash						
items	₱16,419,549	₱–	₱16,419,549	₱8,550,182	₱–	₱8,550,182
Due from BSP	233,021,335	–	233,021,335	156,044,613	–	156,044,613
Due from other						
Banks	430,501,434	–	430,501,434	217,923,219	–	217,923,219
Loans and receivables						
- gross	3,645,193,680	544,758,552	4,189,952,232	2,486,948,750	381,520,973	2,868,469,723
Other assets:						
Refundable deposits	5,443,528	498,943	5,942,471	3,333,880	2,498,275	5,832,155
	<b>4,330,579,526</b>	<b>545,257,495</b>	<b>4,875,837,021</b>	<b>2,872,800,644</b>	<b>384,019,248</b>	<b>3,256,819,892</b>
<b>Nonfinancial Assets</b>						
Property and						
equipment - gross	–	230,677,793	230,677,793	–	184,090,529	184,090,529
Investment properties						
- gross	–	13,307,887	13,307,887	–	14,039,537	14,039,537
Intangible assets –						
gross	–	15,964,984	15,964,984	–	13,860,534	13,860,534
Retirement asset	–	102,426,693	102,426,693	–	75,590,128	75,590,128
Deferred tax asset	–	18,364,365	18,364,365	–	16,396,816	16,396,816
Other assets	12,464,464	25,764,656	38,229,120	8,135,357	24,608,694	32,744,051
	<b>12,464,464</b>	<b>406,506,378</b>	<b>418,970,842</b>	<b>8,135,357</b>	<b>328,586,238</b>	<b>336,721,595</b>
	<b>₱4,343,043,990</b>	<b>₱951,763,873</b>		<b>₱2,880,936,001</b>	<b>₱712,605,486</b>	

(Forward)

	2017			2016		
	Less than Twelve Months	Over Twelve Months	Total	Less than Twelve Months	Over Twelve Months	Total
Less: Allowance for credit and impairment losses			(₱135,500,844)			(₱99,028,763)
Unearned interest			(1,814,050)			(₱1,430,192)
Accumulated depreciation and amortization			(88,278,369)			(59,875,574)
			<u>₱5,069,214,600</u>			<u>₱3,433,206,958</u>
<b>Financial Liabilities</b>						
Deposit liabilities						
Demand	₱9,410,781	₱-	₱9,410,781	₱7,911,981	₱-	₱7,911,981
Savings	2,892,236,337	1,571,881	2,893,808,218	1,889,086,472	2,642,382	1,891,728,854
Bills payable	940,460,900	97,964,677	1,038,425,577	574,640,000	119,429,886	694,069,886
Other liabilities						
Accrued expenses	43,710,208	-	43,710,208	28,915,239	388,702	29,303,941
Accounts payable	11,156,794	-	11,156,794	10,435,444	-	10,435,444
Accrued interest payable	10,579,210	-	10,579,210	7,490,101	-	7,490,101
Finance lease payable	3,854,425	5,633,357	9,487,782	787,579	890,745	1,678,324
Dividends payable	182,191	-	182,191	81,092	-	81,092
	<u>3,911,590,846</u>	<u>105,169,915</u>	<u>4,016,760,761</u>	<u>2,519,347,908</u>	<u>123,351,715</u>	<u>2,642,699,623</u>
<b>Nonfinancial Liabilities</b>						
Deposit for future stock subscription	106,295,050	-	106,295,050	5,201,900	-	5,201,900
Income tax payable	53,152,097	-	53,152,097	28,093,464	-	28,093,464
Other liabilities						
Accrued taxes	11,462,993	-	11,462,993	7,848,206	-	7,848,206
Others	6,398,063	-	6,398,063	3,729,748	-	3,729,748
	<u>177,308,203</u>	<u>-</u>	<u>177,308,203</u>	<u>44,873,318</u>	<u>-</u>	<u>44,873,318</u>
	<u>₱4,088,899,049</u>	<u>₱105,169,915</u>	<u>₱4,194,068,964</u>	<u>₱2,564,221,226</u>	<u>₱123,351,715</u>	<u>₱2,687,572,941</u>

## 16. Equity

### Capital Stock

As of December 31, 2017 and 2016, the Bank's capital stock consists of:

	2017		2016	
	Shares	Amount	Shares	Amount
<b>Common stock - ₱100 par value, 5,000,000 authorized shares</b>				
Issued and outstanding				
Issued shares at beginning of year	3,426,217	₱342,621,700	2,813,611	₱281,361,100
Issuances of shares of stocks from settlement of subscriptions receivable	1,035,785	103,578,500	612,606	61,260,600
Issued and outstanding at end of the year	<u>4,462,002</u>	<u>446,200,200</u>	<u>3,426,217</u>	<u>342,621,700</u>
Subscribed	537,998	53,799,800	1,573,783	157,378,300
Subscriptions receivable		(4,720,600)	-	(30,083,000)
	<u>5,000,000</u>	<u>₱495,279,400</u>	<u>₱5,000,000</u>	<u>₱469,917,000</u>

Deposit for Future Stock Subscription

Deposit for future stock subscription pertains to total consideration received in excess of the authorized capital of the Bank with the purpose of applying the same as payment for future issuance of shares.

On May 14, 2016, the BOD and the stockholders approved and ratified, respectively, the increase in the Bank's capitalization from ₱0.5 billion to ₱1.0 billion by increasing its authorized common stock by 5.0 million. As at December 31, 2016, DFS amounting to ₱5.2 million was classified as liability as the Bank has yet to file the application for the increase in capital stock with the SEC.

On April 4, 2017, the application for the increase in capital stock was filed by the Bank with the BSP. On January 23, 2018, the Bank filed the application for increase in capital stock with the SEC. The Bank's application was subsequently approved by the BSP and the SEC on December 7, 2017 and March 16, 2018, respectively. DFS of ₱106.3 million and ₱5.2 million were classified under 'Other liabilities' as of December 31, 2017 and 2016 in accordance with the requirements of SEC Financial Reporting Bulletin No. 006, as discussed in Note 2 to the financial statements.

Dividends

On October 14, 2017, the BOD approved the declaration of cash dividends amounting to ₱50.0 million or ₱10.0 per share to stockholders of record as of September 30, 2017.

On May 13, 2017, the BOD approved the declaration of cash dividends amounting to ₱70.0 million or ₱14.0 per share to stockholders of record as of April 30, 2017.

On March 11, 2017, the BOD approved the declaration of cash dividends amounting to ₱100.0 million or ₱20.0 per share to stockholders of record as of December 31, 2016.

On August 13, 2016, the BOD approved the declaration of cash dividends amounting to ₱35.0 million or ₱7.0 per share to stockholders of record as of August 16, 2016.

On April 9, 2016, the BOD approved the declaration of cash dividends amounting to ₱54.9 million or ₱11.0 per share to stockholders of record as of March 31, 2016.

Capital Management

The Bank's capital management aims to ensure that it complies with regulatory capital requirements and it maintains strong credit ratings and healthy capital ratios in order to support and sustain its business growth towards maximizing the shareholders' value.

The Bank manages its capital structure and appropriately effect adjustment according to the changes in economic conditions and the risk level it recognizes at every point of time in the course of its business operations. In order to maintain or adjust for good capital structure, the Bank carefully measures the amount of dividend payment to shareholders, call payment due from the capital subscribers or issue capital securities as necessary. No changes were made in the objectives, policies and processes from the previous years.

Regulatory Qualifying Capital

The determination of the Bank's compliance with the regulatory requirements and ratios is based on the amount of the Bank's unimpaired capital (regulatory net worth) reported to the BSP, determined on the basis of regulatory accounting policies which differ from PFRS in some respects. The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments.

BSP Circular No. 688, *Revised Risk-Based Capital Adequacy Framework for Stand-Alone Thrift Banks, Rural Banks and Cooperative Banks*, which took effect on January 1, 2012 represents BSP's commitment to align existing prudential regulations with international standards consistent with the BSP's goal of promoting the soundness and stability of individual banks and of the banking system as a whole. BSP Circular No. 688 replaced BSP Circular No. 280 which is primarily based on Basel 1.

Under current banking regulations, the combined capital accounts of each bank should not be less than an amount equal to ten percent (10.0%) of its risk assets. The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio to total equity excluding:

- unbooked valuation reserves and other capital adjustments as may be required by the BSP;
- total outstanding unsecured credit accommodations to directors, officers, stakeholders and related interest (DOSRI);
- deferred tax asset or liability; and
- other regulatory deductions.

Risk assets consist of total assets after exclusion of 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 as determined by the Monetary Board of the BSP.

Under BSP Circular No. 360, effective July 1, 2003, the capital adequacy ratio (CAR) is to be inclusive of a market risk charge. BSP Circular No. 560 dated January 31, 2007 which took effect on February 22, 2007, requires the deduction of unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates from capital accounts for purposes of computing CAR.

On October 9, 2014, the BSP issued BSP Circular No. 854 which amends the provisions of the Manual of Regulations for Banks on the minimum capitalization of banks and on the prerequisites for the grant of authority to establish a branch. Based on this circular, thrift banks with up to ten branches and those with 11 to 50 branches are required to maintain a minimum capitalization of ₱300.0 million and ₱400.0 million, respectively.

The CAR of the Bank as of December 31, 2017 and 2016, as reported to the BSP, is shown in the table below (amounts in thousands):

	<b>2017</b>	2016
Tier 1	<b>₱933,517</b>	₱679,148
Tier 2	<b>39,161</b>	26,160
Total qualifying capital	<b>972,678</b>	705,308
Risk-weighted assets	<b>₱4,990,951</b>	₱3,404,373
Tier 1 capital ratio	<b>18.7%</b>	19.9%
Tier 2 capital ratio	<b>0.8%</b>	0.8%
CAR	<b>19.5%</b>	20.7%

As of December 31, 2017 and 2016, the Bank's CAR and capital is in compliance with the regulatory capital requirements.

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

Financial Performance

The following basic ratios measure the financial performance of the Bank:

	<b>2017</b>	2016
Return on average equity	<b>38.0%</b>	28.2%
Return on average assets	<b>7.3%</b>	6.5%
Net interest margin	<b>37.5%</b>	37.4%

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**17. Retirement Benefits**

The Bank, CARD MRI Development Institute, Inc. (CMDI), CARD Mutual Benefit Association, Inc. (MBA), CARD Bank, Inc., CARD MRI Insurance Agency (CAMIA), Inc., CARD Business Development Service Foundation, Inc. (BDSFI), Inc., CARD MRI Information Technology, Inc. (CMIT), CARD Employees Multi-Purpose Cooperative (EMPC), Responsible Investments for Solidarity and Empowerment Financing Co. (RISE), BotiCARD Inc., CARD Leasing and Finance Corporation (CLFC), Rizal Bank, Inc. (RBI), CARD, Inc. and Mga Likha ni Inay, Inc. (MLNI), maintain a funded and formal noncontributory defined benefit retirement plan - the CARD MRI Multi-Employer Retirement Plan (MERP) - covering all of their regular employees and CARD Group Employees' Retirement Plan (Hybrid Plan) applicable to employees hired on or after July 1, 2017. MERP is valued using the projected unit cost method and is financed solely by the Bank and its related parties.

MERP and Hybrid Plan comply with the requirements of RA No. 7641 (Retirement Law). MERP provides lump sum benefits equivalent to up to 120.0% of final salary for every year of credited service, a fraction of at least six months being considered as one whole year, upon retirement, death, total and permanent disability, or voluntary separation after completion of at least one year of service with the participating companies.

Hybrid Plan provides a retirement benefit equal to 100.0% of the member's employer accumulated value (the Bank's contributions of 8.0% plan salary to Fund A plus credited earnings) and 100.0% of the Member's Employee accumulated value (member's own contributions up to 10.0% of plan salary to Fund B plus credited earnings), if any. Provided that in no case shall 100.0% of the Employee Accumulated Value in Fund A be less than 100.0% of plan salary for every year of credited service.

Total retirement expense in 2017 and 2016 related to Hybrid Plan amounted to ₱3.3 million and ₱0.3 million, respectively.

The latest actuarial valuation report covers reporting period as of December 31, 2017.

Changes in retirement asset are as follows:

	Net benefit cost recognized in the statement of income				Remeasurements in other comprehensive income (loss)							
	January 1	Current service cost	Net interest	Net pension expense*	Return on plan assets (excluding amount net interest)	Transfer from plan assets	Benefits paid	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Changes in the effect of limiting net benefit asset to the asset ceiling	Subtotal	December 31
Fair value of plan assets	₱204,532,084	₱—	₱12,558,952	₱12,558,952	(₱1,189,440)	₱5,303,494	₱1,026,733	₱—	₱—	₱—	(₱1,189,440)	₱235,470,614
Present value of defined benefit obligation	(114,772,134)	(16,134,395)	(6,725,647)	(22,860,042)	—	(5,303,494)	1,026,733	1,402,102	45,371,316	—	46,773,418	(95,135,519)
Effect of asset ceiling	(14,169,822)	—	(830,352)	(830,352)	—	—	—	—	—	(22,908,228)	(22,908,228)	(37,908,402)
Net defined benefit asset	₱75,590,128	₱16,134,395	₱5,002,953	₱11,131,442	₱1,402,102	₱—	₱—	₱45,371,316	₱22,908,228	₱22,675,750	₱15,292,257	₱102,426,693

\* Included in Compensation and fringe benefits in the statements of income.

	Net benefit cost recognized in the statement of income				Remeasurements in other comprehensive income (loss)							
	January 1	Current service cost	Net interest	Net pension expense*	Return on plan assets (excluding amount net interest)	Transfer from plan assets	Benefits paid	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Changes in the effect of limiting net benefit asset to the asset ceiling	Subtotal	December 31
Fair value of plan assets	₱151,801,373	₱—	₱6,532,929	₱6,532,929	(₱3,348,831)	₱2,850,153	₱1,701,506	₱—	₱—	₱—	(₱3,348,831)	₱204,532,084
Present value of defined benefit obligation	(100,526,329)	(11,112,308)	(4,885,580)	(15,997,888)	—	(2,850,153)	1,701,506	3,194,136	(293,406)	—	2,900,730	(114,772,134)
Effect of asset ceiling	(5,994,473)	—	(291,331)	(291,331)	—	—	—	—	—	(7,884,018)	(7,884,018)	(14,169,822)
Net defined benefit asset	₱45,280,571	₱11,112,308	₱3,356,018	₱7,756,290	₱3,348,831	₱—	₱—	₱3,194,136	₱293,406	₱7,884,018	(₱8,332,119)	₱75,590,128

\* Included in Compensation and fringe benefits in the statements of income.

Transfer from (to) plan assets represents transfer of obligation and plan assets to the respective CARD-MRI entity as a result of movements in employees among the CARD-MRI entities.

The maximum economic benefit of plan assets available is a combination of expected refunds from the plan and reduction in future contributions. The fair values of plan assets by each class as at the end of the reporting period follow:

	2017	2016
Cash and cash equivalents	<b>₹97,037,440</b>	₹84,962,628
Investments		
Government securities	<b>119,548,431</b>	96,048,267
Private bonds	<b>4,379,753</b>	4,254,267
Mutual funds	<b>1,106,712</b>	1,063,567
Receivables	<b>10,360,707</b>	15,442,172
Other assets	<b>3,037,571</b>	2,761,183
<b>Fair value of plan assets</b>	<b>₹235,470,614</b>	₹204,532,084

All plan assets do not have quoted prices in an active market except for government securities. Cash and cash equivalents are deposited in reputable financial institutions and related parties and are deemed to be standard grade. Mutual fund, loans and other assets are unrated.

The plan assets have diverse investments and do not have any concentration risk other than those in government securities which are of low risk.

The overall investment policy and strategy of the Bank's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans.

The cost of defined retirement plan as well as the present value of the defined benefit obligation is determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension for the defined benefit plans are shown below:

	2017	2016
Discount rates		
January 1	<b>5.86%</b>	4.86%
December 31	<b>5.77%</b>	5.86%
Future salary increases		
January 1	<b>7.00%</b>	7.00%
December 31	<b>5.00%</b>	7.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at the end of the reporting period, assuming all other assumptions were held constant:

	2017		2016	
	+100bps	-100bps	+100bps	-100bps
Discount rates	<b>(₹13,555,787)</b>	<b>₹16,865,895</b>	(₹18,988,891)	₹24,045,012
Salary rates	<b>15,794,350</b>	<b>(13,005,942)</b>	22,229,828	(18,062,771)

The Bank plans to contribute ₹54.0 million to the defined benefit retirement plan in 2018.

As of December 31, 2017 and 2016, the average duration of the defined benefit obligation is 16.0 years and 18.8 years, respectively.

Shown below is the twenty-five year maturity analysis of the undiscounted benefit payments:

	2017	2016
Less than 1 year	<b>₱3,094,881</b>	₱2,631,187
More than 1 year to 5 years	<b>23,236,938</b>	20,525,329
More than 5 years to 10 years	<b>56,665,118</b>	49,366,499
More than 10 years to 15 years	<b>67,181,318</b>	61,216,464
More than 15 years to 20 years	<b>217,375,516</b>	172,533,343
More than 20 years to 25 years	<b>393,498,659</b>	361,285,676
More than 25 years	<b>578,406,004</b>	568,557,149

## 18. Income Taxes

Under Philippine tax laws, the Bank is subject to percentage and other taxes as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp taxes presented as ‘Taxes and licenses’ in the statement of income.

Income taxes include final income tax which is paid at the rate of 20.0%. This is generally withheld on gross interest income from government securities and other deposit substitutes.

RA No. 9337, *An Act Amending National Internal Revenue Code* provides that the RCIT rate shall be 30.0%. Interest allowed as a deductible expense shall be reduced by 33.0% of interest income subject to final tax.

The law also provides for MCIT of 2.0% on modified gross income which is paid if determined to be higher than RCIT. The excess of the MCIT over the RCIT can be carried-over and applied against the RCIT liability for the next three years.

NOLCO is allowed as a deduction against the taxable income for RCIT purposes for a three-year period from the year of inception.

Current tax regulations also provide for the ceiling on the amount of entertainment, amusement and representation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense for a service company like the Bank is limited to the actual EAR paid or incurred but not to exceed 1.0% of net revenue. EAR expenses of the Bank amounted to ₱11.0 million and ₱9.7 million in 2017 and 2016, respectively.

Provision for income tax consists of:

	2017	2016
RCIT	<b>₱142,447,302</b>	<b>₱79,991,979</b>
Final tax	<b>815,655</b>	<b>622,195</b>
	<b>143,262,957</b>	<b>80,614,174</b>
Deferred	<b>(8,770,274)</b>	<b>1,572,404</b>
	<b>₱134,492,683</b>	<b>₱82,186,578</b>

Deferred tax recognized in other comprehensive income/(loss) amounted to (P6.8 million) and P2.5 million for the years ended December 31, 2017 and 2016, respectively.

Components of deferred tax assets - net are as follows:

	2017	2016
Deferred tax asset on:		
Allowance for credit and impairment losses	<b>₱40,650,253</b>	₱26,984,933
Unamortized past service cost	<b>7,196,556</b>	8,269,459
Accumulated vacation leave	<b>2,119,097</b>	4,718,199
Accrued rent	<b>486,768</b>	116,610
Accumulated depreciation - investment properties	<b>69,300</b>	68,282
	<b>50,521,974</b>	40,157,483
Deferred tax liability on:		
Retirement asset	<b>30,728,008</b>	22,677,038
Fair value adjustment on investment properties	<b>1,429,601</b>	1,083,629
	<b>32,157,609</b>	23,760,667
	<b>₱18,364,365</b>	₱16,396,816

The reconciliation between the statutory income tax and effective income tax follows:

	2017	2016
Statutory income tax	<b>₱132,830,663</b>	₱81,148,534
Income tax effects of:		
Nondeductible operating expenses	<b>2,190,090</b>	1,377,425
Interest income subject to final tax	<b>(528,070)</b>	(339,381)
Provision for income tax	<b>₱134,492,683</b>	₱82,186,578

## 19. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Bank's related parties include:

- key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members;
- post-employment benefit plans for the benefit of the Bank's employees; and
- entities under common significant influence (CARD-MRI entities).

The Bank has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectability or present other unfavorable conditions.

Transactions with Retirement Plans

Under PFRS, certain post-employment benefit plans are considered as related parties. CARD-MRI's MERP is a stand-alone entity assigned in facilitating the contributions to retirement starting 2015. The plan assets are mostly invested in time deposits and special savings of related party banks and government bonds (Note 17). As of December 31, 2017 and 2016, the retirement funds do not hold or trade the Bank's shares of stock.

Remunerations of Directors and Other Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The Bank considers the members of the BOD and senior management to constitute key management personnel for purposes of PAS 24, *Related Party Disclosures*.

The compensation of key management personnel included under 'Compensation and fringe benefits' in the statement of income follows:

	2017	2016
Short-term employee benefits	₱9,251,991	₱6,740,181
Post-employment benefits	4,782,218	3,252,704
	<b>₱14,034,209</b>	<b>₱9,992,885</b>

The Bank also provides banking services to directors and other key management personnel and persons connected to them.

Other Related Party Transactions

Transactions between the Bank and its key management personnel meet the definition of related party transactions. Transactions between the Bank and its affiliates within the CARD MRI, also qualify as related party transactions.

*Loans receivables*

As of December 31, 2017 and 2016, the Bank has no loan outstanding that was granted to related parties.

*Deposit liabilities, accounts receivable and accounts payable*

The table below shows deposit liabilities, accounts receivable and accounts payable held by the Bank for key management personnel and affiliates as of December 31, 2017 and 2016:

Category	Amount/Volume	December 31, 2017	
		Outstanding Balance	Nature, Terms and Conditions
<b>Key Management Personnel</b>			
Deposit liabilities		<b>₱6,550,368</b>	These are savings accounts with annual interest rates ranging from 1.5% to 6.0%.
Saving Deposits	₱8,931,956		
Withdrawals	(7,696,924)		
Interest expenses/payable	83,032	-	
Directors' fees/payable	3,465,169	-	Pertains to per diem payments directors
<b>Shareholders</b>			
Deposit liabilities		<b>₱298,314,398</b>	These are savings accounts with annual interest rates ranging from 1.5% to 5.0%.
Deposits	₱693,153,602		
Withdrawals	(460,891,125)		
Interest expense/payable	2,441,978	-	Pertains to interest on deposit liabilities.
Accounts receivable		-	Share on expenses of transferred staff.
Charges	2,121,171		
Collections	(2,121,171)		
Accounts payable		-	Pertains to share on various expenses.
Charges	2,529,867		
Payments	(2,530,827)		

December 31, 2017

Category	Amount/Volume	Outstanding Balance	Nature, Terms and Conditions
<i>(Forward)</i>			
<b>Other related parties*</b>			
Deposit liabilities		<b>₱505,604,403</b>	These are savings accounts with annual interest rates ranging from 1.5% to 5.0%.
Deposits	<b>₱1,787,670,057</b>		
Withdrawals	<b>(1,726,118,533)</b>		
Interest expense/payable	<b>7,124,682</b>	–	Pertains to interest on deposit liabilities.
Accounts receivable		<b>196,099</b>	Training fees, seminars and meetings, and share of expenses shouldered by the Bank.
Charges	<b>1,017,401</b>		
Collections	<b>(821,302)</b>		
Accounts payable		<b>1,404,421</b>	Insurance premiums from members collected on behalf of CARD MBA and payments to CLFC for operating lease agreement.
Charges	<b>94,905,843</b>		
Payments	<b>(93,502,382)</b>		
Seminars and trainings expense	<b>16,027,858</b>		Cost incurred from engaging CMDI for training and development of its members and employees (shown as part of ‘Employee trainings’ and ‘Meetings and seminars’ in the statement of income).
Information technology	<b>26,470,916</b>		This represents information technology-related support services to the Bank including software maintenance of the Bank’s CARD e-System, hardware maintenance, set-up of network and centers and technical support, among others and computer equipment leased from CLFC.
Operating lease	<b>18,103,399</b>		This pertains to transportation equipment leased from CLFC.
Retirement plan contributions	<b>18,642,347</b>		Pertains to the funded and formal noncontributory defined benefit retirement plan of the Bank that is handled by CARD MERP (see Note 17)

\*Includes CARD Bank, Inc., Rizal Bank, Inc., CARD MRI Information Technology, Inc., Responsible Investments for Solidarity and Empowerment, CARD MRI Development Institute, Inc., BotiCARD, Inc., CARD Leasing and Finance Corporation, CARD Mutual Benefit Association and CARD MRI Insurance Agency

December 31, 2016

Category	Amount/Volume	Outstanding Balance	Nature, Terms and Conditions
<b>Key Management Personnel</b>			
Deposit liabilities		<b>₱5,315,336</b>	These are savings accounts with annual interest rates ranging from 1.5% to 6.0%.
Saving Deposits	<b>₱16,670,080</b>		
Withdrawals	<b>(15,773,544)</b>		
Interest expenses/payable	<b>101,445</b>	–	Pertains to interest on deposit liabilities
Directors’ fees/payable	<b>3,281,642</b>	–	Pertains to per diem payments directors
<b>Shareholders</b>			
Deposit liabilities		<b>₱66,051,921</b>	These are savings accounts with annual interest rates ranging from 1.5% to 5.0%.
Deposits	<b>₱460,854,096</b>		
Withdrawals	<b>(460,891,125)</b>		
Interest expense/payable	<b>1,564,229</b>	–	Pertains to interest on deposit liabilities.
Accounts receivable		–	Share on expenses of transferred staff.
Charges	<b>2,345,000</b>		
Collections	<b>(2,359,435)</b>		
Accounts payable		<b>960</b>	Pertains to share on various expenses.
Charges	<b>49,153,049</b>		
Payments	<b>(49,156,007)</b>		

*(Forward)*

December 31, 2016			
Category	Amount/Volume	Outstanding Balance	Nature, Terms and Conditions
<b>Other related parties*</b>			
Deposit liabilities		P444,052,879	These are savings accounts with annual interest rates ranging from 1.5% to 5.0%.
Deposits	P1,500,956,165		
Withdrawals	(1,390,566,487)		
Interest expense/payable	7,930,956	-	Pertains to interest on deposit liabilities.
Accounts receivable		-	Training fees, seminars and meetings, and share of expenses shouldered by the Bank.
Charges	689,078		
Collections	(970,048)		
Accounts payable		151,177	Insurance premiums from members collected on behalf of CARD MBA and payments to CLFC for operating lease agreement.
Charges	75,735,681		
Payments	(78,872,188)		
Seminars and trainings expense	16,027,858		Cost incurred from engaging CMDI for training and development of its members and employees (shown as part of 'Employee trainings' and 'Meetings and seminars' in the statement of income).
Information technology	18,961,392		This represents information technology-related support services to the Bank including software maintenance of the Bank's CARD e-System, hardware maintenance, set-up of network and centers and technical support, among others and computer equipment leased from CLFC.
Travelling expense	7,704,731		This pertains to transportation equipment leased from CLFC.
Retirement plan contributions	46,697,276		Pertains to the funded and formal noncontributory defined benefit retirement plan of the Bank that is handled by CARD MERP (see Note 17)

*\*Includes CARD Bank, Inc., Rizal Bank, Inc., CARD MRI Information Technology, Inc., Responsible Investments for Solidarity and Empowerment, CARD MRI Development Institute, Inc., BotiCARD, Inc., CARD Leasing and Finance Corporation, CARD Mutual Benefit Association and CARD MRI Insurance Agency*

### Regulatory Reporting

As required by BSP, the Bank discloses loan transactions with investees and with certain DOSRI. Existing banking regulations limit the amount of individual loans to DOSRI, 70.0% of which must be secured, to the total of their respective deposits and book value of their respective investments in the lending company within the Bank.

In the aggregate, loans to DOSRI generally should not exceed total equity or 15.0% of total loan portfolio, whichever is lower. As of December 31, 2017 and 2016, the Bank is in compliance with the regulatory requirements.

BSP Circular No. 423 dated March 15, 2004 amended the definition of DOSRI accounts. On October 8, 2010, BSP Circular No. 695 is issued to provide guidance on the definition of Related Interest.

As of December 31, 2017 and 2016, there were no loans, other credit accommodations and guarantees classified as DOSRI accounts under the existing regulations.

Any violation of the provisions under BSP Circular No. 423 is subject to regulatory sanctions.



## 20. Lease Contracts

The Bank leases the premises occupied by some of its branches in which lease payments are subjected to escalation clauses ranging from 3.0% to 10.0%. The lease contracts are for the periods ranging from one to ten years and are renewable upon mutual agreement between the Bank and the lessors such as CARD, Inc. and third-party lessors.

The future aggregate minimum lease payments under non-cancelable operating leases follow:

	2017	2016
Within one year	₱42,354,013	₱29,385,667
Beyond one year but not more than five years	42,917,506	38,508,229
	<b>₱85,271,519</b>	<b>₱67,893,896</b>

Rent expense (presented under 'Occupancy and equipment-related cost' in the statement of income) amounted to ₱55.3 million and ₱37.5 million in 2017 and 2016, respectively.

## 21. Notes to Statements of Cash Flows

Non-cash activities of the Bank consist of the following:

	2017	2016
<b>Non-cash investing activities:</b>		
Acquisitions of property and equipment on account	<b>₱8,558,691</b>	₱1,694,347

The following table shows the reconciliation analysis of liabilities arising from financing activities for the year ended December 31, 2017:

	Beginning balance	Cash flows	Non-cash items		Ending balance
			Dividend declaration	Amortization of discount	
Bills payable (Note 13)	694,069,886	345,360,000	–	(1,004,309)	1,038,425,577
Deposit for future stocks subscription (Note 11)	5,201,900	101,093,150	–	–	106,295,050
Dividends payable (Note 11)	81,092	(219,898,901)	220,000,000	–	182,191
Total liabilities from financing activities	699,352,878	221,115,619	220,000,000	(1,004,309)	1,144,720,627

## 22. Approval of the Release of Financial Statements

The accompanying financial statements were approved and authorized for issue by the Bank's BOD on March 10, 2018.

### 23. Supplementary Information Required under Revenue Regulations 15-2010

On November 25, 2010, the BIR issued RR 15-2010 prescribing the manner of compliance in connection with the preparation and submission of financial statements accompanying the tax returns. It includes provisions for additional disclosure requirements in the notes to the financial statements, particularly on taxes, duties and licenses paid or accrued during the year.

The components of 'Taxes and licenses' in 2017 follow:

Gross receipts tax	₱74,379,200
Business permits and licenses	5,362,317
Documentary stamp tax	2,437,833
Real property tax	396,436
Others	477,578
	₱83,053,364

In 2017, withholding taxes remittances and withholding taxes lodged under 'Other liabilities - Accrued taxes' account follow:

Remittances:	
Gross Receipt Tax	₱67,615,292
Expanded withholding tax	14,240,752
Withholding taxes on compensation and benefits	12,036,658
Documentary stamp tax	5,573,786
Final withholding tax on interest expense	5,517,022
	₱104,983,510
Accrued:	
Gross Receipt Tax	₱6,770,198
Final withholding tax on interest expense	2,042,857
Withholding taxes on compensation and benefits	1,408,933
Expanded withholding tax	719,910
Documentary stamp tax	521,095
	₱11,462,993

#### Tax Cases and Assessment

The Bank has no outstanding tax assessment and/or legal case filed in court as of December 31, 2017.





**CARD SME BANK, INC.**  
A Thrift Bank  
A member of CARD MRI



120 M. Paulino Corner Burgos Streets,  
San Pablo City, Laguna



(049) 503 - 2671 / 049 - 503 - 2672



[www.cardmri.com/cardsmebank/](http://www.cardmri.com/cardsmebank/)



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