

CARD SME BANK ANNUAL REPORT  
twenty nineteen

2019



F o s t e r i n g  
C o l l a b o r a t i o n &  
C o n v e r g e n c e :  
A m p l i f i e d  
P r e s e n c e i n **HIGZ**  
high impact growth zones



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# About the Cover



For over thirty years, CARD MRI has touched countless lives throughout the country through its integrated microfinance and social development services. We are committed to our mission of fostering social change and eradicating poverty in the Philippines. This 2019, we found ourselves at another crossroad where we chose a new direction that we shall take for the next ten years.

Our covers serve to symbolically convey both the central theme and our approach towards this new strategic direction. We visualize these concepts in two ways, through the use of hands as central motifs. When the main CARD MRI annual report is paired together with our institutional annual reports, the outstretched hands prominently displayed on the covers evoke the collaborative and converging efforts between our mutually reinforcing institutions. Meanwhile, the covers when viewed individually visualize the ripples of change created by CARD MRI's impact, especially in our newly identified high-impact growth zones (HIGZones).



# VISION

CARD SME Bank, Inc., A Thrift Bank, 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 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., A Thrift Bank, 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 responsible citizens for their community and the environment;
- Provide collateralized and non-collateralized loans to non-bankable but viable microfinance and SME projects; and
- Grow the bank's SME lending to become the pre-eminent SME Bank in the Philippines to be able to reach more SME beneficiaries.

**WE ARE IN THE BUSINESS  
OF POVERTY ERADICATION**



# COLLABORATION FOR GROWTH ACCELERATION

At CARD SME Bank, we always say, “We are in the business of poverty eradication”. We always envision a Philippines where its people are all ready to face today and many tomorrows with great confidence.

This is what we are working on. We always look for great opportunities on how we could reach our vision for our country. We can do this by addressing the many faces of poverty. For CARD SME Bank, we are one with Bangko Sentral ng Pilipinas’ call for financial inclusion. We see that by providing equal opportunity to access financial services is one way to help people, especially those marginalized individuals in society to access a quality life.

As we end this era, we recognize the significance of technology when it comes to reaching out to the community efficiently. With this, we commend our hard-working men and women who made the transition from traditional ways to modern technology possible.

Through the years, CARD SME Bank has provided unparalleled services to its clients, especially the need in starting their own respective businesses. We have catered to the needs of our clients throughout the years in collaboration with the CARD MRI institutions.



Aiding in times of crisis and disasters, providing convenience through hassle-free transactions through konek2CARD, CARD Sulit Padala, and Digital Cash Machine (DCM), and implementation of programs that will promote clients’ potentials. We have been hard at work in providing these services, but I know we are only at the beginning of this challenging yet exciting new journey: The road to digitization.

CARD SME Bank has started the process of digitization with the promise of providing ease of transaction to its clients. This will increase the institution’s productivity that will surely accelerate growth and will assist in ultimately eradicating poverty. As we innovate, we also introduced financial technology which clients could finally use in their personal transactions like bills payment. We are positive that in the coming years, this technology will continue to flourish and will help more and more people and communities we are serving. We are aware that the process into digitalization is and will continue to be a challenge in our institution, but as we move forward for the better, we have learned to be flexible, and to adapt and be more sensitive to the needs of the communities.



As we move along with our plans to secure financial independence and literacy for our clients, CARD SME Bank commits to speedily look for solutions to the different needs of our clients.

We acknowledge also the lessons learned of the other subsidiary companies under CARD MRI. With the united effort of the CARD Banking Group to bring the best banking service to our clients, we can reach the last person to secure financial services. Similarly, with the help of the mutually reinforcing institutions under CARD MRI and with the help of other organizations and individuals, our goal to zero poverty will never be impossible.

**We promise to continually improve and collaborate to provide the best banking products and services that everyone deserves.**

CARD SME Bank looks forward and is excited to share to everyone what's in store for the coming years. We, as an institution, will be ready to support and be of assistance to its clients especially in the high-impact growth zones (HIG Zones) to cater to their various needs.

*Jaime Alip*  
Dr. Jaime Aristotle B. Alip  
Chairman

# INNOVATION THROUGH FINANCIAL TECHNOLOGY

**Aristeo A. Dequito**  
*President & CEO, CARD SME Bank*

Guided by our core value of excellence, CARD SME Bank was able to recognize obstacles as opportunities for growth, new learnings, and limitless collaboration in 2019. The institution is positive about the changes for the coming years and is excited to be sharing it with its clients and communities.

This year, CARD SME Bank has a total of 966,143 clients and savers nationwide with more than PHP6.3 billion loans disbursed, a 25% increase from the previous year. As we fully entrust our clients and develop their financial discipline, we have a stronger repayment rate of 99.17%. As we continue to educate our clients on the value of savings, our savings deposit increase by 24% amounting to more than PHP4.8 Billion.

The world is fast-paced, and the new age of technology is endlessly unfolding before our eyes. To cope with these changes, we find ways on how to keep up with what is new and reach out to our clients in more efficient ways. This year is a year of discovering more potentials for the institution when it comes to developing more strategies gearing towards digitization.

The need for digitalization comes upon realizing that clients will have much easier lives if they can access and manage their finances in their most convenient time. CARD SME Bank introduced financial technology wherein the Digital Cash Machine (DCM) was capitalized. DCM is an efficient way for clients to do self-initiated withdrawals in the absence of their ATM cards.

My A Account, our ATM-based savings account, can now be used as debit cards for transactions. We are proud of this innovation since it has brought convenience to our loyal clients. The institution is positive that this technology will continue in the coming years as this was received with good reception by clients.



Along with the technological innovation, CARD SME Bank is maximizing its visibility outside the CALABARZON area. The institution started with more expansion programs in 2019 and will continue in 2020 so that it may extend its help to communities to the rest of Luzon, Visayas, and Mindanao. By the start of a new decade, CARD SME Bank has positioned 33 branches across the country and was able to perform full migration of three (3) branches: San Pablo and Calamba in Laguna and Santo Tomas in Batangas in the initial implementation of the Core Banking System (CBS). The institution was also able to fully utilize konek2CARD which greatly helped its clients especially those living in remote areas. We are counting on our ability to be sustainable for us to be able to expand our operations and maximize it to be more efficient.



## The 10-20-80 Strategic Direction

Continuing the momentum of our 5-8-40 campaign, CARD MRI is aiming to increase its outreach to 20 million clients and provide insurance to 80 million individuals by 2030.

## High-Impact Growth Zones (HIGZones)

Various locations were identified by CARD MRI as areas where it could intensify and focus its resources so that the impact of its integrated microfinance and social development services are felt by our clients and communities. Through the HIGZone strategy, CARD MRI aims to accelerate its growth requirement, address the pressing issues that affect its clients and stakeholders, and foster a simple and “genuine” process and synergy throughout the MRI. The areas identified are Laguna, Quezon, Oriental and Occidental Mindoro, Marinduque, Samar and Leyte, Bicol Region, Davao del Sur and del Norte, and Sulu.

Aside from the implementation of CBS and full migration of three branches, CARD SME Bank was also able to take part in civic work and provide help: we participated in Brigada Eskwela 2019, donated, and helped in the initiative of the program through our own staff. We were also able to provide talks and strengthen our campaign on saving money which is a great help in strengthening our goal of poverty eradication. Additionally, it aids every individual in times of needs and for them to rise above on their own in times of disaster.

A major crisis that affected our clients was the African Swine Flu (ASF) especially those in the hog-raising industry. Their businesses were affected in terms of their investments. They had a hard time applying and being approved for loans, and many had to sell their pigs to a cheaper price which led to closing some of the businesses. The adversity was an opportunity for our clients to be reminded of the importance of

having their own savings in case there is a need to start over.

These are just some of the crisis we and our clients had to face on our way to the new decade. Since CARD SME Bank is guided by the sound policies which is why we are slowly but surely overcoming these obstacles; we are constantly doing our best to help our clients recover and start all over with their businesses. Along with our clients, we learned to also be flexible when faced with problems and challenges. We value excellence that is why we fully commit ourselves to quickly look for solutions, new programs, and new services that we see fit on which we and the clients could easily apply and adapt to.

The introduction of new technology and other features are also met with cynicism and skepticism; negative comments and uncertainties are out of our control. There are those who are still fond of what

# "We must keep on challenging ourselves so that ideas and innovations will keep on flowing."

is traditional and will have a hard time letting go, but the key is not to force them into changing in an instant. As an institution with a clear goal, we must prepare our clients and explain to them the benefits of new technology. This way, they could slowly warm up into the idea of switching to high technology which eventually will be beneficial for them and their businesses.

## **Beyond Sustainable**

CARD SME Bank is looking forward to sustaining its work from the previous years focusing on developing the capacity of clients to work through their respective businesses for them to be competent and for the institution to achieve its goal of eradicating poverty. For 2020, CARD SME Bank is eager to create, sustain, and implement new plans. The institution is looking forward to the full implementation of the CBS which features mobile collection, konek2CARD, CARD Sulit Padala, and DCM which clients, agents, and digital communities could use easily.

Another initiative is the implementation of data analytics – Paangat Program. From its root word “angat” meaning to lift, CARD aims to promote the clients’ potentials. In partnership with Amihan, the program aims to help clients advance to becoming SMEs which is the rationale and main purpose of the program. This could also help different institutions in client profiling especially in identifying potential SMEs and will be a useful tool in safeguarding on what business

to focus on which has potential. Moreover, it will assist in studying entrepreneur behavior.

The new year is also a great way to start looking forward to adding seven (7) more branches. We are thrilled to open our branches in Bacoor, Cavite and Nasugbu, Batangas. There are also additional five (5) new branches that we will be submitted to the Bangko Sentral ng Pilipinas (BSP): four (4) in Mindanao – Lagao in General Santos City, Valencia in Bukidnon, Iligan City, and Koronadal City – and another one in Silang, Cavite. We will also be adding seven more Branch Lite Units (BLU) to seven branches which means faster and easier transactions for our clients. This will surely help in mobilizing our services and of course our clients in saving time in terms of transaction.

## **High Impact, High Growth**

CARD SME Bank offers different kinds of loan products specially agri-loan and everything that is related to farming. Our institution believes that farmers play a big role in accelerating growth that is why we make sure that they acquire the necessary machines that will help them increase productivity, as well as marketing their produce. CARD SME Bank is ready to provide the products that other financial institutions have not provided yet, and we think this will be big in terms of achieving high impact.

## **Looking Forward**

As the CARD MRI 5-8-40 strategic direction concludes, CARD SME Bank's contribution

to the achievement of the goal focused primarily on providing loan products in growing the businesses of our clients. We have also offered a wide range of loan products to recruit more of our potential clients.

The coming 10-20-80 campaign only means we must put twice as much effort from our previous works. We will continue with delivering products and services to satisfy the needs of our clients. We are also certain that digitization will have a huge impact in achieving this because once the institution is fully digitalized, and financial technology is in full swing, we can easily achieve 20 million clients after 10 years.

We will also do our best so that clients could easily process their loans, as well as often being part of information technology related programs and activities since we have invested a lot and we don't want this to be put to waste.

As the new decade starts, we are positive and looking forward to reaching the number of our branches to 40 by October 2020. CARD SME Bank will be in full support in digitization, and if there are challenges along the way like client hesitation, we will keep on discussing this with them until they have fully adapted. We must keep on challenging ourselves so that ideas and innovations will keep on flowing. After all, collaboration of minds and knowledge are keys to achieving our goal of eradicating poverty.

# A LEAP OF FAITH

**Evangeline Verano,**  
a client of CARD SME BANK



For some people, income from jobs is not enough to make ends meet. Whenever our bills start to pile, we struggle to find anyone who can lend us money which becomes a vicious cycle for some. But there are those who seize every opportunity and try to take a risk in starting a business.

Evangeline Verano, a client of CARD SME Bank found herself in the same dilemma. Employed in the private sector along with her husband, they try to live by their salaries to raise their family. This is when Evangeline realized that she can use her skill in sewing, so she bought her own sewing machine. That time, her nieces were selling to their neighbors bed sheets and curtains through consignment. They encouraged Evangeline to invest in their business for PHP3,000. Through a leap of faith, this is where her journey into business started.

Evangeline puts her trust on a CARD SME Bank that helped her and her family, that she no longer had to apply and avail loan from others with high interest. CARD SME Bank helps her in building and sustaining the business. It offers business owners with loan products at low interest rates.

She started with one machine and has now already have her own staff. They supply bed sheets and curtains to a distributor in Pampanga. Together with her staff, they cut the fabrics in the warehouse. After that, Evangeline transfer it to manufacturing – her sewers. After,

they market their products in festivals and tiangges.

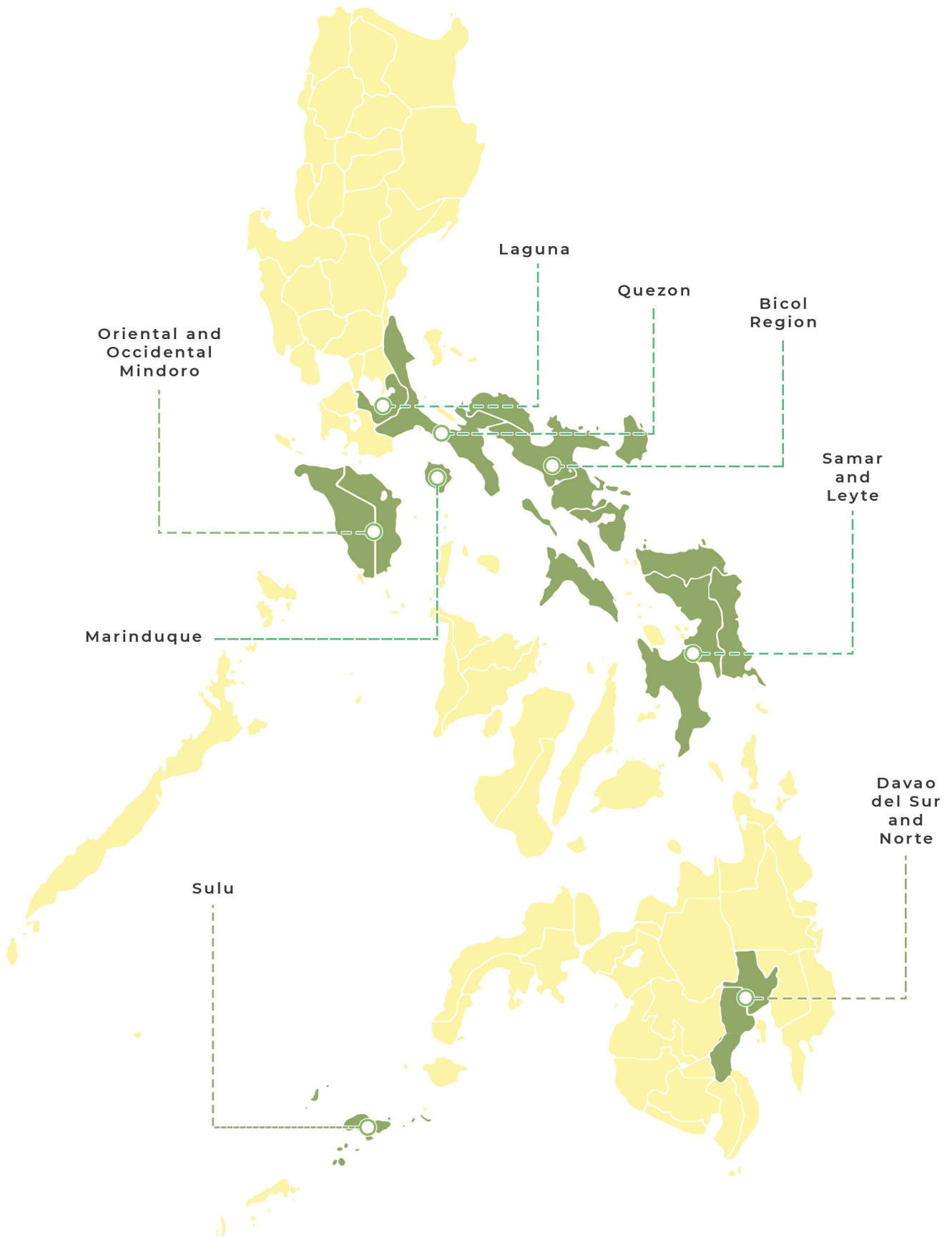
Despite her apparent success in her business, Evangeline never forgets giving thanks to God, as well as sharing her blessings to the community. Every start of a school year, she asks for pledges from her friends and partners, then they partner with an NGO that gives school supplies to every barangay for distribution to students. Evangeline believes in giving back to the people.

She is also proud to share that her family played a big role in the success of her business: they promote it through social media. Evangeline is also grateful and proud of her staff which she also treats as family.

CARD SME Bank was and still is a big part of Evangeline's success. The institution also helped her niece open their own online savings account and were also able to finish their studies. Her eldest daughter finished her degree in Human Resource Management in Polytechnic University of the Philippines (PUP), and now works in Talisay, Batangas as HR Manager. Soon, her two daughters will finish their studies too. All thanks to CARD SME Bank who is one call away and responds immediately whenever she has difficulties with the business and ready to give assistance.

# HIGZ

high impact growth zones



STAFF  
2,952



ACTIVE CLIENTS  
WITH LOAN  
591,018



CLIENTS  
AND  
SAVERS

966,143

REPAYMENT  
RATE

99.17%



OPERATIONAL  
SELF-SUFFICIENCY  
117.59%

FINANCIAL  
SELF-SUFFICIENCY  
116.90%

SAVINGS PHP 4,856,856,320



LOAN  
OUTSTANDING  
PHP 6,297,595,827

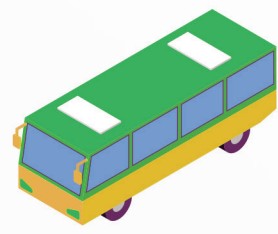


HEAD  
OFFICE



BRANCHES  
33

UNIT OFFICES  
AND BLS  
582



# 2019 IN NUMBERS

# FINANCIAL HIGHLIGHTS

	2019 Current Year	2018 Previous Year
<b>Profitability</b>		
Total Net Interest Income	2,354,157,423	1,922,586,467
Total Non-Interest Income	13,131,919	11,719,952
Total Non-Interest Expenses	1,867,276,866	1,355,554,584
Pre-Provision Profit	500,012,476	578,751,836
Allowance for Credit Losses	272,588,581	135,942,625
Net Income	354,825,782	399,316,408
<b>Selected Balance Sheet Data</b>		
Liquid Assets	940,533,310	1,270,420,836
Gross Loans	6,297,595,827	5,148,635,076
Total Assets	7,847,136,753	6,834,046,308
Total Deposit	4,856,856,320	3,924,621,841
Total Equity	1,479,957,907	1,287,587,304
<b>Selected Ratios</b>		
Return on Average Equity	26.22%	36.99%
Return on Average Assets	5.22%	7.07%
Capital Adequacy Ratio (CAR)	18.73%	18.19%
<b>Others</b>		
Cash Dividend Declared	153,315,960	148,124,769
<b>Head Count</b>		
Officer	220	189
Staff	2,752	2,341
<b>Minimum Liquidity Ratio</b>	<b>29.32%</b>	<b>23.33%</b>

Capital Structure and Capital Adequacy	2019	2018
<b>Tier 1 Capital</b>		
Paid up common stock	999,993,700.00	752,777,500.00
Retained Earnings	105,461,049.86	55,072,293.78
Undivided Profits	378,489,065.93	373,719,428.10
<i>Total Core Tier 1 Capital</i>	<i>1,483,943,815.80</i>	<i>1,181,569,221.88</i>
<b>Tier 2 Capital</b>		
General loan loss provision	29,295,349.52	51,336,474.38
<i>Total Core Tier 2 Capital</i>	<i>29,295,349.52</i>	<i>51,336,474.38</i>
<i>Gross Qualifying Capital</i>	<i>1,513,239,165.31</i>	<i>1,232,905,696.26</i>
Deductions from Tier 1 and Tier 2 Capital;	(24,811,938.63)	(18,364,365.02)
<b>TOTAL QUALIFYING CAPITAL</b>	<b>1,488,427,226.68</b>	<b>1,214,541,331.24</b>
Capital Requirements for credit risk;	5,786,498,345.56	5,132,297,663.43
Capital Requirements for market risk;	-	-
Capital Requirements for operational risk	2,161,290,506.11	1,545,860,650.76
Total and Tier 1 Capital Adequacy Ratio	18.73%	18.19%

# 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 eradicating 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 wraparound concept also indicates how CARD MRI is the prime-mover behind the central image's representation of the SMEs, longterm partnerships, and community-based synergy towards poverty alleviation.

## Our Tagline

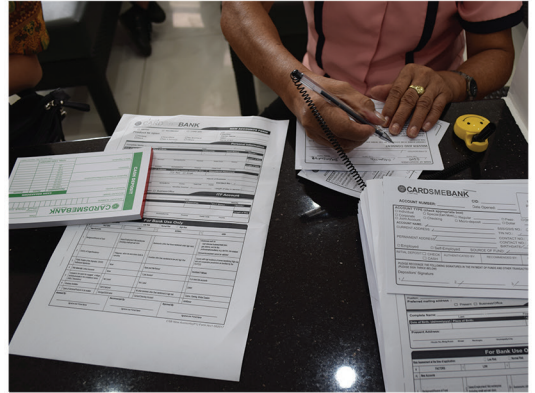
"Kaakbay sa Pag-unlad" communicates our dedication and passion for partnerships that aim to boost our clients' entrepreneurial mindset by assisting in the growth of their enterprises.



This is our 2019



WE ARE CARD SME



# CORPORATE GOVERNANCE & RISK MANAGEMENT



## INSTITUTIONAL OBJECTIVES

- 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;
- To continuously assist the matured clients of CARD micro-entrepreneurs whose financial needs are beyond microfinance product lines through provision of bigger capital with longer and flexible repayment terms, savings, as well as other products and services that will help sustain and expand their ongoing businesses;
- To identify, recruit, and support new-to-CARD SMEs that are not currently being adequately served by other financial institutions;
- To provide collateralized and non-collateralized loans to non-bankable but viable projects; and
- To ensure that the bank contributed to the CARD MRI's target of eight (8) million poorest Filipinos provided with financial services by the year 2020.

## CORE VALUES AND PRINCIPLES

**COMPETENCE.** Upholding that the staff is the primary asset and driving force of the institution, CARD SME Bank values the continuing development of their competence and capability through instilling the value of integrity,



honesty, transparency, discipline, hard work, and excellence leading to the empowerment of its staff and members in an atmosphere of mutual respect.

**FAMILY SPIRIT.** CARD SME Bank, guided by its genuine love for the poor, builds and nurtures an atmosphere of family spirit through mutual trust, demonstrating commitment and dedication and sharing of learning experiences among staff and members.

**INTEGRITY.** CARD SME Bank values high transparency, ethics, morality, truthfulness, and sincerity in all its undertakings, programs, and activities. The Bank honors commitments to clients, partners and stakeholders by way of providing faithfully what was agreed upon or promised. Everyone is responsible and accountable for the performance of its institution, officers, and individual staff.

**SIMPLICITY.** As CARD SME Bank dedicates its life for the ultimate empowerment of the poor, CARD SME Bank opts to live a simple life in words and in deeds at all times.

**HUMILITY.** CARD SME Bank recognizes the value of *"kababaang loob"* towards achieving the CARD MRI's overarching goal of poverty eradication with a heart. As such, all staff are enjoined and encouraged to celebrate the accomplishment and successes of CARD SME Bank at heart and not boast them publicly. All staff remain to have strong faith, determined, and committed to work passionately and warmly towards achieving the CARD MRI vision.

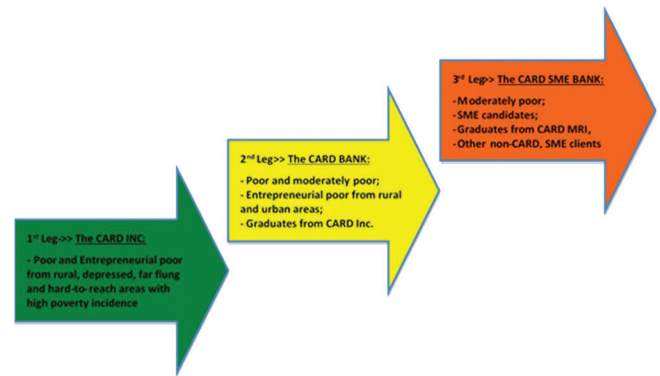
**EXCELLENCE.** CARD SME Bank's pioneering effort is rooted in excellence drawn from the Board and staff's confidence to create, innovate, inspire, and continuously challenge the existing paradigm to ultimately empower the poor.

**STEWARDSHIP.** The Board and staff of CARD SME Bank live as stewards of its vision and builds on its strengths, distinctive, and uniqueness of its being through a framework of good governance.

### **TRANSITIONING OF GOOD AND PRIME CLIENT OF CARD, INC. (A MICROFINANCE NGO)**

The CARD SME Bank's target market remains closely intertwined with CARD Inc., (A Microfinance NGO), CARD Bank, and CARD MRI Rizal Bank being all members of CARD MRI. Hence, the target market of

the entire CARD MRI can be described in a ladderized and three-legged approach as follows:

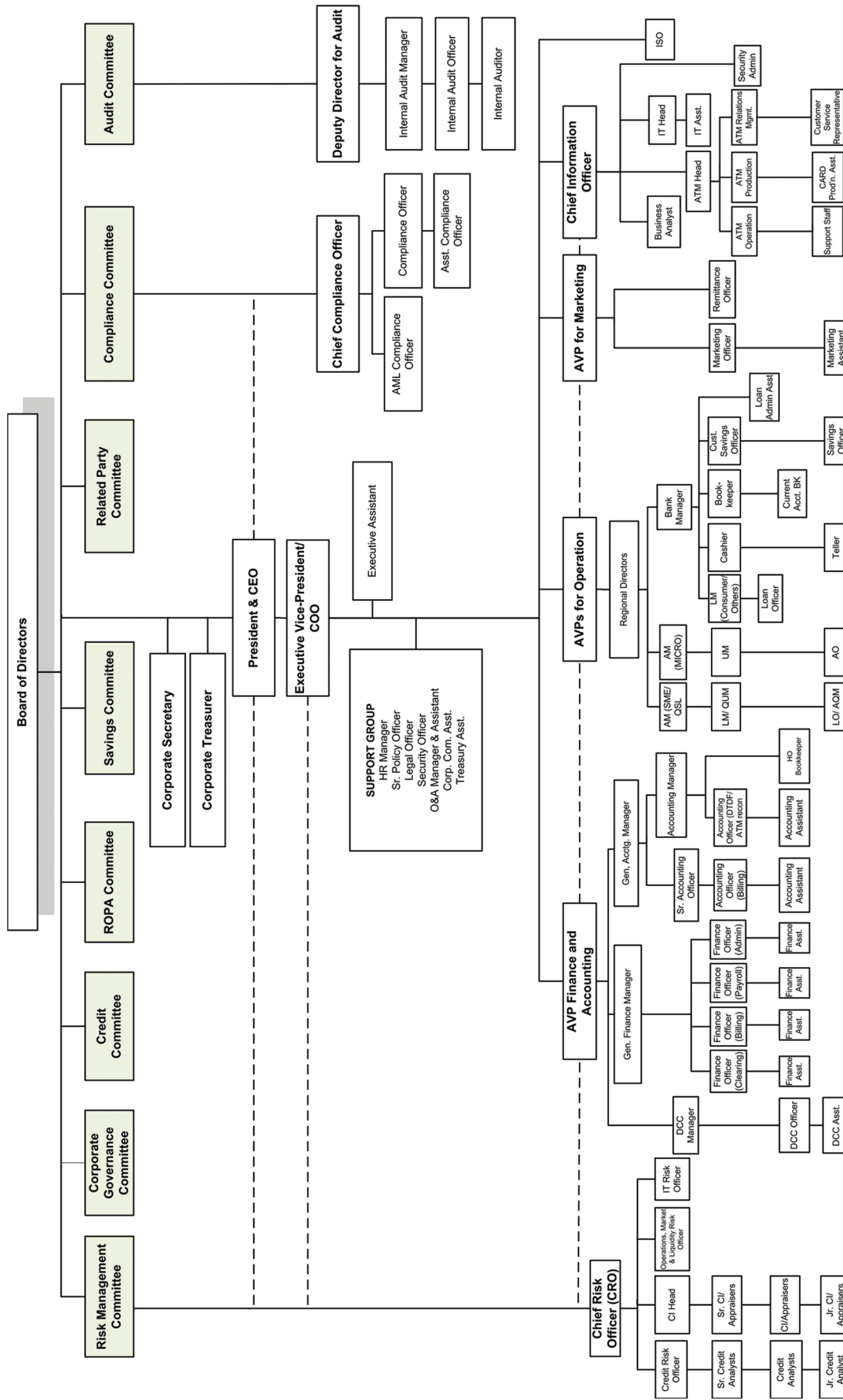


As one of the members of CARD MRI group, CARD SME Bank's target market is also synchronized and deeply thought about to ensure that all the member-institutions reinforced each other in the attainment of the mission and vision of ultimately empowering the poor by upholding the core values of competence, family spirit, integrity, stewardship, humility, culture of excellence, and simplicity.

As a methodology, transitioning of matured CARD, Inc. clients/borrowers to CARD SME Bank will be its mainstream. Transitioning of clients means that the CARD, Inc. clients with good/prime credit standing may avail of the microfinance, small, and medium (MSME) facilities/services from CARD SME Bank resulting to more loans and deposit products to borrowers/members. This business strategy encourages the borrowers/members to further comply with the repayment discipline required for them to qualify in the transitioning. Upon transitioning of the clients, clients are continuously provided with financial and non-financial services by CARD SME Bank, leading to enriching and empowering them through continuous access to financial resource as well as through training and supervision by the CARD SME Bank staff. CARD SME Bank completes the loop of developing and empowering the poor to become experts in small and medium enterprises who do not just generate profits for the family but also employment opportunities for their communities.

CARD SME Bank's overall strategy involves developing the clients further to the next level. With this, CARD SME Bank does not stop at the provision of small microfinance loans to awaken and nurture the entrepreneurial skills of the microfinance clients, but by also providing them with bigger loans and other flexible products and services that will continuously nurture their business skills and acumen in managing various individual or family enterprises.

# CARD SME Bank Organizational Structure



## **RISK MANAGEMENT AND CORPORATE GOVERNANCE**

CARD SME Bank, Inc.'s corporate governance practice adheres to seven (7) Core Values: Competence, Family Spirit, Integrity, Simplicity, Humility, Excellence, and Stewardship. The bank's exemplary corporate governance is anchored by its strong corporate culture and values. It is guided with a clearly defined governance framework promoting transparency, fairness, and accountability.

The bank advocates financial inclusivity among its members and clients. It assures that all board of directors, officers, and staff are aligned with the interest of its shareholders. The bank believes that corporate governance is a necessary component of what constitute sound strategic business management and undertake every effort necessary to create awareness within the organization. It works closely with the regulators to ensure that the internal governance standards are being met by the bank.

### **BOARD OF DIRECTORS**

Observance of the principles of good corporate governance starts with the board of directors. It is primarily responsible in fostering long-term success of the bank and assuring sustained competitiveness in a manner consistent with its fiduciary responsibility.

The board is responsible for approving and overseeing the implementation of the bank's strategic objectives, risk strategy, corporate governance, and corporate values. It is also responsible in overseeing the performance of senior management in so far as managing the day to day affairs of the bank. It establishes a code of conduct and ethical standards in the bank and institutionalizes a system that will allow reporting of concerns or violations to an appropriate body. The board conducts itself with utmost honesty and integrity in the discharge of its duties, functions, and responsibilities.

### **COMPOSITION**

The board is composed of eleven (11) members pursuant to bank's Articles of Incorporation and by-laws, where four (4) of whom are independent directors. All are professionals from various field of expertise such as banking, law, accounting, finance, bank rules and regulations, microfinance, and social development.

## **QUALIFICATIONS OF THE BOARD OF DIRECTORS**

### **Directors**

The board of directors must be at least twenty-five (25) years of age at the time of his election or appointment. They must be a college graduate or have at least five (5) years of experience in related business. The board should have at least attended a special seminar on corporate governance for board of directors conducted by a training institute accredited by the Bangko Sentral ng Pilipinas. They must be fit and proper for the position of a director of the bank considering their integrity/probity, physical/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 (3) 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. The independent director is also 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 no 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 (9) 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 AND SENIOR MANAGEMENT SELECTION PROCESS**

### **Board Selection Process**

To ensure that clients are represented on the policy making body of the bank, seat/(s) in the board are allotted for the member-board of directors. To ensure, however, that the board passed the required qualifications, selection process is needed.

1. The Selection Committee is informed through the Governance Committee of the need to conduct selection/nomination at least one year before the position will be vacated or replaced.
2. Invitation will be sent to the members through the operations staff (from Regional Director to Unit Manager). It must be clear that nomination will directly come from the members and not as endorsed or selected by the Account Officer.
3. Nomination will be forwarded to the HR personnel who then will forward to the Selection Committee.
4. Personal interview will be conducted by the Selection Committee at the place where the nominees are residing. Selection committee shall consist of two (2) Board of Directors and an HR.
5. Selection Committee prepares reports and conduct deliberation based on the selection criteria as to who shall be the shortlist nominees.

The nomination selection criteria for the committee member/board member are as follows:

- a. Membership record performance (repayment, attendance, and length of membership with CARD)
- b. Business potential to support the family needs as well as other family activities or engagement: on-going business, at least college graduate or have at least 5 years' experience in business, legality of the business.

- c. Achievements and development work involvement: in CARD, in family, and in the community.
- d. Personal attributes: Self-confidence, communication skills, values and principle in life, and good grooming.
- e. Reputation in the community, family background and how the family is regarded in the community.

6. Result of the deliberation shall be submitted to the Governance Committee for review and approval for further endorsement to the board.
7. As part of the process, shortlisted nominees are invited to become board member observer to the board meeting for three (3) consecutive months, one at a time (while first priority nominee attends for three consecutive meetings, record/profile/background of the next nominee is also evaluated/revalidated prior to her turn to take the place as the next board member observer). This is to give ample time to further evaluate them and see their fitness to the position.
8. The finalist/top selected nominees are then endorsed to the Governance committee for further endorsement to the board.
9. The final selected nominees attend the board meeting as a regular observer.
10. While her status remains as a regular member observer to the board, she is also invited to join the board committee (usually in the Remittance and Savings Mobilization Committee).
11. While attending as regular member observer to the board, she is also given opportunity to share and report based on the center visit she conducted during the month.
12. When available position in the board opens, regular member observer to the board is further endorsed to the board for confirmation.
13. Once confirmed by the board, submission of the profile/bio-data to the BSP is done.
14. Selected board member is also required to attend the Corporate Governance and Risk Management Seminar.

### **Senior Management Selection Process**

Senior management is filled from within the ranks prioritizing them for opportunities on growth and career development. This is without prejudice to recruitment outside of the institution, except when certain special qualifications, experience, and training are required for the job. In offering this opportunity, it is the policy of the CARD SME Bank,

Inc., to likewise provide equal chances among all qualified employees across CARD MRI.

### CHAIRMAN OF THE BOARD

The Chairman of the Board shall provide leadership in the board of directors. The chairman's primary role is to ensure that the board is effective in its task of setting and implementing the Bank's direction and strategy. He shall ensure that a good relationship and trust within the members of the board of directors shall be maintained. The Chairman of the Board shall:

- take the chair at general meetings and board meetings;
- 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.

There are eleven (11) Board of Directors elected dated May 9, 2019; four (4) of whom are Independent Directors.

	NAME OF DIRECTOR	Type of Directorship	No. of Years as Director	Percentage of Shares	BOD Meeting Attendance Jan. - Dec. 2019	
1	Dr. Jaime Aristotle B. Alip	Non-Executive	13 Years	3.351%	12/12	100%
2	Ms. Flordeliza L. Sarmiento	Non-Executive	13 Years	4.500%	12/12	100%
3	Ms. Mary Jane A. Perreras	Non-Executive	10 Years	1.038%	11/12	92%
4	Ms. Milagros C. Rojas	Non-Executive	13 Years	0.300%	12/12	100%
5	Ms. Elma B. Valenzuela	Non-Executive	2.7 Years	4.500%	12/12	100%
6	Ms. Maria Elena M. Ruiz	Non-Executive	9 Years	0.000%	11/12	92%
7	Mr. Aristeo A. Dequito	Executive	4 Years	0.739%	12/12	100%
8	Dr. Gilberto M. Llanto	Independent	9 Years	0.000%	10/12	83%
9	Atty. Wilfredo B. Domo-ong	Independent	9 Years	0.000%	11/12	92%
10	Ms. Gloria R. Estrellado	Independent	1.9 Years	0.000%	12/12	100%
11	Ms. Chona A. Felesedario	Independent	0.7 Year	0.000%	8/8	100%

## BOARD QUALIFICATIONS

	Name	Age and Nationality	Date Elected	Shares Held	Qualifications
1	Dr. Jaime Aristotle B. Alip <i>Chairman of the Board</i>	62, Filipino	May 11, 2019	335,130 (Direct)	<p>With more than 30 years of experience and expertise in the field of microfinance, banking, microinsurance, and related fields</p> <p><b>Educational Attainment:</b> BS Agriculture Major in Agricultural Economics, MS in Professional Studies, PhD in Organization Development, OPM Program in Harvard Business School</p> <p><b>BSP and other Trainings Attended:</b> Corporate Governance for Board of Directors, Risk Management Seminar, Briefing on Updated AML Rules and Regulations, Exposure in MABS Program, Exposure in SME in BRAC Bank, Grameen Bank, ASA, Seminar in SME Banking, IT Governance Seminar</p>
		<b>Other Current Directorship and Officership</b>			
		<b>Institution</b>	<b>Position</b>		
		CARD Bank, Inc.	Chairman/Director		
		CMDI	Chairman/Director		
		ICMIF	Director		
		ICMIF Foundation	Chairman/Trustee		
		IGNITE Foundation	Trustee		
		CARD, Inc., (A Microfinance NGO)	Trustee		
		RIMANSI Organization for Asia and Pacific	Chairman Emeritus		
2	Ms. Flordeliza L. Sarmiento <i>Vice-Chairperson for Administration</i>	57, Filipino	May 11, 2019	450,005 (Direct)	<p>With more than 30 years of experience in microfinance, banking, and other related fields</p> <p><b>Educational Attainment:</b> BS in Agriculture, Master's Degree - MBA, Executive MBA, and Advanced Management Program</p> <p><b>BSP and other trainings attended:</b> Financial Inclusion Workshop, Updated Guidelines on Sound Credit Risk Management, Succession Planning: Developing Leaders from Within, Risk Management Seminar, Governance and Risk Management Training, Microfinance Management Training, Basic Rural Banking Course, International Training Course on Rural Finance, IT Governance Seminar, Anti-Money Laundering/Combating the Financing of Terrorism</p>
		<b>Other Current Directorship and Officership</b>			
		<b>Institution</b>	<b>Position</b>		
		CARD, Inc., (A Microfinance NGO)	Trustee/President		
		CARD Bank, Inc.	Director		
		CARD MRI Rizal Bank, Inc.	Chairman/Director		
		CARD-BDSFI	Trustee		
		CMDI	Director/President		
		CARD MRI Holdings, Inc.	Director		
		FDS Asya Pte. Ltd.	Director		
3	Ms. Mary Jane A. Perreras <i>Vice Chair for External Affairs</i>	63, Filipino	May 11, 2019	103,783 (Direct)	<p>With more than 18 years of experience in investment and asset management, and nine (9) years in microfinance and retail banking, and other related fields</p> <p><b>Educational Attainment:</b> BS Medical Technology in University of Sto. Tomas, and Executive MBA in Asian Institute of Management</p> <p><b>BSP and other trainings attended:</b> IT Governance Principle Course, Risk Management, Corporate Governance Seminar, Anti-Money Laundering/Combating the Financing of Terrorism Training, Asset Securitization, Money Market, and Trade Finance Training</p>
		<b>Other Current Directorship and Officership</b>			
		<b>Institution</b>	<b>Position</b>		
		Chamber of Thrift Bank	Board of Trustee		

	Name	Age and Nationality	Date Elected	Shares Held	Qualifications
4	Mr. Aristeo A. Dequito <i>Director/President and CEO</i>	52, Filipino	May 11, 2019	73,948 (Direct)	<p>With more than 30 years of experience in microfinance, 23 years of which is in banking and finance</p> <p><b>Educational Attainment:</b> He earned his degree in 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><b>BSP and other trainings attended:</b> Corporate Governance and Sound Credit Risk Management System, IT Governance Seminar, Anti-Money Laundering/Combating the Financing of Terrorism, SME Lending Policy Seminar, International Seminar on Financial Inclusion, Value Chain Conference, Basic Rural Banking, and Microfinance Training, and Transformation Workshop</p>
		<b>Other Current Directorship and Officership</b>			
		<b>Institution</b>	<b>Position</b>		
		CARD-BDSFI	Chairman/Director		
		MICRO VENTURES, INC.	Director		
5	Ms. Elma B. Valenzuela <i>Director</i>	55, Filipino	May 11, 2019	450,005 (Direct)	<p>With more than 30 years of experience in microfinance and five (5) years of which is banking and finance</p> <p><b>Educational Attainment:</b> 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><b>BSP and other trainings attended:</b> Enhanced Corporate Governance, IT Governance Seminar, Anti-Money Laundering/Combating the Financing of Terrorism, Basic Banking regulations and Related Party Transactions Training, Risk Management Training, and Microfinance Training Program</p>
		<b>Other Current Directorship and Officership</b>			
		<b>Institution</b>	<b>Position</b>		
		CARD MRI Rizal Bank, Inc.	Director/President and CEO		
		CARD, Inc., (A Microfinance NGO)	Board of Trustee		
6	Ms. Maria Elena M. Ruiz <i>Director</i>	70, Filipino	May 11, 2019	2 (Direct)	<p>With more than 26 years of experience in banking and finance</p> <p><b>Educational Attainment:</b> Bachelor of Science in Commerce from College of the Holy Spirit</p> <p><b>BSP and other trainings attended:</b> Risk Management Seminar, IT Governance Principle Course, Anti-Money Laundering/Combating the Financing of Terrorism, Customer Relationship Management, Credit Collection and Portfolio Management Training, and Treasury Dynamic Course</p>
		<b>Other Current Directorship and Officership</b>			
		<b>Institution</b>	<b>Position</b>		
		CARD, Inc., (A Microfinance NGO)	Trustee		

	Name	Age and Nationality	Date Elected	Shares Held	Qualifications
7	Ms. Milagros C. Rojas <i>Director/Treasurer</i>	52, Filipino	May 11, 2019	30,048 (Direct)	<p>With more than 30 years of experience in banking and finance</p> <p><b>Educational Attainment:</b> Bachelor of Science in Commerce major in Entrepreneurship from Assumption College</p> <p><b>BSP and other trainings attended:</b> Anti-Money Laundering/Combating the Financing of Terrorism, Risk Management Seminar, IT Governance Principle Course, Basic Rural banking Course, and Good Governance Seminar</p>
		<b>Other Current Directorship and Officership</b>			
		<b>Institution</b>	<b>Position</b>		
		N/A	N/A		
8	Dr. Gilberto M. Llanto <i>Independent Board</i>	69, Filipino	May 11, 2019	3 (Direct)	<p>A professional economist who has held various executive positions and research at the National Tax Research Center of the DoF, BSP, DAR and NEDA. An expert in banking, finance and international trade. He has been a consultant on financial markets, microfinance, public finance and public economics to international organizations</p> <p><b>Educational Attainment:</b> A. B. Philosophy, M.S. Economic Program, M.A. Economics, and Ph.D. Economics</p> <p><b>BSP and other trainings attended:</b> Governance for Board of Directors, Briefing on BSP Cir.706 Updated AML Rules and Regulations, and Agricultural Banking</p>
		<b>Other Current Directorship and Officership</b>			
		<b>Institution</b>	<b>Position</b>		
		CARD Bank, Inc.	Director		
		CMDI	Trustee		
		Philippine Institute for Development Studies	Trustee		
9	Atty. Wilfredo B. Domo-ong <i>Independent Board</i>	79, Filipino	May 11, 2019	3 (Direct)	<p>Worked with BSP for almost 30 years, he started as Examiner who then became a Director of SES II Department of the Bangko Sentral ng Pilinas.</p> <p><b>Educational Attainment:</b> Bachelor of Science in Commerce and Law graduated at the Manuel L. Quezon University</p> <p><b>BSP and other trainings attended:</b> Corporate Governance Seminar and Supervisory Training, IT Governance Seminar, Anti-Money Laundering/Combating the Financing of Terrorism, and several mandatory continuing education given by BSP</p>
		<b>Other Current Directorship and Officership</b>			
		<b>Institution</b>	<b>Position</b>		
		First Valley Bank	Director		
		Rizal Microfinance Bank	Director		
10	Ms. Gloria R. Estrellado <i>Independent Board</i>	66, Filipino	May 11, 2019	1 (Direct)	<p>An entrepreneur and former Barangay Official</p> <p><b>Educational Attainment:</b> High School Graduate</p> <p><b>BSP and other Trainings Attended:</b> IT Governance Seminar, Anti-Money Laundering/Combating the Financing of Terrorism, Corporate Governance Seminar, Risk Management Agrarian Reform Law, and Paralegal Skills Training</p>
		<b>Other Current Directorship and Officership</b>			
		<b>Institution</b>	<b>Position</b>		
		N/A	N/A		

	Name	Age and Nationality	Date Elected	Shares Held	Qualifications
11	Ms. Chona A. Felesedario <i>Independent Board</i>	66 Filipino	May 11, 2019	1 (Direct)	An entrepreneur and active officer in the different association in their locality  <b>Educational Attainment:</b> Bachelor of Science in Elementary Education under graduate  <b>BSP and other Trainings Attended:</b> Basic Course on Governance for Board of Directors and Senior Management, Governance on Communities Default Task, and Customer Care Training
		<b>Other Current Directorship and Officership</b>			
		<b>Institution</b>	<b>Position</b>		
		N/A	N/A		

## BOARD COMMITTEES

The Board is supported by different committees with their respective functions and directives as follows:

### A. Corporate Governance Committee

Committee Member	Position	Attendance	
Ms. Chona A. Felesedario*	Chair	8/8	100%
Ms. Flordeliza L. Sarmiento	Member	12/12	100%
Atty. Wilfredo B. Domo-ong	Member	11/12	92%

\* Elected May 9, 2019

The Corporate Governance Committee assists the board of directors in fulfilling its corporate governance responsibilities. The Committee is composed of three (3) members of the board who are all non-executive directors and majority are independent directors, including the chairperson. The committee regularly meets every 2nd Saturday of the month or as the need arises.

The committee's tasks include, but are not limited to, the following:

- Oversees the nomination process for members of the board of directors and for positions appointed by the board of directors.
- Oversees the continuing education program for the board of directors.
- Oversees the performance evaluation process.
- Oversees the design and operation of the remuneration and other incentives policy.

### B. Risk Oversight Committee

Committee Member	Position	Attendance	
Ms. Gloria R. Estrellado	Chair	12/12	100%
Ms. Mary Jane A. Perreras	Member	12/12	100%
Atty. Wilfredo B. Domo-ong	Member	11/12	92%

The Risk Oversight Committee advises 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 reports on the state of risk culture of the bank. The creation of risk oversight committee plays vital role as the bank's success is largely dependent on the ability of its directors and officers in managing risks. The committee is composed of three (3) members of the board of directors, majority of whom are independent directors including the Chairperson. The committee regularly meets every 2nd Saturday of the month or as the need arises.

The committee's tasks include, but are not limited to, the following:

- Oversee the risk management framework.
- Oversee adherence to risk appetite.
- Oversee the risk management function.

### C. Audit Committee

Committee Member	Position	Attendance	
Dr. Gilberto M. Llanto	Chair	12/12	100%
Ms. Chona A. Felesedario	Member	8/8	100%
Dr. Jamie Aristotle B. Alip	Member	12/12	100%

The Audit Committee is responsible for overseeing senior management in establishing and maintaining an adequate, effective, and efficient internal control framework. It shall ensure that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations, and safeguarding of assets. The committee is composed of three (3) members of the board, all are non-executive director, and majority are independent directors, who have knowledge of financial reporting and internal controls. The committee regularly meets every 2nd Saturday of the month or as the need arises.

The audit committee's tasks include, but are not limited to, the following:

- Oversee the financial reporting framework.
- Monitor and evaluate the adequacy and effectiveness of the internal control system.
- Oversee the internal audit function.
- Oversee the external audit function.
- Oversee implementation of corrective actions.
- Investigate significant issues/ concerns raised.
- Establish whistleblowing mechanism.

### D. Related Party Transactions (RPT) Committee

Committee Member	Position	Attendance	
Atty. Wilfredo B. Domo-ong	Chair	11/12	92%
Ms. Mary Jane A. Perreras	Member	11/12	92%
Dr. Gilberto M. Llanto	Member	10/12	83%
Ms. Gloria R. Estrellado	Member	12/12	100%

Transactions between and among Directors, Officers, Stockholders and their Related Interest, subsidiaries and Affiliates (DOSRI) including transactions with related parties may provide financial, commercial, and economic benefits to the bank as well as to the group. The board ensures that dealings of a bank with any of its DOSRI, subsidiaries, and affiliates shall be in the regular course of business and upon terms not less favorable to the bank than those offered to others to avoid insider abuses and unfair competitive advantage.

The RPT committee shall assist the bank in handling transactions with related parties. It shall review and evaluate each transaction to assess its fairness. The committee is composed of four (4) members of the board of directors, three (3) of whom are independent directors, including the chairperson. Committee members are entirely composed of non-executive directors, with independent directors comprising the majority. In case a member has conflict of interest in a particular RPT, he/she should refrain from evaluating such particular transaction. Independent unit such as Chief Compliance Officer or the Deputy Director for Audit sit as resource person of the committee. The committee regularly meets every 2nd Saturday of the month or as the need arises.

The Related Party Transactions (RPT) Committee's tasks includes the following:

- Ensures that all related parties are continuously identified, monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured.
- Ensures that all materials concerning RPTs are not undertaken on more favorable terms to such related parties than similar transactions with non-related parties under similar circumstances.
- Guarantees that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the bank's RPTs exposures, and policies on conflicts of interest or potential conflicts of interest.
- Makes regular reporting to the board of directors on the status and aggregate exposures to each related party as well as the total amount of exposures to all related parties.
- Ensures that transactions with related parties, including write-off of exposures, are subject to periodic independent review or audit process.
- Oversees the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including the periodic review



of RPT policies and procedures.

Other committees that include the board and management level are as follows:

### E. Compliance Committee

Committee Member	Position	Attendance	
Atty. Wilfredo B. Domo-ong	Chair	11/12	92%
Ms. Mary Jane A. Perreras	Vice-Chair	12/12	100%
Ms. Cynthia B. Baldeo	Member	10/12	83%
Mr. Benito R. Pagaspas	Member	11/12	92%
Mr. Benedict A. Ame	Member	12/12	100%
Mr. Raymond A. Uy*	Member	5/6	83%

\*Appointed July 2019

The Compliance Committee is composed of two (2) members of the board of directors, one (1) compliance expert, the executive vice president, the head of audit and head of compliance who shall possess a range of expertise as well as adequate knowledge on the business risks. The Committee is chaired by a non-executive member of the board. The Head or the Chief Compliance Officer (CCO) regularly prepares and submit Compliance and AML Reports to the Compliance Committee containing the results of the Compliance and AML Testing and Monitoring conducted by the Compliance and AML units. The CCO updates the committee members on the new regulatory issuances. The committee, through its Committee Chairperson, reports to the board during monthly regular board of directors meeting any updates, agreements and policy recommendation discussed by the members of the

committee during monthly compliance committee meeting.

Compliance Committee regularly meets once a month held every Thursday before the board meeting or as the need arises. This is to ensure that committee are updated on the status of the implementation of the compliance program and board through the compliance committee are updated on the new relevant Philippine laws, rules and regulations and pertinent BSP Circulars governing the operations of the banks.

The Compliance Committee tasks include the following:

- Ensuring that compliance system of the bank is defined, established and updated to facilitate an effective management of compliance with bank policies and regulatory requirements.
- Ensure that updated compliance program was approved by the board, oversee and promotes its effective implementation.
- Ensuring that compliance issues encounter by the bank were immediately resolved and acted upon.
- Ensuring that duties and responsibilities of board of directors stated under Section 132 of the MORB: Powers/responsibilities and duties of Director were done.
- It shall provide oversight on AML policy development and execution such that AML policies and procedures established by the senior management, led by the compliance office are adequate to ensure compliance and are kept updated/remain relevant to best react on the changing AML regulatory scenarios and conditions.
- Review and take action, as necessary, on AML related reports coming from the bank's compliance office.
- Shall oversee and ensure the effective

performance of the AML/TF functions of the bank's compliance office.

## F. Outsourcing Oversight Committee

Committee Member	Position	Attendance	
		12/12	100%
Mr. Aristeo A. Dequito	Chair	12/12	100%
Ms. Cynthia B. Baldeo	Vice-Chair	11/12	92%
Ms. Jeannie T. La Rosa	Member	12/12	100%
Mr. Allan D. Dimaano	Member	12/12	100%
Mr. Jerry V. Montejo	Member	12/12	100%
Mr. Benedict A. Ame	Member	12/12	100%
Ms. Cherry A. Boncajes	Member	12/12	100%

CARD SME Bank continuously expands over the years. With the continuous growth towards achieving its strategic technical and operational objectives along with the cost reduction measures, bank started to outsource some of its activities.

The Outsourcing Oversight Committee is comprised of senior management of the bank. The Outsourcing Oversight Committee regularly meets once a month held every Wednesday before the board meeting or as the need arises. The President and CEO regularly updates the board of directors on the status of outsourcing activities of the bank during the board of directors Meeting.

The Outsourcing Oversight Committee's tasks include, but are not limited to, the following:

- Review operational, technical, and financial objectives, the service levels and the desired outcomes of the process to be outsourced.
- Review the effect to the bank of such outsourcing transaction such as loss of skills.
- Monitor the service provider's expertise, size, financial health, operational capability, and experience levels to ensure that the bank's service requirements are met.
- Evaluate the quality of service delivered to keep abreast of the changing business needs, regulations, policies, standards, and priorities.
- Review and approve key aspects of the bank's security control program and process, such as the development and maintenance of security control policies and infrastructure that properly safeguard systems and data from both internal and external threats.
- Manage risks associated with increased complexity of and increasing reliance on outsourcing relationships and third-party dependencies to perform critical functions.
- Monitor and review performance of the service providers.





## G. IT Steering Committee

Committee Member	Position	Attendance	
		Period	Percentage
Mr. Aristeo A. Dequito	Chair	11/12	92%
Ms. Cynthia B. Baldeo	Vice-Chair	11/12	92%
Ms. Jeannie T. La Rosa	Member	12/12	100%
Mr. Allan D. Dimaano	Member	12/12	100%
Mr. Jerry V. Montejo	Member	12/12	100%
Mr. Benedict A. Ame	Member	12/12	100%
Mr. Jerrom A. Ibardeloza	Member	12/12	100%
Mr. Ross Meinard C. Ramos	Member	12/12	100%

The IT Steering Committee serves as a formalized group that is responsible for ensuring the IT Risk Management and Monitoring and Control is started and maintained through regular meetings. The committee is also responsible in updating the board on the current and future IT-related issues and initiatives and submits recommendations to the board. Part of the IT Risk Management is integrating risk management into regular IT practices. By establishing a formalized committee, IT Risk Management becomes part of IT's agenda and priorities.

The IT Steering Committee oversees the Information Technology related issues and initiatives. The committee meets once a month and held every Wednesday prior to board meeting. It was chaired by the bank's President and CEO. The committee will be responsible for the following:

- Provide strategic leadership for IT through the alignment of IT strategic objectives and activities with enterprise strategic objectives and processes.
- Prioritize IT investment initiatives and deliver final approval and recommendations before proceeding with the proposed IT projects.
- Serves as formalized group that is responsible for ensuring that the IT Risk Management and Monitoring and Control is started and maintained through regular meetings.
- Advise the board on the current and future IT-related issues and initiatives and submits recommendations to the board.

## H. Asset and Liability Committee

Committee Member	Position	Attendance	
		Period	Percentage
Ms. Jeannie T. La Rosa	Chair	12/12	100%
Ms. Cynthia B. Baldeo	Vice-Chair	10/12	83%
Mr. Aristeo A. Dequito	Member	12/12	100%
Mr. Benedict A. Ame	Member	12/12	100%
Mr. Jerry V. Montejo	Member	12/12	100%
Ms. Mary Ann C. Resplandor*	Member	8/8	100%
Ms. Mildred B. Matienzo	Member	12/12	100%
Ms. Cherry A. Boncajes	Member	10/12	83%
Ms. Anita A. Rapera	Member	9/12	75%
Ms. Florence B. Castillo	Member	8/12	67%
Ms. Noralyn D. Silvestre	Member	8/12	67%

\*Transferred to other CARD MRI Institution

The assets and liabilities of CARD SME Bank, Inc. are managed properly to maximize shareholder's value, to enhance profitability and increase capital, to serve customer and community needs, and to protect the institution from any disastrous financial consequences arising from changes in interest rate risk. These objectives are pursued within the framework of written loan, capital, and investment policies. The Board of Directors believes that accepting some level of interest rate risk is necessary to achieve realistic profit goals. The responsibility of managing the asset/liability management procedures are directed by the Asset/Liability Committee (ALCO).

The Asset and Liability Committee (ALCO) is comprised of senior management who are responsible to carry out Financial Risk Management (FRM) responsibilities. The ALCO Committee meets regularly once a month and held every Wednesday before the board meeting or as the need arise. The ALCO Chairperson updates during Risk Management Committee any risk identifies concerning financial risk management of the bank.

The Asset and Liability Committee's tasks include, but are not limited to, the following:

- a. Protect the liquidity position of the bank to meet maturing obligations when they are due, so that there would have adequate liquidity for growth and for emergencies.
- b. Ensure that profitability and sustainability of the institution through proactive balance sheet management.
- c. Analyze the potential financial risks associated with any new products and make recommendations of how to measure and limit/manage the risk (including how to incorporate new products into existing asset liability matching reports).
- d. Review the overall financial risk of the organization whenever there is a significant change to the balance sheet structure (for example adding a new funding source or new client product) and present findings to the board.

### I. Savings and Remittance Committee

Committee Member	Position	Attendance	
		12/12	100%
Ms. Maria Elena M. Ruiz	Chair	12/12	100%
Ms. Cynthia B. Baldeo	Vice-Chair	11/12	92%
Dr. Edzel A. Ramos	Member	11/12	92%
Mr. Manolo M. Martinez	Member	12/12	100%

The Savings and Remittance Committee serves as a formalized group that is responsible for ensuring that all matters related to savings portfolio and remittance facility are monitored. The Committee is also responsible in advising the board on the current and future savings and remittance issues and initiatives and submits recommendations to the board. The committee meets every 2nd Saturday of the month or as the need arise. It is composed one (1) Board of Director, the Executive Vice President, the Corporate Secretary, and the Marketing Head.

The Savings and Remittance Committee's tasks include, but are not limited to, the following:

- a. Monitoring of movement of savings portfolio including performance of Savings Officers.
- b. Monitoring of remittance transactions and recommend strategic initiatives to increase





volume of transactions.

- c. Recommending savings promotions and campaigns to increase deposit portfolio.
- d. Reviewing of sales promotions and campaigns proposed by the Marketing Unit.
- e. Identifying applicable trainings for Savings Officers
- f. Act as sponsor for marketing proposals for savings mobilization.
- g. Define project success measures.
- h. Follow progress on on-going marketing promotions.

**J. Real and Other Properties Acquired (ROPA) Committee**

Committee Member	Position	Attendance	
Ms. Milagros C. Rojas	Chair	12/12	100%
Ms. Lourdes A. Marasigan*	Vice-Chair	4/4	100%
Ms. Mary Ann C. Resplandor**	Member	8/8	100%
Mr. Benedict A. Ame	Member	12/12	100%
Mr. Peter Robin C. Pasia	Member	12/12	100%

\*Appointed dated September 2019

\*\* Transferred to other CARD MRI Institution

The Real and Other Properties Acquired (ROPA) Committee serves as a formalized group that is responsible for ensuring that all matters related to the real and other properties acquired are monitored through regular meetings. The committee is also responsible in advising the board on the current and future issues and initiatives on the bank ROPA assets, and submits recommendations to the board. The ROPA committee is composed of at least one

(1) Board of Director who serves as the committee chair, the Legal Officer, the Chief Compliance Officer and the General Accounting Manager or Credit Risk Management Unit Officer. The committee meets once a month and held every Thursday prior to board meeting or as the need arise.

The ROPA Committee’s tasks include, but are not limited to, the following:

- a. Monitoring of movement of real and other properties acquired including disposal.
- b. Review and assess request for acquisitions or disposals proposed by management.
- c. Formulate ideas and suggestions to help safeguard the bank properties.
- d. Make recommendations to help management for the disposal of properties.
- e. Review with management the valuation of properties acquired and result summary shall be reported to the board.
- f. Perform other duties and responsibilities as authorized by the board of directors.

**K. Credit Committee**

The Credit Committee serves as a formalized group that is responsible in the review and approval of credit proposals based on the bank existing codified signing and approving authority. The committee also assist the bank senior management and board of directors in fulfilling their responsibilities relating to the identification, assessment and measurement of credit risk in every loan proposals prior to approval. The committee shall meet as frequently as necessary.

The committee shall be composed of at least two (2) Board of Directors, the President/CEO, Executive Vice President, AVP for Operations, Regional Directors, and Credit Risk Analyst.

- a. Board of Directors – credit proposals above five million up to eight million shall be approved by

at least two (2) Board of Directors. Moreover, loans above eight million shall be approved by majority of the bank's board of directors.

- b. President and CEO – review and approved credit proposals above two million up to five million pesos and recommend loans that are for approval of the board of directors.
- c. Executive Vice President – review and approved credit proposal above one million up to two million pesos and recommend credit proposals for approval of the President/CEO and the board of directors.
- d. AVP for operations – review and approve credit proposals above five hundred thousand up to one million pesos and recommend credit proposals to the Executive Vice President and/or President/CEO.
- e. Regional Directors – review and approve credit proposal up to five hundred thousand. The Regional Director shall recommend credit proposals for approval of the AVP for operations.
- f. Credit Analyst – conduct review, analysis and assessment of credit proposal and identify potential/perceived risk.
- g. The secretary shall served as ex-officio member of the committee

Should there be deviations in the credit proposals based on the bank existing policy, loan proposal shall be approved by the next higher authority.

## INDEPENDENT CHECKS AND BALANCES

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

### Internal Control System

The internal control framework of the bank is consistent with the increased emphasis of banking supervisors (e.g. BSP) on the review of a banking organization's risk management and internal control processes. The effective internal control system is a critical component of CARD SME Bank, Inc. management and a foundation for the safe and sound operation. A strong internal control system helps ensure the achievement of goals and objectives of the bank, achieve long-term profitability targets, and maintain reliable financial and managerial reports.

The bank's internal control consists of five (5) interrelated elements:

1. Management oversight and the control culture;
2. Risk recognition and assessment;
3. Control activities and segregation of duties;
4. Information and communication; and
5. Monitoring activities and correcting deficiencies.

Board of directors and senior management are responsible for promoting high ethical and integrity standards; establishing the appropriate culture that emphasizes, demonstrates and promotes the importance of internal control; and designing and implementing processes for the prevention and detection of fraud.

The overall effectiveness of the bank's internal controls were monitored on an ongoing basis. Monitoring of key risks were part of the daily activities of the bank as well as periodic evaluations by the business lines and internal audit.

### Internal Audit

The objective of the internal audit unit is to assists all members of management in the effective discharge of their responsibilities, by furnishing them with analyses, appraisal recommendations, and pertinent comments concerning the activities reviewed. The Internal Audit Unit has the management complementary role of ensuring that the internal control systems are operating efficiently thereby giving the management assurance that the systems can be relied upon for the recording of





transactions relating to all operations and also for the preparation of the financial statements.

Under the direct supervision of the Board of 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, free and unrestricted access rights to all activities, information, records, properties, and personnel relevant to the internal audit activity.

The Deputy Director for Audit reports directly to the Audit Committee on its regular monthly meeting which composed of at least three (3) members of the board, all are non-executive director, and majority shall be independent director, who have knowledge of financial reporting and internal controls. Likewise, the audit operative work plan for the following year is being prepared at the end of the year and presented to the board for approval. The audit unit accomplishment status was being assessed and presented to the audit committee on a quarterly basis.

To monitor the effectiveness of implementation of the internal control system, the internal audit unit has implemented an audit rating system that measures the vulnerability of risk exposures due to lack of internal control of branches and other offices during branch/office audit activities. Directory of all findings were also established to monitor the status of branch compliance.

### External Auditor

Sycip Gorres Velayo & Co. (SGV) is the authorized External Auditors of the bank. It presents an audit plan to the Board of 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:

- a. Risks to reputation that arise from internal decisions that may damage a bank's market standing;
- b. Risks to reputation that arise from internal decision and practices that ultimately impinge on the public trust of a bank;
- c. 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
- d. Legal risks to the extent that changes in the interpretation or provisions of regulations directly affect bank's business model.

The authority and independence of the compliance take into consideration the ability to cross departmental lines, access to all areas of the institution's operations and ability to effect corrective action when deficiencies or violations are detected. The mandates of the compliance are widely communicated throughout the organization.

1. The bank's compliance function has a formal status within the organization. It's charter was approved by the board of directors which defines the compliance function's standing, authority and independence.
2. Compliance office have the right to obtain access to information necessary to carry out its responsibilities, conduct investigations of possible breaches of the compliance policy. The compliance is directly reporting to and

have direct access to the Board of Directors or Compliance Committee.

The Compliance unit/department is responsible for ensuring that the bank complies with the requirements, policies, circulars, and guidelines issued by BSP, BIR, LGUs, and other government agencies. Compliance unit, through the Chief Compliance Officer, reports directly to the Compliance Committee on its monthly regular meetings.

The mission, objectives, scope, authority, and accountability of the compliance unit and its staff are clearly defined in the Compliance Program duly approved by the board of directors. Likewise, the compliance unit work plan for the following year is being prepared at the end of the year and presented to the board for approval. The compliance unit accomplishment status was being assessed and presented to the compliance unit on a semi-annual basis.

To monitor the effectiveness of implementation of the compliance system, the compliance unit has implemented a compliance rating system that

measures the compliance risk exposures system of branches and other offices during compliance monitoring and testing.

### **Compliance Risk Management**

The Compliance Risk Management system of the bank is designed to specifically identify and mitigate risks that may erode the franchise value of the bank such as risks of legal or regulatory sanctions, material financial loss, or loss to reputation, that bank may suffer as a result of its failure to comply with laws, rules, related self-regulatory organization standards, and codes of conduct applicable to its activities.

This compliance risk management will also mitigate risk arising from failure to manage conflict of interest, treat customers fairly, or effectively manage risks arising from money laundering and terrorist financing activities.

Compliance risk management is not solely the responsibility of the compliance unit, but instead the responsibility and shared accountability of all personnel, officers, and board of directors. This has been an integral part of the culture and risk governance of the institution.

### **Money Laundering and Terrorist Financing Prevention Program (MTPP)**

The bank adopted the Updated Anti-Money Laundering Rules and Regulations of Bangko Sentral ng Pilipinas (BSP) - a comprehensive and risk-based Money Laundering and Terrorist Financing Prevention Program (MTPP) that promotes high ethical and professional standards of the bank and ensures that it is not being used for money laundering and terrorist financing activities. It supports 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.

Further, this program aims to (a) protect the integrity and confidentiality of bank accounts and ensure that the Philippines, in general, and the covered persons, in particular, shall not be used, respectively, as a money laundering site and conduit for the proceeds of an unlawful activity as herein defined; and (b) to protect life, liberty and property from acts of terrorism and to condemn terrorism and those who support and finance it and reinforce the fight against terrorism by criminalizing the financing of terrorism





and related offenses. The program intends to ensure high standards in the following areas:

- Ensure that bank has conform with high ethical standards in protecting the safety, soundness, and integrity of the national banking and financial system.
- Ensure that identity of customer is established at all times along with ensuring that financially and socially disadvantaged are not denied access to financial services.
- Ensure that suspicious individuals or entity are denied from opening or maintaining an account or transacting with the bank.
- Adopting and implementing this MTPP risk management system to identify, assess, monitor and control risks associated with money laundering and terrorist financing.
- Ensure that full compliance with the rules and existing laws by regularly ensuring that all officers and employees are informed on their responsibilities in combating money laundering and terrorist financing.
- Ensure full cooperation with the Anti-Money Laundering Council (AMLC) and Bangko Sentral ng Pilipinas for the effective implementation and enforcement of these regulations.

### **MTPP Risk Management**

To ensure that risks associated with money-laundering such as counterparty, reputational, operational, and compliance risks are identified, assessed, monitored and mitigated, the following measures and processes were adopted.

#### **a. Board and Senior Management Oversight**

Bank's board of directors have the ultimate duties and responsibilities to ensure full compliance with money laundering and terrorist financing prevention program. As such, board of directors through the Compliance Office and Internal Audit are regularly

updated on the matters related to Anti-Money Laundering and terrorist financing compliance and risk management.

The senior management has overseen the day-to-day management of the bank, ensure the effective implementation of AML/CFT policies approved by the board and the alignment of activities with the strategic objectives, risk profile and corporate values as set by the board. Senior management has established a management structure that promotes accountability and transparency and upholds checks and balances. In order to ensure consistent and full compliance with money laundering and terrorist financing prevention program, Regional Director is also designated as the liaison officer of the compliance office in their respective branches. Regional Director is responsible in ensuring that all ALM polices, laws and regulations are being implemented in the branch and all matters needing assistance are reported to the ALM Compliance Officer in Head Office.

#### **b. Compliance Office**

The compliance office through the AML Compliance Officer primary responsible in the management of the implementation of the Money Laundering and Terrorist Financing Prevention Program (MTPP) 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 reporting line to the board of directors or any board-level or approved committee on all matters related to AML and TF compliance and their risk management. AML Compliance Officer is designated to handles the implementation of the MTPP program. He will be the liaison between bank, the BSP, and the AMLC in matters relating to

bank's AML/CFT compliance. He is assisted by one (1) Assistant AML Compliance Officer in monitoring the implementation of this MTPP program to all branches and other offices.

### **c. Group-wide Money Laundering and Terrorist Financing Prevention**

CARD MRI group has established CARD MRI Compliance Committee. The committee was established to oversee the compliance and anti-money laundering requirement and implementation of the entire CARD MRI group. Further, the CARD MRI group has regular coordination meeting of compliance, audit and risk officers to discussed matters that affect the organization as a whole.

### **d. Internal Audit**

Simultaneous with operations and financial audit, compliance with Anti-Money Laundering Regulations is also being checked by Internal Auditors. The Internal Audit function associated

with money laundering and terrorist financing is being conducted by qualified personnel who are independent of the Branch/Unit being audited. Internal Auditors have a direct reporting line to the Audit Committee. Result of audit is also promptly communicated to the Compliance Office for its appropriate corrective action. The Compliance Office regularly submits reports to the board to inform them of management's action to address deficiencies noted in the audit.

### **e. Risk Assessment**

As part of the banks' risk-based approach, it has ensure that risk exposure to ML/TF was identified, understand and assess when dealing with its customers, based on geographical areas of operations and customers, products and services being offered, including delivery channels used to carry out the transactions. The institutional risk assessment shall:

- i. consider all relevant risk factors, including the results of national and sectoral risk assessments;
- ii. adequately document results and findings; and
- iii. be updated periodically or as necessary.





## CARD SME BANK DATA PRIVACY STATEMENT

### GENERAL STATEMENT

CARD SME Bank, Inc. ("CARD SME Bank"), including its affiliates and subsidiaries and all members of the CARD Mutually Reinforcing Institutions ("CARD MRI"), values the confidentiality of personal data and committed in maintaining the privacy of its customers. This Data Privacy Statement ("Statement"), details how CARD SME Bank uses and protects personal data for the purpose of obtaining the consent of data subject in accordance with the Republic Act No. 10173, otherwise known as the Data Privacy Act of 2012, and its Implementing Rules and Regulations ("DPA"). This statement also covers the privacy practices for our customers who apply for and obtain products and services from us, such as, but not limited to, deposits, loans, investments, insurance, remittances, and other such products and services that CARD SME Bank may offer from time to time.

### OUR PRIVACY PRACTICES

The privacy practices described in this statement are primarily intended for individuals in the Philippines and are designed to comply with the provisions of the DPA. When accessing our websites and/or availing of our services through our branches, you acknowledge and agree that your information may be collected, processed, and transferred within the Philippines following legal and regulatory standards for data protection that may differ from your current or home jurisdictions.

### WHAT DATA DO WE COLLECT FROM YOU

To provide the client with CARD SME Bank's banking/ financial products and services and/or to implement client-requested transactions, CARD SME Bank shall collect personal information from the client which may include, but are not limited to:

- Name, Age, Date/Place of Birth, Gender, Civil

- Status, Nationality;
- Address and Contact Details (Home/ Business)
- Educational Background;
- Employment History;
- Financial Information (such as income, expenses, balances, investments, tax, insurance, financial and transaction history, etc.);
- Specimen Signature;
- Permits, Licenses & Registrations;
- Status of Pending Civil/Criminal Cases (if any);
- Telephone conversation recordings through our Customer Service Representative;
- CCTV footage for security purposes;
- Religion;
- Health/Disability;
- Regulatory Numbers (HDMF/SSS/TIN);
- Housewife/Husband Information (Name/ Occupation);
- Valid IDs & Photos;
- Mother's Maiden Name

### HOW WE USE YOUR INFORMATION

CARD SME Bank uses your personal information to provide the services and products that you have availed or intend to avail from CARD SME Bank, including and together with following purposes:

- Opening, maintaining, and/or terminations of accounts;
- Ease of contacting/communicating with clients;
- Evaluate, approve, provide, or manage applications, financial products and services, and other transactions that the client has requested;
- Comply with know-your-customer (KYC) information requirements as specified under the Manual of Regulations for Banks and other applicable regulations;
- Conduct of credit and background

information checks and verification;

- Evaluate client's eligibility for CARD SME Bank's products and services, such as loan inventory and loan validation;
- Perform risk profile and risk assessment;
- Perform Loan Utilization Check (LUC);
- Provide extensive and quality support to the client;
- For internal purposes, such as administrative, operational, audit, credit and risk management;
- Provide location-based services such as finding the ATM or branch nearest to you;
- Offering and processing of insurance products for the CARD Mutual Benefits Association;
- Comply with legal and regulatory requirements such as submission of data to credit bureaus, credit information companies, the Credit Information Corporation (CIC), CISA, responding to court orders and other instructions and requests from any local or foreign authorities including regulatory, governmental, tax and law enforcement authorities or other similar authorities;
- Perform other such activities permitted by law or with your consent.

## WHEN DO WE COLLECT PERSONAL INFORMATION

CARD SME Bank collects personal information through, but not limited to, any of the following:

- Face-to-face and/or telephone conversation with CARD SME Bank Customer Service Representative;
- Accomplishment and/or signing of forms/documents (e.g. loan proposal, New Accounts Form, Insurance Products, Employment application and contracts and Client Information Form);
- Registration through electronic banking channels and services (e.g. Mobile Banking Application-Konek2CARD, HCIS); and
- Conducting background and credit investigation and Loan Utilization Check
- Inquiries to the Credit Bureau such as CIC, NFIS and MIDAS.

## RECIPIENTS OF INFORMATION

We may share your personal information with our subsidiaries, affiliates and third parties, including members of CARD MRI, for the purposes above and with an obligation of confidentiality. Your personal information may similarly be disclosed to government agencies, supervisory bodies, tax authorities, or courts of competent jurisdictions for purposes of complying with banking regulations, which CARD SME Bank may be subject to such as Republic Act No. 9160 otherwise known as the Anti-Money Laundering Act of 2001 or Republic Act No. 9510 otherwise known as the Credit Information System Act ("CISA"), among others.

If necessary, for the efficient delivery of CARD SME Bank's products and services, we may also outsource processing of your personal information to third-party service providers or CARD MRI, consistent with the terms of this statement and the provisions of the DPA.

## HOW WE SAFEGUARD PERSONAL INFORMATION

In accordance with the provisions of the DPA, Republic Act No. 1405 otherwise known as the Bank Secrecy Law, Republic Act No. 8791 otherwise known as the General Banking Law of 2000, BSP Circular No. 808, Series of 2013 otherwise known as the Guidelines on Information Technology Risk Management for All Banks and other Supervised Institutions, and BSP Circular No. 982, Series of 2017 otherwise known as the Enhanced Guidelines on Information Security Management, CARD SME Bank, its employees, agents and representatives, shall handle personal information with utmost care and





adhere to the implemented organizational, physical, and technical security measures to maintain the confidentiality, integrity, security, and availability of all personal information under its custody.

### **HOW LONG DO WE KEEP YOUR INFORMATION**

Documents containing your personal information will be retained in the records and systems of CARD SME Bank for a period no longer than five years from the date of the termination of your account or of the specific transaction with CARD SME Bank, unless CARD SME Bank is required by law to retain the information for a longer period.

### **YOUR RIGHTS AS DATA SUBJECT**

CARD SME Bank respects your rights to:

1. Be informed;
2. Object to the processing of your personal data;
3. Have reasonable access to your personal data under the custody of CARD SME Bank;
4. Require immediate correction of inaccurate or erroneous personal data under the custody of CARD SME Bank;
5. Suspend, withdraw or order the blocking, removal or destruction of your personal data from CARD SME Bank's records and/or system; and
6. Be indemnified in case of violation of your rights as data subject.

You may reach us for any questions, concerns or requests you may have on your personal data and exercising the above rights.

### **HOW TO CONTACT US**

Should you need to get in touch with us for any data privacy concerns or requests or should you have any questions or clarifications regarding the statement, CARD SME Bank has adopted a Customer Assistance Management System (CAMS). This is an organized system where customer feedbacks, inquiries, and complaints are carefully handled and processed.

Through this channel, a Customer Service Officer, who serves as the representative of the Data Protection Officer shall initially assist you and raise such concerns to the Compliance Unit of CARD SME Bank.

You may also visit the Customer Service Desk at any of CARD SME Bank's branches or call the Customer Service Hotlines at the following numbers:

- +6349- 539-5421
- +63939-726-7550
- +63927-429-6574

You may also e-mail us at [card.sme@cardmri.com](mailto:card.sme@cardmri.com) or [cardsme.atmoperations@cardmri.com](mailto:cardsme.atmoperations@cardmri.com) or visit our website [www.cardmri.com/cardsme](http://www.cardmri.com/cardsme)

Alternatively, for any pressing concerns, you may reach our data protection officer at the following contact information:

Email: [dpo.cardsme@cardmri.com](mailto:dpo.cardsme@cardmri.com)

Telephone Number: (049) 503-2671 or 72

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

### **CHANGES TO OUR PRIVACY STATEMENT**

We may amend or modify the terms of this statement from time to time to ensure relevance with the relevant laws and regulations applicable to CARD SME Bank. Any relevant modification will be posted on our website and distributed to all CARD SME Bank Branches and Branch Lite Units.

## SENIOR MANAGEMENT PROFILE

SENIOR MANAGEMENT	PROFILE
<p><b>Mr. Aristeo A. Dequito,</b> President and Chief Executive Officer 52, Filipino</p>	<p>Mr. Dequito became the President and CEO since 2016. He is a microfinance practitioner since 1988. He handled the operations of CARD, Inc. (A Microfinance NGO) for nine years. Prior to joining CARD SME Bank, he worked with CARD Bank and CARD-Business Development Service Foundation for eight (8) and 10 years, respectively. He earned his degree in Business Administration, Major in Accountancy from 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><b>Ms. Cynthia B. Baldeo</b> Executive Vice President and Chief Operating Officer 55, Filipino</p>	<p>Ms. Baldeo has been a banker for more than 20 years. She has been with CARD SME Bank since 2007. 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, and currently taking up her Advance Management Program in Harvard Business School, USA.</p>
<p><b>Ms. Cherry B. Boncajes</b> Assistant Vice President for Operation 43, Filipino</p>	<p>Ms. Boncajes has been with microfinance and SME banking operations for more than 17 years. Prior to joining CARD SME Bank, she has been with CARD Bank, Inc. for eight (8) years. She graduated at the University of the Philippines Los Baños Campus with the degree of Bachelor of Science in Forestry in 1998 and finished her Master of Arts in Organizational Development in Southeast Asia Interdisciplinary Development Institute in 2010.</p>
<p><b>Ms. Anita F. Rapera</b> Assistant Vice President for Operation 51, Filipino</p>	<p>Prior to joining CARD SME Bank, Ms. Rapera worked with CARD, Inc. (A Microfinance NGO) from April 1995 to June 2012 and handled microfinance operation as Account Officer, Unit Manager, Area Manager, and Regional Director. She joined CARD SME Bank as Regional Director from July 2012 to January 2017. After which she was promoted as 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><b>Ms. Florence C. Castillo</b> Assistant Vice President for Operation 41, Filipino</p>	<p>Ms. Castillo has been with CARD SME Bank since February 2016. Prior to joining CARD SME Bank, she has been with CARD, Inc. (A Microfinance NGO) accounting and finance from August 1997 to June 1998. CARD Bank, Inc., accounting and finance from July 1998 to September 2005, and CARD, Inc. Operation from October 2005 to January 2016. She earned her Bachelor's degree in Commerce major in Management from 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 and taking up Leadership and Diversity for Innovation Program at Wharton University of Pennsylvania.</p>
<p><b>Ms. Noralyn D. Silvestre</b> Assistant Vice President for Operation - OIC 45, Filipino</p>	<p>Ms. Silvestre has been in the field of microfinance for more than 22 years. She has been with CARD since 1997 and started as Account Officer. She was transitioned to CARD SME Bank in 2013 from CARD, Inc. (A Microfinance NGO). She finished Bachelor of Science in Elementary Education at Osmeña College and Master of Arts in Organizational Development in Southeast Asia Interdisciplinary Development Institute.</p>

SENIOR MANAGEMENT	PROFILE
<p><b>Mr. Rodel T. Bombase</b> Senior Regional Director 41, Filipino</p>	<p>Mr. Bombase is a homegrown Officer of CARD. He has been in the field of microfinance for more than sixteen years. Prior to joining CARD SME Bank, he was a Technical Officer, Branch Manager, Area Manager, and Regional Director of CARD, Inc. (A Microfinance NGO) He finished his Bachelor of Science in Agricultural Economics in Camarines Sur State Agricultural College and Master in Productivity and Quality Management at Development Academy of the Philippines.</p>
<p><b>Ms. Jeannie T. La Rosa</b> Assistant Vice President for Finance and Accounting 41, Filipino</p>	<p>Ms. La Rosa, finished her Bachelor's degree in Commerce major in Banking and Finance from 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 CARD Bank, Inc. Finance and Accounting for almost 12 years.</p>
<p><b>Mr. Benedict A. Ame</b> Chief Compliance Officer 38, Filipino</p>	<p>Prior to joining CARD SME Bank, Mr. Ame has been with CARD Bank for more than 10 years. Four years in the operation, accounting, and finance and more than six years in the Compliance Unit. He earned his Bachelor's degree in Commerce, major in Management from Quezon Colleges of the North in 2002. He finished his Master in Productivity and Quality Management at Development Academy of Philippines in 2017.</p>
<p><b>Mr. Jerry V. Montejo</b> Head of Risk Management 44, Filipino</p>	<p>Mr. Montejo has been with CARD SME Bank operations as Loan Officer, Loan Manager, Bank Manager, Account Manager, and Regional Director for more than nine years. Prior to joining CARD SME Bank, he worked with CARD, Inc. (A Microfinance NGO) as Account Officer and Unit Manager. He earned his degree, Bachelor of Science in Business Administration, major in Management in 2002, finished his Master in Productivity and Quality Management at the Development Academy of the Philippines in 2017, and Management Development Program at the Asian Institute of Management in 2019.</p>
<p><b>Mr. Raymond A. Uy</b> Deputy Director for Audit 35, Filipino</p>	<p>Mr. Uy started with CARD as Account Officer prior to becoming and Internal Auditor since 2009. He has been in the field of audit and risk management for more than 10 years. He finished his Bachelor of Science in Accountancy at the University of Iloilo.</p>
<p><b>Mr. Manolo C. Martinez</b> Head of Marketing and product Development 51, Filipino</p>	<p>Mr. Martinez was formerly a Business Manager of UNIONBANK, Sale Executive of Petron Corporation, and Corporate Sales Manager of BANKARD, Inc. He completed his degree in Bachelor of Science in Business Administration from the University of Sto. Tomas in 1992. He also attended Basic Strategic Management at John Gokongwei School of Management of Ateneo de Manila University in 2018.</p>
<p><b>Mr. Allan D. Dimaano</b> Chief Information Officer 45, Filipino</p>	<p>Mr. Dimaano has been a banker for almost 19 years. Prior to joining CARD SME Bank, he was a Teller, Unit Manager, Remittance Officer, and Area Manager of CARD Bank, Inc. from 1999 to 2009. 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>

## LIST OF MAJOR STOCKHOLDERS OF CARD SME BANK, INC. (with more than 10% Equity Shares)

NAME OF STOCKHOLDER	Nationality	Type of Shares	Percentage of Stockholdings	Voting Status
Center for Agriculture and Rural Development (CARD), Inc. (A Microfinance NGO)	Filipino	Common	34.820%	Voting
CARD EMPC	Filipino	Common	30.010%	Voting

### CARD SME BANK DIVIDEND POLICY

The bank's dividend policy is an integral component of its capital management policy rather than a stand-alone process. Its fundamental and overriding policy is sustainability.

Dividends are declared and paid out of unrestricted retained earnings of the bank at such intervals as the board of directors may determine and in accordance with the provisions of the law and the regulations of the Bangko Sentral ng Pilipinas (BSP) and the Securities and Exchange Commission (SEC).

The payment of dividends in the future will depend on the bank's earnings, cash flow, financial condition, regulatory requirements for capital and other factors. Circumstances which could restrict the payment of cash dividends include, but not limited to, when the bank undertakes major projects and developments requiring substantial cash expenditures. The board of directors may, at any time, modify the bank's dividend payout ratio depending on the results of operations and future projects and plans of the bank. The bank also considers their internal set limits on Capital Adequacy Ratio, and the Liquidity Ratio before and after dividends declaration.

At the time of dividends declaration, the bank ensures that it is compliance with the requirements on the declaration of dividends under Section 124 of the Manual of Regulation for Bank of the Bangko Sentral ng Pilipinas (BSP), as follows:

1. Clearing account with the BSP is not overdrawn;
2. Minimum liquidity, capitalization requirement, and risk-based capital ratios as provided under applicable and existing capital adequacy framework;
3. Has not committed any unsafe or unsound banking practice and/or major acts or omissions as may be determined by the Bangko Sentral ng Pilipinas; and
4. Has complied with the provisions of Section 43 (Power to declare dividends) of The Corporation Code of the Philippines (Batas Pambansa Blg. 68), as may be applicable.





## **ORIENTATION, SEMINARS, AND EDUCATION FOR BOARD AND SENIOR MANAGEMENT**

Board composition and dynamics are critical to bank's operation. Within the framework of positive board culture, the board will leverage their diverse skills set to excellent advantage. With this, board of directors training programs help build the skills for driving positive board culture - especially if undertaken as a team.

As the governing body of the bank, boards of directors provide the leadership and accountability that determine the success of the institution. The board recognizes the importance of training and development of individual directors and the board as a whole. It was recognized as an important investment for the bank as it intends to operate at its greatest effectiveness.

All directors of the bank have attended Corporate Governance Seminar conducted by accredited private institutions prior to, or at least immediately after, assumption of office. All newly elected board of directors undergone orientation on their duties and responsibilities as board of directors including the general operating procedures of the bank. Prior to their election as members of the board of directors, candidates were invited to seat as observers in the meeting of the bank's committee and board of directors to get familiar with the banking operations.

In 2019, majority of the members of the board of directors and senior management have attended "IT Governance Principle Course" and "Anti-Money Laundering & Combating the Financing of Terrorism" seminars conducted by ISACA Manila Chapter and Bankers Association of the Philippines (BAIPHIL), respectively. In addition, the board is continually updated of the anti-money laundering initiatives, Bangko Sentral ng Pilipinas circulars, and other

banking-related issues, as needed.

In-house and external training programs (locally and internationally) are also provided to senior officers to further expand and strengthen their areas of expertise, update them on regulatory matters, bring in new ideas and practices to the organization, and expand their networks. These local and international training programs include technical training programs, conferences, and conventions. As part of the capacity building program of the bank for its senior management, qualified officers were sent to master's degree and short degree programs, both locally and internationally.

## **PERFORMANCE ASSESSMENT**

### **Board of Directors**

Consistent with the principles of good corporate governance, the corporate governance committee is responsible in ensuring the effectiveness and due observance of the board on the principles and guidelines stated in the Corporate Governance manual. It includes overseeing periodic performance evaluation of the board and its committees including executive management. An annual performance assessment was conducted to measure director's effectiveness and if adequately carrying out their duties as director, and their contribution and performance (e.g. duty of care, duty of loyalty, duty of obedience, management accountability, strategic planning, and policy setting). Committee's performance was also evaluated based on their respective duties and responsibilities.

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.

## REMUNERATION POLICY

### Board of Directors

Consistent with the section 29 of the Corporation Code of the Philippines and as provided in the By-Laws of the Bank, Directors shall not receive any compensation, except for reasonable per diems. In which no case shall the total yearly compensation of directors exceed ten percent (10%) of the net income before income tax of the bank during preceding year. Further, only expenses deemed necessary for them to attend the meetings and discharge their official duties shall be allowed for reimbursement.

### Senior Management

CARD SME Bank, Inc. has adopted a standardized salary grading system applicable for all level of position with a corresponding rates of pay that are fair and equitable in relation to the job requirements in terms of complexity, responsibility, skills and qualifications. The 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. This remuneration policies of the bank is duly approved by the board of directors. There will be a provision on annual increase and performance assessment measures.

All officers and employees of the bank are entitled for all regulatory benefits mandated by law, including other institutional benefits such as but not limited to retirement benefits, life and health insurance, further studies locally and abroad, international exposures, performance bonus and salary appraisal.

### Retirement, Succession Planning and Development Program

Elected directors serve for a period of one (1) year from May to April of the succeeding year shall continue to serve until their successor is duly appointed. Members of the board of directors are not entitled to any retirement benefits. There is no prescribed age limit for directors, provided, they are physically and mentally fit for the position.

As CARD SME Bank, Inc. continues to grow and expand, it is fundamental to ensure readiness of the next generation of leaders. The bank aims to sustain its core values of excellence by ensuring that next-in-line leaders are equipped with adequate knowledge and competence. This is to prepare next level officers assuming vacancies in senior management positions brought about by expansion, promotion, and retirement, among others. Through the succession program of the bank support by its capacity building program, it ensures that qualified employees are recruited and developed to fill each key role within the bank.

Under this program are as follows:

- Succession Management program for middle to senior management officers to assume leadership position.
- Master's Degree Program and short-term leadership management course for middle management officers.
- The mandatory retirement age for all bank officers and staff including senior officers is 60 years old.





## CONSUMER PROTECTION PRACTICES

In view of the Bangko Sentral ng Pilipinas (BSP) mandates for Financial Consumer Protection, the bank has adopted a Consumer Protection Compliance Program to provide better protection of the interest of the consumers. This will assist the bank in achieving the following objectives towards customer's protection.

- Promote fair and equitable financial services practices by setting standards in dealing with customers.
- Increase transparency in order to inform and empower consumers of financial services.
- Provide efficient and effective mechanisms for handling consumer complaints relating to the provision of financial products and services.

### Consumer Protection Risk Management System

To ensure that consumer protection risks inherent in the bank's operations are identified, measured, monitored and controlled, the bank adopted a risk management system that is adherence to consumer protection standards and compliance with consumer protection laws, rules, and regulations.

The board of directors have the ultimate duties and responsibilities to ensure full compliance with the consumer protection policies and procedures. The board is 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 ensure that effectiveness of this system is periodically reviewed including reporting of findings and audit mechanism in place. The Compliance unit is the designated office to monitor the implementation of this program. Simultaneous with operations and

financial audit, Internal Audit unit likewise ensure that bank's consumer protection practices have been implemented and reviewed.

Continuous education of the bank's personnel and customers 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.

#### a. Disclosure and Transparency

Recognizing the contribution as well as the rights of customers, the bank in its policy promotes disclosure and transparency by providing customers with sufficient information to understand the products and services being offered. This information will enable customers to make informed financial decisions by providing them easy access to information such as terms and condition of the products and services being availed of, benefits and its associated risks.

#### b. Protection of customer Information

It is always the bank's primary responsibility to ensure protection of client information. As such, the bank ensures that policies and procedures to protect customer information and records are in place. This covers protection against any threat to security or integrity of customer's records and information and unauthorized access or use.

#### c. Fair Treatment

The bank ensure that customer is treated fairly, with honesty and professionally. Fair treatment of the client shall also cover dealing of the bank employee in marketing and delivering products and services.

## Conflict of Interest

Members of the board, management, officers, and employees are committed to adhere to ethical business conduct and shall not enter into business transactions where conflict of interest may arise. As such, the bank ensure that the following are consistently complied into for the protection of the bank and its customer.

- a. Full disclosure to the customer prior to any transaction that the bank or its staff has an interest in a direct/cross transaction with customer.
- b. Should products be marketed are issued by a related company, the bank informed the customer on the limited availability of the products being marketed.
- c. Basis of the remuneration (e.g. commission, incentives, etc.) of the bank at pre-contractual stage is disclosed.
- d. Regular monitoring to promptly identify issues and matters that may be detrimental to the customer is conducted.

## Consumer Assistance Management System (CAMS)

To ensure that clients have accessible way of reaching the management for their queries, clarifications, and complaints on the bank's products and services, the bank has implemented the consumer assistance management system. The consumer assistance management system is posted within the bank's premise and website ([www.cardmri.com/cardsmebank](http://www.cardmri.com/cardsmebank)) to achieve a good communication system.

- Established a consumer service unit where a responsible officer deals with consumer concerns independently. Personnel handling customer service is equipped with the necessary knowledge and skills in the implementation of customer assistance program of the bank.
- Several channels have been set up by the bank to ensure that customers are given option to lodge their concern as follows:
  1. Customer Service Officer (CSO) in the branch for walk-in clients;
  2. Customer Service Desk  
Customer Service hotline numbers:  
+6349- 539-5421  
+63939-726-7550  
+63927-429-6574
  3. Bank email address:  
[card.sme@cardmri.com](mailto:card.sme@cardmri.com) or [cardsme.atmoperations@cardmri.com](mailto:cardsme.atmoperations@cardmri.com) or visit our website [www.cardmri.com/cardsme](http://www.cardmri.com/cardsme)
- Installation of suggestion box and incidents complaint logbooks in all Branches and Branch-Lite Unit offices.



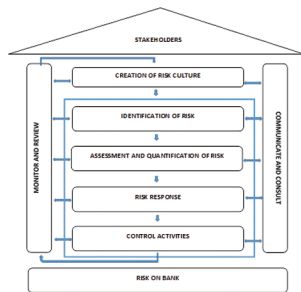


## RISK MANAGEMENT FRAMEWORK

### 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 through 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 expected events 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 do 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 22%

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

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) independent directors with details as follows:

1. **Ms. Gloria R. Estrellado** – Chairperson  
Ms. Estrellado was a former Board of Director of the bank, a former Barangay Councilor, and active member of many civic organizations in their community. Currently, she is an appointive President of Barangay Agrarian Reform Council (BARC) of their Barangay.
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 B. 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





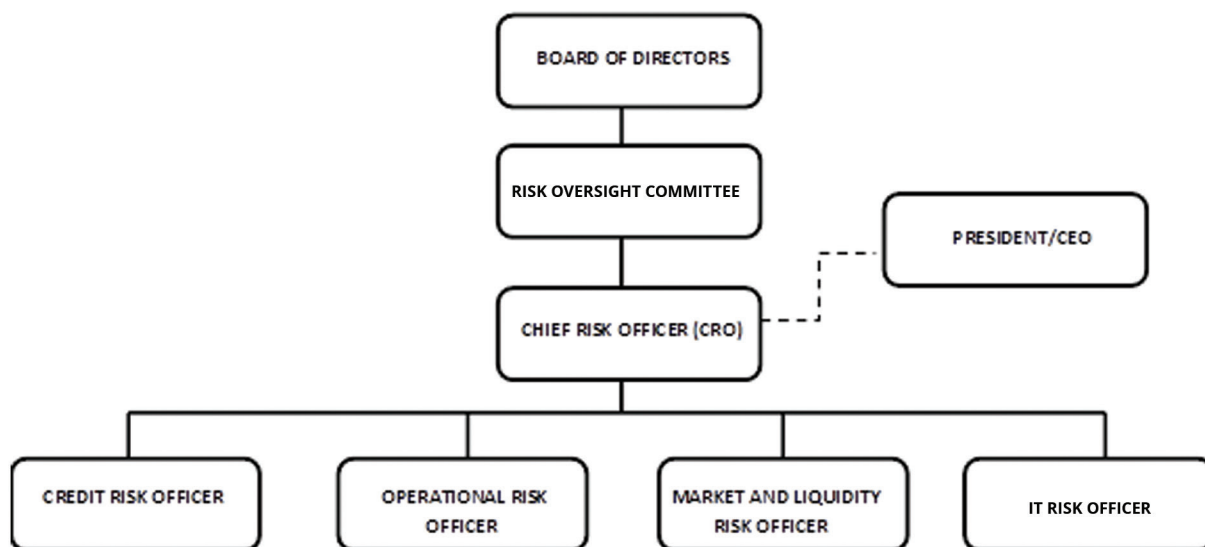
are promptly implemented to address risk management concerns.

- 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 Chief Risk Officer (CRO)/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.



## 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 four (4) board of directors, three (3) 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. In case conflict of interest will arise in a particular transaction, concern committee member shall refrain from evaluating such particular transaction. Independent unit such as Compliance Head or Internal Audit Head sit as non-voting member of the committee.

In addition to prudential limits sets per regulations and on the bank business model amount of loans granted and transactions/exposures to related parties of the bank to related parties shall be subjected to the following internal limit;

Particular	Limits Per Transaction
Individual Aggregate	shall not exceed 15% of the bank's net worth
Total Aggregate RPT	shall not exceed 25% of the bank's net worth

Furthermore, loans granted to DOSRI shall not exceed 15% of the bank's total equity. The loan granted to DOSRI as of December 31, 2019 is at 100.04M and is 1.58% of the total loan of the bank. The material transaction is the secured SME Wholesale Lending loan granted to DOSRI amounting to 100M payable in six (6) months. Detail of the related party transactions are presented in the Note 20 of the Audited Financial Statement.

## 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 in line with CARD MRI's "One Family, One Graduate" Program where it envisions that every household should at least have one college graduate. To avail the program, clients should be at least three years clients of the bank 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.





## PRODUCTS AND SERVICES

### Savings

#### Micro Deposit

- » **Pledge** - The Pledge Savings represents each member's deposits and acts as loan guarantee given that loans are non-collateralized.
- » **Maagap** - The Maagap savings represents deposit accounts specifically designed for kids.
- » **Katuparan** - Savings account with fixed deposit amount and microinsurance coverage based on the desired target savings in each period supported by a signed agreement.

#### Regular Savings

- » **iSave** - A regular savings accounts evidenced by passbook.
- » **My A Account** - ATM savings account.
- » **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 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

# Management Committee



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

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

**Ms. Jeannie T. La Rosa**  
Assistant Vice President for  
Finance

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

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

**Mr. Jerry V. Montejo**  
Assistant Vice President for Risk  
Management (OIC)

**Mr. Benedict A. Ame**  
Chief Compliance Officer

**Ms. Noralyn D. Silvestre**  
Assistant Vice President for  
Operations (OIC)

**Ms. Florence B. Castillo**  
Assistant Vice President for  
Operations (OIC)

**Mr. Manolo M. Martinez**  
Assistant Vice President  
for Marketing and Product  
Development

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

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



# Management Committee



## REGIONAL DIRECTORS

Mr. Frederick Nicasio M. Torres  
Mr. Dennis O. Dimaculangan  
Ms. Leonida M. Gutierrez  
Ms. Joy G. Palomique  
Ms. Juliana M. Salcedo  
Ms. Patricia G. Saballo  
Ms. Rosella F. Sansano

Ms. Marites O. Angara  
Ms. Mary Rose L. Venerayan  
Ms. Madonna U. Bautista  
Mr. Jayson P. Solosa  
Ms. Eva O. Mandalihan  
Ms. Amalia R. Ditchoso  
Ms. Gerilyn P. Bautista  
Ms. Shiello K. Reyes

**Ms. Rossana A. Cacha**  
Senior Credit Policy Officer

**Ms. Jeaniebeth A. Mangundayao**  
DCC Manager

**Mr. Ross Meinard C. Ramos**  
Information Technology  
Manager

**Ms. Mildred B. Matienzo**  
Deputy Director for Finance

**Mr. Raymond A. Uy**  
Deputy Director for  
Audit (OIC)

**Mr. Joven N. Robes**  
Senior Personnel Manager

**Mr. Peter C. Pasia**  
Legal Manager

**Mr. Jerrom A. Ibardeloza**  
Information Security Officer

**Mr. Ariel F. De Villa**  
Security Officer



# Management Committee





# 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**  
Director,  
President/CEO

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

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

**Ms. Chona A. Felesedario**  
Independent Director

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

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

**Ms. Gloria R. Estrellado**  
Independent Director

# Areas of Coverage

We served Filipinos nationwide through our **33** branches including our Head Office and **283** Branch-Lite Units.

## MAIN OFFICE

San Pablo City, Laguna

## LUZON MAIN BRANCHES

- San Pablo City
- Sto. Tomas City
- Lipa City
- Tagaytay City
- Batangas City
- Sta. Rosa City
- Cavite City
- Calamba City
- Balayan
- Dasmariñas City
- Naga City
- Dagupan City
- Balanga City
- San Jose del Monte City
- Subic
- Vigan City
- Lemery
- San Pedro City
- Puerto Princesa City
- General Mariano Alvarez
- Rosario, Batangas
- Trece Martires
- Manaoag
- Tanauan City
- Caloocan City
- Silang, Cavite
- Tagaytay
- Alfonso
- Bauan
- Lobo
- San Pascual
- Mabini
- Cabuyao
- Kawit
- Rosario
- Noveleta
- Bacoor
- Calatagan
- Calaca
- Nasugbu
- Lian
- Tuy
- Imus
- Iriga City
- Sipocot
- Pamplona
- Sta. Barbara
- Calasiao
- Binmaley
- Mangaldan
- San Fabian
- Orion
- Orani
- Mariveles
- Dinalupihan
- Bagac
- Morong
- Samal
- Hermosa
- Pilar
- Limay
- Sta. Maria
- Marilao
- Norzagaray
- Meycauayan
- Novaliches
- Caloocan North
- San Narciso
- San Marcelino
- Castillejos
- Olongapo
- San Felipe
- San Antonio
- Caoayan
- San Juan
- Sinait
- Magsingal
- Sto. Domingo
- Bantay
- Badoc
- Sta. Catalina
- Pinili
- San Luis
- Taal
- Agoncillo
- San Nicolas
- Alitagtag
- Biñan
- Carmona
- Padre Garcia
- Ibaan
- Maragondon
- Naic
- Indang
- Tanza
- General Trias
- San Jacinto
- Pozorrubio
- San Manuel
- Binalonan
- Sison
- Malvar
- Malabon
- Navotas
- Valenzuela
- Caloocan East

## LUZON BLUs

- Candelaria
- Bay
- Tiaong
- Sto. Tomas
- Talisay
- Laurel
- Talisay
- Lipa
- San Jose
- Cuenca

## VISAYAS MAIN BRANCHES

- Lapu Lapu City
- Talisay City
- Toledo City

## VISAYAS BLUs

- Cordova
- Sta. Rosa
- Mandaue City
- Talamban
- Lilo-An
- Consolacion
- Cebu City
- Mabolo
- Busay
- Minglanilla
- Pinamungajan
- Balamban
- Asturias

## MINDANAO MAIN BRANCHES

- General Santos
- Zamboanga City
- Cagayan de Oro City
- Panabo City
- Pagadian City

## MINDANAO BLUs

- Polomolok
- Mercedes
- Culianan
- Sangali
- Curuan
- Vitali
- Bulua
- El Salvador
- Laguindingan
- Tagoloan
- Gusa
- Jasaan
- Tablon
- Carmen
- Sto. Tomas
- Kapalong
- Domalinao

# Institutional Partnership

## PARTNERSHIPS / COLLABORATIONS

- » AGRICULTURAL GUARANTEE FUND POOL
- » BANCO DE ORO
- » BANK OF THE PHILIPPINE ISLANDS
- » CALMAR LAND DEVELOPMENT CORPORATION
- » CHINABANK SAVINGS
- » DEVELOPMENT BANK OF THE PHILIPPINES (DBP)
- » GERMAN SAVINGS BANK FOUNDATION, GERMANY
- » INTERNATIONAL FINANCE CORPORATION
- » LANDBANK OF THE PHILIPPINES
- » MAYBANK
- » METROPOLITAN BANK AND TRUST CORPORATION
- » PS BANK
- » RIZAL COMMERCIAL BANKING CORPORATION
- » ROCKING MOON FOUNDATION
- » SAN PABLO CITY CHAMBERS OF COMMERCE AND INDUSTRY
- » SAVINGS BANK FOUNDATION FOR INTERNATIONAL COOPERATION, GERMANY
- » SECURITY BANK
- » SGV & CO.
- » SMALL BUSINESS CORPORATION
- » SOCIAL SECURITY SYSTEM
- » SPARKASSE ESSEN, GERMANY
- » SPARKASSE ROTHENBURG
- » SPARKASSEN INTERNATIONAL DEVELOPMENT TRUST
- » UNION BANK OF THE PHILIPPINES
- » UNITED COCONUT PLANTERS BANK

## REGULATORY BODIES

- » BANGKO SENTRAL NG PILIPINAS (BSP)
- » PHILIPPINE DEPOSIT INSURANCE CORPORATION (PDIC)
- » SECURITIES AND EXCHANGE COMMISSION (SEC)

## AFFILIATIONS

- » BANKERS INSTITUTE OF THE PHILIPPINES, INC.
- » BANCNET, INC.
- » BAP CREDIT BUREAU
- » CHAMBER OF COMMERCE, SAN PABLO CHAPTER
- » CHAMBERS OF THRIFT BANK
- » MICROFINANCE DATA SHARING (MIDAS)
- » SAN PABLO BANKERS' ASSOCIATION
- » PHILIPPINE CHAMBER OF COMMERCE AND INDUSTRIES (PCCI) BATANGAS

Audited  
Financial  
Statements

2019



# CARD SME Bank, Inc., A Thrift Bank

Audited Financial Statements  
December 31, 2019 and 2018

And

Independent Auditor's Report



## INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors  
CARD SME Bank, Inc., A Thrift Bank

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of CARD SME Bank, Inc., A Thrift Bank (the Bank), which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

#### Basis for Opinion

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

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

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

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

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

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

### **Report on the Supplementary Information Required Under Revenue Regulations 15-2010**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 25 is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of CARD SME Bank, Inc., A Thrift Bank. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

*Miguel U. Ballelos Jr.*

Miguel U. Ballelos, Jr.

Partner

CPA Certificate No. 109950

SEC Accreditation No. 1566-AR-1 (Group A),

April 3, 2019, valid until April 2, 2022

Tax Identification No. 241-031-088

BIR Accreditation No. 08-001998-114-2019,

January 28, 2019, valid until January 27, 2022

PTR No. 8125210, January 7, 2020, Makati City

April 11, 2020

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

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
Cash and other cash items (Note 6)	<b>₱26,391,653</b>	₱21,430,132
Due from Bangko Sentral ng Pilipinas (Note 6)	<b>670,187,575</b>	483,551,094
Due from other banks (Note 6)	<b>243,954,082</b>	765,439,610
Loans and receivables (Note 7)	<b>6,297,595,827</b>	5,148,635,076
Financial assets at amortized cost (Note 8)	<b>50,850,000</b>	20,000,000
Property and equipment (Note 9)	<b>272,529,841</b>	154,561,724
Investment properties (Note 10)	<b>9,734,998</b>	5,999,533
Intangible assets (Note 11)	<b>1,525,250</b>	4,507,856
Retirement asset (Note 18)	<b>95,782,377</b>	104,661,964
Deferred tax assets (Note 19)	<b>74,711,954</b>	24,811,939
Other assets (Note 12)	<b>103,873,196</b>	100,447,380
<b>TOTAL ASSETS</b>	<b>₱7,847,136,753</b>	<b>₱6,834,046,308</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
Deposit liabilities (Notes 13)		
Demand	<b>₱33,380,679</b>	₱31,697,262
Savings	<b>4,823,475,641</b>	3,892,924,579
	<b>4,856,856,320</b>	3,924,621,841
Bills payable (Note 14)	<b>1,156,878,691</b>	1,422,135,228
Income tax payable	<b>44,660,129</b>	67,287,991
Accrued interest and other expenses (Note 15)	<b>95,590,513</b>	67,185,533
Other liabilities (Note 15)	<b>213,193,193</b>	65,228,411
	<b>6,367,178,846</b>	5,546,459,004
<b>Equity</b>		
Common stock (Note 17)	<b>999,993,700</b>	752,777,500
Surplus (Note 7)	<b>469,919,801</b>	511,702,649
Remeasurement gains on retirement plan	<b>10,044,406</b>	23,107,155
	<b>1,479,957,907</b>	1,287,587,304
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱7,847,136,753</b>	<b>₱6,834,046,308</b>

*See accompanying Notes to Financial Statements.*

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

	<b>Years Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
<b>INTEREST INCOME</b>		
Loans and receivables (Note 7)	<b>₱2,473,008,380</b>	₱2,025,344,908
Due from BSP and other banks (Note 6)	<b>30,687,892</b>	13,742,640
Financial assets at amortized cost (Note 8)	<b>2,704,250</b>	468,000
Security deposits	<b>265,541</b>	–
	<b>2,506,666,063</b>	2,039,555,548
<b>INTEREST EXPENSE</b>		
Deposit liabilities (Notes 13 and 20)	<b>91,821,376</b>	67,794,511
Bills payable (Note 14)	<b>54,763,602</b>	47,965,521
Lease liabilities (Note 21)	<b>5,923,662</b>	1,209,048
	<b>152,508,640</b>	116,969,080
<b>NET INTEREST INCOME</b>	<b>2,354,157,423</b>	1,922,586,468
<b>OTHER INCOME (LOSS)</b>		
Net loss on sale and write-down of fixed and intangible assets (Notes 9 and 10)	<b>(664,159)</b>	(414,013)
Miscellaneous	<b>13,796,078</b>	12,133,965
	<b>13,131,919</b>	11,719,952
<b>TOTAL OPERATING INCOME</b>	<b>2,367,289,342</b>	1,934,306,420
<b>OPERATING EXPENSES</b>		
Compensation and fringe benefits (Note 20)	<b>747,015,813</b>	559,220,051
Taxes and licenses	<b>149,192,632</b>	126,582,635
Provision for credit and impairment losses (Notes 7 and 10)	<b>145,583,321</b>	67,979,017
Transportation and travel	<b>140,287,151</b>	103,285,458
Information technology (Note 20)	<b>123,201,918</b>	56,375,719
Occupancy and equipment-related cost (Notes 20 and 21)	<b>108,405,066</b>	107,837,999
Stationery and office supplies	<b>101,064,650</b>	88,699,547
Employee trainings (Note 20)	<b>87,233,373</b>	70,480,859
Depreciation and amortization (Notes 9 and 11)	<b>73,858,659</b>	38,096,639
Security, messengerial and janitorial	<b>51,899,082</b>	38,435,164
Power, light and water	<b>32,848,126</b>	24,715,220
Program monitoring	<b>25,931,574</b>	17,091,201
Professional fees	<b>12,948,891</b>	12,453,102
Representation and entertainment (Note 19)	<b>11,584,942</b>	13,833,611
Miscellaneous	<b>56,221,668</b>	30,468,362
<b>TOTAL OPERATING EXPENSES</b>	<b>1,867,276,866</b>	1,355,554,584
<b>INCOME BEFORE INCOME TAX</b>	<b>500,012,476</b>	578,751,836
<b>PROVISION FOR INCOME TAX</b> (Note 19)	<b>145,186,694</b>	179,435,428
<b>NET INCOME</b>	<b>₱354,825,782</b>	₱399,316,408

*See accompanying Notes to Financial Statements.*

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

	<b>Years Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
<b>NET INCOME</b>	<b>₱354,825,782</b>	<b>₱399,316,408</b>
<b>OTHER COMPREHENSIVE LOSS</b>		
<i>Other comprehensive income (loss) not recycled to profit or loss in subsequent periods:</i>		
Changes in remeasurement gains on retirement plan (Note 18)	(18,661,068)	(3,285,756)
Income tax effect	5,598,319	985,727
	<b>(13,062,749)</b>	<b>(2,300,029)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱341,763,033</b>	<b>₱397,016,379</b>

*See accompanying Notes to Financial Statements.*

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

	Common stock (Note 17)	Surplus	Surplus reserves (Note 7)	Remeasurement gains on retirement plan (Note 17)	Total
<b>Balance at January 1, 2019, as previously reported</b>	<b>₱752,777,500</b>	<b>₱511,572,869</b>	<b>₱129,780</b>	<b>₱23,107,155</b>	<b>₱1,287,587,304</b>
Effect of initial application of PFRSs 16, <i>Leases</i> (Note 2)	—	(1,299,370)	—	—	(1,299,370)
Balance at January 1, 2019, as restated	752,777,500	510,273,499	129,780	23,107,155	1,286,287,934
Transfers from surplus to surplus reserves (Note 17)	—	(63,339,968)	63,339,968	—	—
Collection of subscriptions receivable	5,222,900	—	—	—	5,222,900
Total comprehensive income for the year	—	354,825,782	—	(13,062,749)	341,763,033
Stock dividends declared (Note 17)	241,993,300	(241,993,300)	—	—	—
Cash dividends declared (Note 17)	—	(153,315,960)	—	—	(153,315,960)
<b>Balance at December 31, 2019</b>	<b>₱999,993,700</b>	<b>₱406,450,053</b>	<b>₱63,469,748</b>	<b>₱10,044,406</b>	<b>₱1,479,957,907</b>
Balance at January 1, 2018	₱495,279,400	₱391,760,679	—	₱25,407,184	₱912,447,263
Transfers from surplus to surplus reserves (Note 17)	—	(129,780)	129,780	—	—
Collection of subscriptions receivable	4,720,600	—	—	—	4,720,600
Issuance of new shares	121,534,700	—	—	—	121,534,700
Total comprehensive income for the year	—	399,316,408	—	(2,300,029)	397,016,379
Stock dividends declared (Note 17)	131,242,800	(131,242,800)	—	—	—
Cash dividends declared (Note 17)	—	(148,131,638)	—	—	(148,131,638)
<b>Balance at December 31, 2018</b>	<b>₱752,777,500</b>	<b>₱511,572,869</b>	<b>₱129,780</b>	<b>₱23,107,155</b>	<b>₱1,287,587,304</b>

*See accompanying Notes to Financial Statements.*

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

	<b>Years Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	<b>₱500,012,476</b>	<b>₱578,751,833</b>
Adjustments for:		
Provision for credit and impairment losses (Notes 7 and 10)	<b>145,583,321</b>	67,979,017
Depreciation and amortization (Notes 9 and 11)	<b>73,858,659</b>	38,096,639
Amortization of discount on bills payable (Note 14)	<b>9,722,641</b>	8,865,199
Amortization of finance lease obligation (Note 21)	<b>5,923,662</b>	1,209,048
Retirement expense (Note 18)	<b>3,990,554</b>	4,931,376
Net loss on sale and write-down of fixed and intangible assets (Notes 9, 10 and 11)	<b>664,159</b>	414,013
Changes in operating assets and liabilities:		
Increase in the amounts of:		
Loans and receivables	<b>(1,298,455,937)</b>	(1,107,321,648)
Other assets	<b>(11,165,289)</b>	(56,275,791)
Increase (decrease) in the amounts of:		
Deposit liabilities	<b>932,234,479</b>	1,021,402,843
Accrued interest and other expense	<b>(124,910,980)</b>	12,896,116
Other liabilities	<b>163,127,787</b>	(77,545,350)
Net cash generated from operations	<b>400,585,532</b>	493,403,295
Income taxes paid	<b>(213,415,620)</b>	(186,747,793)
Retirement contributions paid (Note 18)	<b>(13,772,035)</b>	(10,452,403)
Net cash provided by operating activities	<b>173,397,877</b>	296,203,099
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of:		
Property and equipment (Note 9)	<b>(50,521,962)</b>	(34,650,997)
Financial assets at amortized cost (Note 8)	<b>(30,850,000)</b>	(20,000,000)
Intangible assets (Note 11)	<b>(351,760)</b>	(2,823,981)
Proceeds from sale of investment properties (Note 10)	<b>228,700</b>	3,304,943
Net cash used in investing activities	<b>(81,495,022)</b>	(54,170,035)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Settlement of bills payable (Notes 14 and 22)	<b>(1,495,890,000)</b>	(1,308,390,000)
Availments of bills payable (Notes 14 and 22)	<b>1,220,910,822</b>	1,683,234,452
Cash dividends paid (Note 17)	<b>(153,249,274)</b>	(148,193,055)
Receipt of deposit for future stock subscription (Note 15)	<b>39,788,150</b>	—
Payment of principal portion of lease liabilities (Note 21)	<b>(38,572,979)</b>	(4,461,243)
Collections of subscriptions receivable (Note 17)	<b>5,222,900</b>	4,720,600
Issuance of new shares (Note 17)	<b>—</b>	121,534,700
Net cash provided by (used in) financing activities	<b>(421,790,381)</b>	348,445,454

*(Forward)*

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<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(₱329,887,526)</b>	<b>₱590,478,518</b>
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**CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR**

Cash and other cash items	<b>21,430,132</b>	16,419,549
Due from Bangko Sentral ng Pilipinas	<b>483,551,094</b>	233,021,335
Due from other banks	<b>765,439,610</b>	430,501,434
	<b>1,270,420,836</b>	679,942,318

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**CASH AND CASH EQUIVALENTS AT END OF YEAR**

(Note 6)

Cash and other cash items	<b>26,391,653</b>	21,430,132
Due from Bangko Sentral ng Pilipinas	<b>670,187,575</b>	483,551,094
Due from other banks	<b>243,954,082</b>	765,439,610
	<b>₱940,533,310</b>	₱1,270,420,836

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**OPERATIONAL CASH FLOWS FROM INTEREST**

Interest received	<b>₱2,502,196,412</b>	₱2,021,852,742
Interest paid	<b>₱146,007,692</b>	₱124,140,303

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*See accompanying Notes to Financial Statements.*



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*'.

Based on the provisions of the Revised Corporation Code of the Philippines or RA No. 11232, the Bank has a perpetual existence.

As of December 31, 2019 and 2018, the Bank is 34.82% and 33.80% owned by CARD, Inc., respectively.

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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 (₱), the Bank's functional currency, and all values are rounded to the nearest peso except when otherwise indicated.

### Statement of Compliance

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

### 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 16.

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 PFRSs, Philippine Accounting Standards (PASs), and Philippine Interpretation which became effective beginning on or after January 1, 2019. Except as otherwise indicated, the new and amended standards and interpretations did not have any significant impact on the financial position or performance of the Bank:







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. The components of cash and cash equivalents are shown in the statement of cash flows. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

#### 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, 2019 and 2018.

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*

Regular way purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market, except for derivatives, are recognized on the settlement date. Settlement date is the date on which the transaction is settled by delivery of the assets that are the subject of the agreement. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the Bank, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the Bank.

#### *'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.

#### *Classification and Measurement of Financial Assets*

As part of its classification process, the Bank assesses the contractual terms of financial assets to identify whether they meet the 'solely payments of principal and interest' (SPPI) test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (e.g., if there are repayments of principal or amortization of the premium or discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set. In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

#### *Business model assessment*

The Bank determines its business model at the level that best reflects how it manages banks of financial assets to achieve its business objective.

The Bank's business model is assessed on an instrument-by-instrument basis and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed

- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

#### *The solely payments of principal and interest (SPPI) test*

As a second step of its classification process the Bank assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

#### *Financial assets at amortized cost*

Debt financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Bank's business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method less any impairment in value, with the interest calculated recognized as 'Interest income' in the statement of income. The Bank classified 'Cash and other cash items (COCI)', 'Due from BSP', 'Due from other banks', 'Investment securities at amortized cost', 'Loans and receivables', 'Financial assets at amortized cost' and cash collateral deposits and security deposits (included under 'Other assets') as financial assets at amortized cost.

The Bank may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the debt financial asset been measured at amortized cost. As of December 31, 2018, the Bank has not made such designation.

#### Financial Instrument - Impairment

ECL represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic



#### *Write-off*

Financial assets are written off either partially or in their entirety when the Bank no longer expects collections or recoveries within a foreseeable future. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

#### *Restructured receivables*

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

#### Derecognition of Financial Assets and Financial 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 and 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. In that case, the Bank also recognizes an associated liability. The transferred asset and associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. 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.

The transfer of risks and rewards is evaluated by comparing the Bank's exposure, before and after the transfer, with the variability in the amounts and timing of the net cash flows of the transferred asset. The Bank has retained substantially all the risks and rewards of ownership of a financial asset if its exposure to the variability in the present value of the future net cash flows from the financial asset does not change significantly as a result of the transfer (e.g., because the entity has sold a financial asset subject to an agreement to buy it back at a fixed price or the sole price plus a lender's return). The Bank has transferred substantially all the risks and rewards of ownership of a financial asset if its exposure to such variability is no longer significant in relation to the total variability in the present value of the future net cash flows associated with the financial asset (e.g., because the entity has sold a financial asset subject only to an option to buy it back at its fair value at the time of repurchase or has transferred fully proportionate share of the cash flows from a larger financial asset in an agreement).





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 are 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.



The following specific recognition criteria must also be met before the revenue is recognized:

*Interest income*

For all financial assets measured at amortized cost, interest income is recorded at EIR, which 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 including any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

Under PFRS 9, when a financial asset becomes credit-impaired, the Bank calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis. Under PAS 39, once the recorded value of a financial asset or group of similar financial assets carried at amortized cost has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

*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

*Policies applicable effective January 1, 2019*

The Bank determines at contract inception whether a contract is, or contains, a lease by assessing whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.



*Bank as a lessee*

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognizes right-of-use assets representing the right to use the underlying assets and lease liabilities to make lease payments

- Right-of-use assets

At the commencement date of the lease (i.e, the date the underlying asset is available for use), the Bank recognizes right-of-use assets measured at cost. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Subsequent to initial recognition, the Bank measures the right-of-use assets at cost less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities.

The Bank presents the right-of-use assets in 'Property and equipment' and subjects it to impairment in line with the Bank's policy on impairment of nonfinancial assets.

- Lease liabilities

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term discounted using the Bank's incremental borrowing rate with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The lease payments include fixed payments, any variable lease payments that depend on an index or a rate, and any amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

After the commencement date of the lease, the Bank measures the lease liabilities by increasing the carrying amount to reflect interest on the lease liabilities (recorded in 'Interest expense on bills payable and other borrowings'), reducing the carrying amount to reflect the lease payments made, and remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

- Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option, and the leases of low-value assets recognition exemption to its leases of office spaces and other equipment that are considered of low value (i.e., below ₱250,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense under 'Occupancy and equipment-related costs' on a straight-line basis over the lease term.

*Bank as a lessor*

For finance leases where the Bank transfers substantially all the risks and rewards incidental to ownership of the leased item, the Bank recognizes a lease receivable in the statement of financial position at an amount equivalent to the net investment (asset cost) in the lease. The Bank includes all income resulting from the receivable in 'Interest income on loans and receivables' in the statement of income.

The residual value of leased assets, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the sale of the leased asset at the end of the lease term. At the end of the lease term, the residual value of the leased asset is generally applied against the guaranty deposit of the lessee when the lessee decides to buy the leased asset.

In operating leases where the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset, the Bank recognizes rental income on a straight-line basis over the lease terms. The Bank adds back the initial direct costs incurred in negotiating and arranging an operating lease to the carrying amount of the leased asset and recognizes them as rental income over the lease term on the same basis. The Bank recognizes contingent rents as revenue in the period in which they are earned.

Policies applicable prior to January 1, 2019

In determining whether an arrangement was, or contained a lease, the Bank assessed the substance of the arrangement whether the fulfillment of the arrangement was dependent on the use of a specific asset or assets, and the arrangement conveyed a right to use the asset. After inception of the lease, the Bank re-assessed the above basis only if one of the following applies:

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

Where a reassessment was made, the Bank commenced or ceased its lease accounting from the date when the change in circumstances gave rise to the reassessment for first three scenarios above, and at the date of renewal or extension period for last scenario above.

*Bank as lessee*

At the inception of the lease, the Bank capitalized finance leases, which are lease arrangements that transfer to the Bank substantially all the risks and rewards incidental to ownership of the leased item, at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. The Bank included the amounts capitalized in 'Property and equipment' with the corresponding liability to the lessor included in 'Other liabilities'. The Bank apportioned the lease payments between the finance charges (recorded in 'Interest expense on bills payable and other borrowings') and reduction of the lease liabilities so as to achieve a constant rate of interest on the remaining balance of the liability.

The Bank depreciated the leased assets over the shorter of the estimated useful lives of the assets or the respective lease terms, if there was no reasonable certainty that the Bank will obtain ownership by the end of the lease term.

*Bank as lessor*

Policies for lessor accounting under PAS 17 are substantially similar with those under PFRS 16, as described above.

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.





### 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.

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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.

#### Judgments

##### *Fair value of financial instruments*

Where the fair values of financial assets and financial liabilities recognized or disclosed in the statements of financial position cannot be derived from active markets, these are determined using internal valuation techniques using generally accepted market valuation models.

The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. These judgments may include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

##### *Determination of the lease term for lease contracts with renewal and termination options*

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank has several lease contracts that include extension and termination options. The Bank applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization of the leased asset).

#### Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next period, are described below. The Bank based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.



The Bank's lease liabilities amounted to ₱103.41 million as of December 31, 2019.

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

##### Fair Value Measurement

As of December 31, 2019, and 2018, 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.

##### *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.

Valuation Techniques, Inputs and Assumptions	Description
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 that are carried at fair value or for which fair values is as at December 31, 2019 and 2018:

2019					
	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	P790,919,354	P-	P-	P433,871,056	P433,871,056
Unquoted debt securities	149,018,750	-	-	119,241,271	119,241,271
Financial assets at amortized cost	50,850,000	-	-	55,527,878	55,527,878
Other asset - refundable deposits	14,234,293	-	-	14,234,293	14,234,293
<i>Nonfinancial asset</i>					
Investment properties	9,734,998	-	-	23,317,900	23,317,900
<i>Financial liabilities</i>					
Deposit liabilities	406,505	-	-	383,626	383,626
Bills payable	73,406,969	-	-	76,816,691	76,816,691
Lease liabilities	52,167,142	-	-	52,167,142	52,167,142
Accrued vacation leave credits	42,240,628	-	-	42,240,628	42,240,628

\*Pertains to noncurrent assets and liabilities

2018					
	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	P742,995,748	P-	P-	P490,145,244	P490,145,244
Unquoted debt securities	116,754,912	-	-	162,523,312	162,523,312
Financial assets at amortized cost	20,000,000	-	-	20,000,000	20,000,000
Other assets – refundable deposits	10,339,527	-	-	10,339,527	10,339,527
<i>Nonfinancial asset</i>					
Investment properties	5,999,533	-	-	8,717,765	8,717,765
<i>Financial liabilities</i>					
Deposit liabilities	643,707	-	-	1,002,887	1,002,887
Bills payable	98,400,000	-	-	118,157,298	118,157,298
Lease liabilities	2,859,328	-	-	2,859,328	2,859,328
Accrued vacation leave credits	32,043,474	-	-	32,043,474	32,043,474

\*Pertains to noncurrent assets and liabilities

As of December 31, 2019 and 2018, 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 2019 and 2018.

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## 5. Financial and Operational Risk Management Policies and Procedures

### Financial Risk Management Policies and Procedures

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.

	<b>2019</b>			
	<b>Maximum Exposure to Credit Risk*</b>	<b>Fair Value of Collateral and Credit Enhancements</b>	<b>Financial Effect of Collateral or Credit Enhancements</b>	<b>Net Exposure to Credit Risk</b>
Loans and receivables:				
Microfinance loans	<b>₱4,970,956,427</b>	<b>₱774,927,873</b>	<b>₱774,927,873</b>	<b>₱4,196,028,554</b>
SME loans	<b>₱1,166,541,967</b>	<b>₱359,411,880</b>	<b>₱207,639,828</b>	<b>₱1,145,902,139</b>

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

	<b>2018</b>			
	<b>Maximum Exposure to Credit Risk*</b>	<b>Fair Value of Collateral and Credit Enhancements</b>	<b>Financial Effect of Collateral or Credit Enhancements</b>	<b>Net Exposure to Credit Risk</b>
Loans and receivables:				
Microfinance loans	<b>₱4,336,258,412</b>	<b>₱650,438,762</b>	<b>₱650,438,762</b>	<b>₱3,685,819,650</b>
SME loans	<b>₱781,493,569</b>	<b>₱268,145,060</b>	<b>₱164,551,580</b>	<b>₱616,941,989</b>

*\*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, 2019 and 2018. Credit enhancement for SME loans consists of chattel and real estate mortgages.

As of December 31, 2019 and 2018, 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, 2019 and 2018:

	2019				
	Due from BSP and other banks	Loans and receivables	Financial assets at amortized cost	Refundable deposits	Total
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	₱-	₱3,924,955,677	₱-	₱-	₱3,924,955,677
Real estate and construction	-	754,032,300	-	14,234,293	768,266,593
Agriculture, hunting and forestry	-	692,675,617	-	-	692,675,617
Government	670,187,575	-	-	-	670,187,575
Financial intermediaries	243,954,082	168,477,562	50,850,000	-	462,281,644
Manufacturing	-	177,273,677	-	-	177,273,677
Other community, social and personal service activities	-	856,133,164	-	-	856,133,164
	914,141,657	6,573,547,997	50,850,000	14,234,293	7,552,773,947
Allowance for credit losses	-	(272,588,581)	-	-	(272,588,581)
Unearned interest and discount	-	(3,363,589)	-	-	(3,363,589)
<b>Total</b>	<b>₱914,141,657</b>	<b>₱6,297,595,827</b>	<b>₱50,850,000</b>	<b>₱14,234,293</b>	<b>₱7,276,821,777</b>

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

	2018				
	Due from BSP and other banks	Loans and receivables	Financial assets at amortized cost	Refundable deposits	Total
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	₱-	₱3,155,580,691	₱-	₱-	₱3,155,580,691
Real estate and construction	-	664,945,950	-	10,339,527	675,285,477
Agriculture, hunting and forestry	-	446,762,601	-	-	446,762,601
Government	765,439,610	-	-	-	766,031,335
Financial intermediaries	483,551,094	167,917,513	20,000,000	-	671,468,607
Manufacturing	-	117,936,865	-	-	117,936,865
Other community, social and personal service activities	-	733,637,743	-	-	733,637,743
	1,248,009,704	5,286,781,363	20,000,000	10,339,527	6,566,111,594
Allowance for credit losses	-	(135,942,625)	-	-	(135,942,625)
Unearned interest and discount	-	(2,203,662)	-	-	(2,203,662)
<b>Total</b>	<b>₱1,248,009,704</b>	<b>₱5,148,635,076</b>	<b>₱20,000,000</b>	<b>₱10,339,527</b>	<b>₱6,427,965,307</b>

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

#### Credit quality per class of financial assets

In compliance with BSP Circular No. 855, the Bank is developing and continually reviews and calibrates its internal risk rating system for credit exposures aimed at uniformly assessing its credit portfolio in terms of risk profile. Where appropriate, it obtains security and limit the duration of exposures to maintain and even further enhance the quality of the Bank's credit exposures.

The credit quality of financial assets is monitored and managed using internal ratings.

For SME Loan exposures, the credit quality is generally monitored using its internal borrower risk ratings system. It is the Bank's policy to maintain accurate and consistent risk ratings

across the credit portfolio. This facilitates management to focus on major potential risk and the comparison of credit exposures across all lines of business, demographics and products. The rating system is supported by a variety of financial analytics, combined with an assessment qualitative factors such as of management and market information to provide the main inputs for the measurement of credit or counterparty risk. All PD ratings are tailored with various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated every time client will avail loans.

The Bank uses PD Ratings to classify the credit quality of its receivable's portfolio. This is currently undergoing upgrade to enhance credit evaluation parameters across different market segments and achieve a more sound and robust credit risk assessment. The description of the loan grades used by the Bank for SME loan receivable from customers are as follows:

#### SME Loans Receivable

The Bank has five (5) SME Loan types, differentiated according to the purpose of loans. All loan types produce a 6-grade scale with each grade having a corresponding probability of default (PD).

#### *High Grade (PD Rating of 0 to 1)*

Accounts in this category have a low probability of defaulting on their obligations over the next 12 months. A comfortable degree of stability and diversity can be found in these borrowers.

#### *Medium Grade (PD Rating of 2 to 3)*

The probability of default (PD) of accounts in this category is slightly higher than high grade borrowers. Accounts whose financial ratios exhibit an amount of buffer though somewhat limited. These accounts can withstand minor economic weaknesses but may suffer if conditions deteriorate in a significant way and therefore, default risk is present under such adverse conditions. Repayment ability is more or less assured if economic and industry conditions remain stable.

#### *Low Grade (PD Rating of 4 to 5)*

Accounts for which default risk are very much present and those that have defaulted already are included in this category.

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.

For Microfinance Loan and Other Loan exposures, the credit rating for this type is still being developed, however continuous and extensive monitoring of past-due is being practiced by the management to ensure that past due rate will not exceed the 3% minimum threshold. However, PD ratings are already tailored depending on the days past due of Microfinance loan.

The Bank uses PD Ratings to classify the credit quality of its receivable's portfolio. This is currently undergoing upgrade to enhance credit evaluation parameters across different market segments and achieve a more sound and robust credit risk assessment. The description of the loan grades used by the Bank for microfinance loan receivable from customers are as follows:

### Microfinance Loan and Other Loan Receivables

The Bank has variety of Microfinance and Other Loan types, differentiated according to the purpose of loans. All loan types produce a 6-grade scale with each grade having a corresponding probability of default (PD). However, since Microfinance loan and Other loan are observing day 1 past due, only two grades are being assigned for this loan group.

#### *High Grade (PD Rating of 0)*

Accounts in this category have a low probability of defaulting on their obligations over the next 12 months. A comfortable degree of stability and diversity can be found in these borrowers.

#### *Low Grade (PD Rating of 1 to 5)*

Accounts for which default risk are very much present and those that have defaulted already are included in this category.

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.

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, 2019 and 2018:

	December 31, 2019			
	Stage 1	Stage 2	Stage 3	Total
Due from BSP (Note 6)	P670,187,575	P-	P-	P670,187,575
Due from other banks (Note 6)	243,954,082	-	-	243,954,082
Loans and receivables (Note 7):				
Loans and discounts:				
Microfinance	4,971,486,746	-	194,699,074	5,166,185,820
SME	952,616,373	108,719,615	101,991,373	1,163,327,361
Unquoted debt securities	152,820,263	-	-	152,820,263
Other receivables:				
Accrued interest receivable	77,902,985	-	-	77,902,985
Accounts receivable	11,216,303	-	-	11,216,303
Sales contract receivable	2,095,265	-	-	2,095,265
Financial assets at amortized cost (Note 8)	50,850,000	-	-	50,850,000
Other assets – refundable deposits (Note 12)	14,234,293	-	-	14,234,293
	<b>P7,147,363,885</b>	<b>P108,719,615</b>	<b>P296,690,447</b>	<b>P7,552,773,947</b>

	December 31, 2018			
	Stage 1	Stage 2	Stage 3	Total
Due from BSP (Note 6)	P315,551,094	P-	P-	P315,551,094
Due from other banks (Note 6)	765,439,610	-	-	765,439,610
Loans and receivables:				
Loans and discounts:				
Microfinance	4,200,553,090	-	78,425,778	4,278,978,868
SME	668,062,470	26,214,506	71,801,667	766,078,643
Unquoted debt securities	162,750,531	-	-	162,750,531
Other receivables:				
Accrued interest receivable	72,694,470	-	-	72,694,470
Accounts receivable	1,365,470	-	902,475	2,267,945
Financial assets at amortized cost	20,000,000	-	-	20,000,000
Other assets – refundable deposits (Note 12)	10,339,527	-	-	10,339,527
	<b>P6,216,756,262</b>	<b>P26,214,506</b>	<b>P151,129,920</b>	<b>P6,394,100,688</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, 2019 and 2018:

	2019				Total
	ECL Staging			Total	
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL		
<b>Microfinance Loans</b>					
Neither past due nor impaired					
High grade	P-	P-	P-	P-	P-
Standard Grade	4,971,486,746	-	-	-	4,971,486,746
Substandard	-	-	-	-	-
Past due but not impaired	-	-	194,699,074	-	194,699,074
Past due and impaired	-	-	-	-	-
	<b>P4,971,486,746</b>	<b>P-</b>	<b>P194,699,074</b>	<b>P-</b>	<b>P5,166,185,820</b>

	2018				Total
	ECL Staging			Total	
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL		
<b>Microfinance Loans</b>					
Neither past due nor impaired					
High grade	P-	P-	P-	P-	P-
Standard Grade	4,632,788,202	-	-	-	4,632,788,202
Substandard	-	-	-	-	-
Past due but not impaired	-	-	18,512,086	-	18,512,086
Past due and impaired	-	-	59,913,692	-	59,913,692
	<b>P4,632,788,202</b>	<b>P-</b>	<b>P78,425,778</b>	<b>P-</b>	<b>P4,711,213,980</b>

	2019				Total
	ECL Staging			Total	
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL		
<b>SME Loans</b>					
Neither past due nor impaired					
High grade	P-	P-	P-	P-	P-
Standard Grade	952,616,373	-	-	-	952,616,373
Substandard	-	-	-	-	-
Past due but not impaired	-	108,719,615	-	-	108,719,615
Past due and impaired	-	-	101,991,373	-	101,991,373
	<b>P952,616,373</b>	<b>P108,719,615</b>	<b>P101,991,373</b>	<b>P-</b>	<b>P1,163,327,361</b>

2018				
SME Loans	ECL Staging			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Neither past due nor impaired				
High grade	P-	P-	P-	P-
Standard Grade	668,062,470	-	-	668,062,470
Substandard	-	-	-	-
Past due but not impaired	-	26,214,506	-	26,214,506
Past due and impaired	-	-	71,801,667	71,801,667
	<b>₱668,062,470</b>	<b>₱26,214,506</b>	<b>₱71,801,667</b>	<b>₱766,078,643</b>

	2019				Total
	On demand and 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>					
Due from BSP (Note 6)	₱670,187,575	P-	P-	P-	₱670,187,575
Due from other Banks (Note 6)	243,954,082	-	-	-	243,954,082
Loans and receivables:					
Loans and discounts	216,639,500	4,344,275,922	1,364,430,279	844,524,233	6,769,869,934
Unquoted debt securities	-	20,150,000	-	132,670,263	152,820,263
Other receivables:					
Accounts receivable	11,216,303	-	-	-	11,216,303
Sales contract receivable	-	-	-	2,095,265	2,095,265
Financial assets at amortized cost	-	-	-	53,753,125	53,753,125
Other assets - refundable	-	8,772,773	14,234,293	5,461,520	28,468,586
	<b>1,141,997,639</b>	<b>4,373,198,695</b>	<b>1,378,664,572</b>	<b>1,038,504,406</b>	<b>7,932,365,133</b>

<b>Financial Liabilities</b>					
Deposit liabilities:					
Demand	33,380,679	-	-	-	33,380,679
Savings	4,337,802,130	304,256,406	181,010,600	406,505	4,823,475,641
Bills payable	-	76,272,917	1,037,742,708	82,126,974	1,196,142,599
Accrued expenses and other liabilities:					
Lease liabilities	4,220,376	20,506,718	25,785,388	69,815,173	120,327,655
Accrual for vacation leave credits	-	7,650,959	-	34,589,669	42,240,628
Accounts payable	-	24,643,771	-	-	24,643,771
Accrued interest payable	-	17,694,253	-	-	17,694,253
Dividends payable	-	187,462	-	-	187,462
Accrued other expenses	-	36,655,632	-	-	36,655,632
	<b>4,375,403,185</b>	<b>487,868,118</b>	<b>1,244,538,696</b>	<b>186,938,321</b>	<b>6,294,748,320</b>
<b>Net undiscounted financial assets (liabilities)</b>	<b>(₱3,233,405,725)</b>	<b>₱3,885,330,577</b>	<b>₱134,125,876</b>	<b>₱851,566,085</b>	<b>₱1,637,616,813</b>

	2018				Total
	On demand and 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>					
Due from BSP	₱483,851,720	P-	P-	P-	₱483,851,720
Due from other Banks	643,767,941	124,308,464	-	-	768,076,405
Loans and receivables:					
Loans and discounts	218,309,853	3,531,649,496	1,088,764,598	2,830,012,640	7,668,736,587
Unquoted debt securities	-	3,022,785	14,255,889	191,384,001	208,662,675
Other receivables:					
Accounts receivable	1,365,470	-	-	-	1,365,470
Financial assets at amortized cost	-	-	-	20,000,000	20,000,000
Other assets - refundable	-	-	10,339,527	-	10,339,527
	<b>1,347,294,984</b>	<b>3,658,980,745</b>	<b>1,113,360,014</b>	<b>3,041,396,641</b>	<b>9,161,032,384</b>
<b>Financial Liabilities</b>					
Deposit liabilities:					
Demand	31,697,262	-	-	-	31,697,262
Savings	3,486,111,751	79,846,045	319,924,892	14,293,313	3,900,176,001
Bills payable	-	335,544,410	1,046,587,479	124,309,813	1,506,441,702
Accrued expenses and other liabilities:					
Accrual for vacation leave credits	-	9,601,403	-	22,442,071	32,043,474
Accrued interest payable	-	17,750,431	-	-	17,750,431

(Forward)

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	2018					Total
	On demand and up to 1 month	More than 1 month to 6 months	More than 6 months to 1 year	Beyond 1 year		
Accrued other expenses	–	17,391,629	–	–	–	17,391,629
Accounts payable	–	10,897,258	–	–	–	10,897,258
Lease liabilities	287,194	1,475,149	1,613,917	2,859,328	–	6,235,588
Dividends payable	–	120,776	–	–	–	120,776
	3,518,096,207	472,627,101	1,368,126,288	163,904,525	–	5,522,754,121
Net undiscounted financial assets (liabilities)	(P2,170,801,223)	P3,186,353,644	(P254,766,274)	P2,877,492,116	–	P3,638,278,263

As of December 31, 2019 and 2018, the Bank had a total of ₱1,760.00 million and ₱1,429.00 million credit lines with local Banks, respectively, out of which, ₱1,230.00 million and ₱1,695.00 million had been drawn as of December 31, 2019 and 2018, 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 21.00% in 2019 and 2018. Microfinance loans earn nominal interest rates ranging from 2.60% to 28.00% with equivalent effective interest rate ranging from 9.57% to 86.44% and 32.8% to 62.5% per annum in 2019 and 2018, respectively. 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, 2019 and 2018, repricing debt instrument only comprise 2.00% of total loan, thus the effect of interest repricing on loans is immaterial to the Bank.

The Bank's savings deposit liabilities include compulsory and voluntary savings that earn 1.50% to 6.00% interest per annum in 2019 and 2018. Special savings deposits earn 2.00% to 5.50% interest per annum in 2019 and 2018. These special savings deposits are concentrated on 30 days to one year maturity.

The Bank pays fixed interest rates on bills payable from 2.88% to 6.56% in 2019 and from 3.90 % to 6.56% in 2018.

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.

### Operational Risk Management Policies and Procedures

Operational risk is the probability of risk to capital or earnings, or potential loss arising from fraud, unauthorized activities, errors, omissions, system failures or from external events. This is the broadest risk type encompassing product development and delivery, operational processing, systems

development, computing systems, complexity of products and services, and the internal control environment.

Operational risk management is considered a critical element in the Bank's commitment to sound management and corporate governance. Under the Bank's operational risk management framework and operational risk manual, a risk-based approach is used in mapping operational risks along critical/key business processes, addressing any deficiencies/weaknesses through the proactive process of identifying, assessing and limiting impact of risk in every business/operational area.

Bank policies on internal control, information security, and other operational risk aspects have been established. Key risk indicators and risk assessment guidelines have been implemented and disseminated to different sectors of the Bank to provide alerts for operational risk vulnerabilities. The Bank has instituted a risk and control assessment process, as well as an issue escalation procedure to ensure that issues or incidents where lapses in controls occur are captured, evaluated and elevated for correction. The bank has an established a business continuity plan to ensure continued bank operations in the face of potential disruptions to operations as well as fraud management framework for the prevention, detection, investigation and recovery strategies to manage fraud, both internal and external.

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## 6. Cash and Cash Equivalents

The composition of this account follows:

	<b>2019</b>	2018
Cash	<b>₱26,391,653</b>	₱21,430,132
Due from BSP	<b>670,187,575</b>	483,551,094
Due from other banks	<b>243,954,082</b>	765,439,610
	<b>₱940,533,310</b>	₱1,270,420,836

Cash includes cash in vault and in automated teller machines.

Due from BSP includes the aggregate balance of noninterest-bearing peso savings and demand deposit account with the BSP amounting to ₱273.95 million and ₱315.55 million as of December 31, 2019 and 2018, respectively, which the Bank maintains in compliance with the BSP requirements to meet regular and liquidity reserves on deposits. As of December 31, 2019 and 2018, the Bank is compliant with the applicable reserve requirements (Note 13).

As of December 31, 2019, the Bank's outstanding time deposit facility (TDF) and overnight reverse repurchase (O/N RRP) placements in BSP amounted to ₱300.00 million and ₱96.24 million, respectively. As of December 31, 2018, the Bank's outstanding TDF and O/N RRP placements amounted to ₱168.00 million and nil, respectively.

Interest income on BSP placements amounted to ₱12.12 million and ₱2.51 million in 2019 and 2018 respectively.

Due from other banks consists of:

	2019	2018
Demand deposit	₱214,192,966	₱364,709,077
Savings deposit	29,761,116	120,706,344
Time deposit	—	280,024,189
	<b>₱243,954,082</b>	<b>₱765,439,610</b>

Due from other banks consist of funds deposited in domestic banks which are used as part of the Bank's working capital. Demand and savings deposits bear annual interest rates ranging from 0.30% to 0.75% for the years ended December 31, 2019 and 2018, respectively.

In 2019, time deposit facilities earn interests ranging from 3.75% to 6.65% with maturity ranging from 30 to 90 days. In 2018, time deposit facilities earn interests ranging from 1.50% to 5.80% with maturity ranging from 30 to 90 days.

Interest income on due from other banks amounted to ₱18.57 million and ₱11.23 million in 2019 and 2018, respectively.

## 7. Loans and Receivables

This account consists of:

	2019	2018
Loans and discounts:		
Microfinance	₱5,166,185,820	₱4,278,978,868
SME	1,163,327,361	766,078,643
	<b>6,329,513,181</b>	5,045,057,511
Unquoted debt securities	152,820,263	166,396,522
	<b>6,482,333,444</b>	5,211,454,033
Unearned interest income	(3,363,589)	(2,203,662)
	<b>6,478,969,855</b>	5,209,250,371
Other receivables:		
Accrued interest receivable	77,902,985	72,694,470
Accounts receivable (Note 20)	11,216,303	2,632,860
Sales contract receivable	2,095,265	—
	<b>6,570,184,408</b>	5,284,577,701
Allowance for credit and impairment losses	(272,588,581)	(135,942,625)
	<b>₱6,297,595,827</b>	<b>₱5,148,635,076</b>

Microfinance loans amounting to ₱192.00 million were held as collateral for borrowings with the International Finance Corporation as of December 31, 2019 and 2018 (Note 14).

Loans and discounts earn the following interest rates:

	2019	2018
Loans and discounts:		
Microfinance	9.57%-86.44%	11.95%-86.43%
SME	5.90%-88.67%	6.99%-69.41%

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 3.00% to 5.75% in 2019 and 1.50% to 2.30% in 2018. Amortization of discount on loans amounted to ₱13.70 million and ₱2.56 million in 2019 and 2018, respectively.

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

	2019	2018
Loans and discounts:		
Microfinance	₱2,340,417,645	₱1,908,137,110
SME	123,513,265	112,006,151
Unquoted debt securities	9,077,470	7,717,294
	<b>₱2,473,008,380</b>	<b>₱2,027,860,555</b>

No interest income is accreted on individually impaired loans in 2019 and 2018.

The tables below illustrate the movements of the allowance for credit losses of loans and receivables during the year (effect of movements in ECL due to transfers between stages are shown in the total column):

	2019			Total
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
<b>Loss allowance at January 1, 2019</b>	<b>₱55,523,634</b>	<b>₱2,045,231</b>	<b>₱78,373,760</b>	<b>₱135,942,625</b>
<b>Movements with P&amp;L impact</b>				
Transfers:				
Transfer from Stage 1 to Stage 2	(10,797,383)	10,797,383	-	-
Transfer from Stage 1 to Stage 3	(102,576,889)	-	102,576,889	-
Transfer from Stage 2 to Stage 1	-	-	-	-
Transfer from Stage 2 to Stage 3	-	(1,946,696)	1,946,696	-
Transfer from Stage 3 to Stage 1	152,569	-	(152,569)	-
Transfer from Stage 3 to Stage 2	-	-	-	-
New financial assets originated or purchased	144,495,588	-	-	144,495,588
Changes in PDs/LGDs/EADs	(8,646,524)	(5,233,021)	78,464,109	64,584,564
Financial assets derecognized during the period	(18,133,554)	(98,536)	(42,051,697)	(60,283,787)
<b>Total net P&amp;L charge during the period</b>	<b>4,493,807</b>	<b>3,519,130</b>	<b>140,783,428</b>	<b>148,796,365</b>
<b>Other movements without P&amp;L impact</b>				
Write-offs, foreclosures and other movements	-	-	(12,150,409)	(12,150,409)
<b>Total movements without P&amp;L impact</b>	<b>-</b>	<b>-</b>	<b>(12,150,409)</b>	<b>(12,150,409)</b>
<b>Loss allowance at December 31, 2019</b>	<b>₱60,017,441</b>	<b>₱5,564,361</b>	<b>₱207,006,779</b>	<b>₱272,588,581</b>

	2018			
	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Loss allowance at January 1, 2018	₱13,559,367	₱ 1,230,230	₱ 51,286,562	₱66,076,159
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	(88,429)	-	88,429	-
Transfer from Stage 2 to Stage 1	-	-	-	-
Transfer from Stage 2 to Stage 3	-	(1,106,434)	1,106,434	-
Transfer from Stage 3 to Stage 1	₱-	₱-	₱-	₱-
Transfer from Stage 3 to Stage 2	-	-	-	-
New financial assets originated or purchased	48,041,174	1,184,507	11,428,218	60,653,899
Changes in PDs/LGDs/EADs	2,703,171	860,725	21,882,419	25,446,315
Financial assets derecognized during the period	(48,017,698)	(123,797)	(34,127,390)	(82,268,885)
Total net P&L charge during the period	2,638,218	815,001	378,110	3,831,329
Other movements without P&L impact				
Write-offs, foreclosures and other movements	39,326,049	-	26,709,088	66,035,137
Total movements without P&L impact	39,326,049	-	26,709,088	66,035,137
Loss allowance at December 31, 2018	₱55,523,634	₱ 2,045,231	₱78,373,760	₱135,942,625

The movements in loans and receivables (gross of allowance for credit losses) and corresponding accrued interest receivable between stages follow:

	2019			
	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
<b>Gross carrying amount and accrued interest receivables as at January 1, 2019</b>	<b>₱5,103,312,567</b>	<b>₱6,204,356</b>	<b>₱175,060,778</b>	<b>₱5,284,577,701</b>
Transfers:				
Transfer from Stage 1 to Stage 2	(168,442,387)	168,442,387	-	-
Transfer from Stage 1 to Stage 3	(315,158,567)	-	315,158,567	-
Transfer from Stage 2 to Stage 3	-	(5,735,655)	5,735,655	-
Transfer from Stage 3 to Stage 1	423,073	-	(423,073)	-
New financial assets originated or purchased	6,036,384,023	-	-	6,036,384,023
Collections of principal and interest	(17,156,768)	(59,722,772)	(102,126,773)	(179,006,313)
Financial assets derecognized during the period	(4,474,587,595)	(468,701)	(96,714,707)	(4,571,771,003)
<b>Gross carrying amount as at December 31, 2019</b>	<b>₱6,164,774,346</b>	<b>₱108,719,615</b>	<b>₱296,690,447</b>	<b>₱6,570,184,408</b>

	2018			
	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Gross carrying amount and accrued interest receivables as at January 1, 2018	₱4,161,762,327	₱4,407,273	₱95,039,205	₱4,261,208,805
Transfers:				
Transfer from Stage 1 to Stage 2	(5,248,511)	5,248,511	-	-
Transfer from Stage 1 to Stage 3	(57,906,296)	-	57,906,296	-
Transfer from Stage 2 to Stage 3	-	(3,852,949)	3,852,949	-
New financial assets originated or purchased	4,771,510,962	3,240,076	55,493,941	4,830,244,979
Collections of principal and interest	(242,713,831)	(2,284,231)	(18,470,649)	(192,496,028)
Financial assets derecognized during the period	(3,524,092,084)	(554,324)	(18,760,964)	(3,543,407,372)
Gross carrying amount and accrued interest receivables as at December 31, 2018	₱5,103,312,567	₱6,204,356	₱175,060,778	₱5,284,577,701

While the Bank recognizes through the statements of income the movements in the expected credit losses computed using the models, the Bank also complies with BSP's regulatory requirement to appropriate a portion of its surplus at an amount necessary to bring at least the allowance for credit

losses to 1% of all outstanding Stage 1 loan accounts. In 2019 and 2018, the amount of surplus reserve for this purpose increased by ₱63.34 million and ₱0.13 million, respectively.

#### 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, 2019 and 2018, the Bank's PAR amounted to ₱313.60 million and ₱154.00 million, respectively. The allowance for credit losses recognized for past due loans amounted to ₱212.57 million and ₱80.41 million as of December 31, 2019 and 2018, respectively.

As of December 31, 2019 and 2018, performing and nonperforming loans (NPLs) based on Circular No. 772 and as reported to the BSP amounted as follows:

	2019	2018
Performing loans	<b>₱6,136,202,511</b>	₱4,909,472,873
Nonperforming loans	<b>193,310,670</b>	135,584,638
Balance at end of year	<b>₱6,329,513,181</b>	₱5,045,057,511

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 (10.00%) 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, 2019 and 2018:

	2019	2018
Secured portion		
Deposit hold-out (Note 13)	<b>₱745,643,464</b>	₱650,438,771
Chattel mortgage	<b>4,270,000</b>	6,158,000
	<b>749,913,464</b>	656,596,771
Unsecured portion	<b>5,579,599,717</b>	4,388,460,740
	<b>₱6,329,513,181</b>	₱5,045,057,511

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

	2019		2018	
	Amount	%	Amount	%
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	<b>₱3,878,749,216</b>	<b>61.3</b>	₱3,081,774,352	61.1
Real estate and construction	<b>745,155,470</b>	<b>11.8</b>	664,945,950	13.2
Agriculture, hunting and forestry	<b>684,521,107</b>	<b>10.8</b>	446,762,601	8.9
Manufacturing	<b>175,186,728</b>	<b>2.7</b>	117,936,865	2.3
Other community, social and personal service activities	<b>845,900,661</b>	<b>13.4</b>	733,637,743	14.5
	<b>₱6,329,513,181</b>	<b>100.0</b>	₱5,045,057,511	100.0

The BSP considers that loan concentration exists when total loan exposure to a particular industry or economic sector exceeds 30.00% of total loan portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

## 8. Financial Assets at Amortized Cost

As of December 31, 2019 and 2018, held-to-collect investments have an outstanding balance amounting to ₱50.85 million and ₱20.00 million, respectively. This account represents investments in government securities acquired through Land Bank of the Philippines bearing coupon rates and effective rates ranging from 4.88% to 6.25% with terms of three (3) to five (5) years. The Bank's purpose for the investment is for compliance with the 20% minimum liquidity ratio requirement by BSP (see Note 17).

Financial assets at amortized cost earned interest income amounting to ₱2.70 million and ₱0.47 million in 2019 and 2018, respectively.

**9. Property and Equipment**

The composition of and movements in this account follow:

	2019									
	Land improvements	Building and improvements	Leasehold improvements	Furniture, fixtures and equipment	Transportation equipment	Construction in progress	ROU assets - Office space	ROU assets - Vehicles and IT equipment	Tot	
<b>Cost</b>										
Balance at beginning of year	₱46,915,616	₱54,436,578	₱59,852,858	₱88,530,274	₱4,795,952	₱7,406,781	₱69,113,762	₱—	₱331,051,8	
Additions	—	90,000	4,725,337	28,378,244	3,764,869	13,563,512	64,406,561	5,166,581	120,095,10	
Disposals	—	—	(65,627)	(1,781,284)	(1,155,938)	—	—	—	(3,002,8	
Transfers	—	—	18,055,541	—	—	(18,055,541)	—	—	—	
<b>Balance at end of year</b>	<b>46,915,616</b>	<b>54,526,578</b>	<b>82,568,109</b>	<b>115,127,234</b>	<b>7,404,883</b>	<b>2,914,752</b>	<b>133,520,323</b>	<b>5,166,581</b>	<b>448,144,0</b>	
<b>Accumulated Depreciation</b>										
Balance at beginning of year	—	17,759,135	25,222,525	60,029,601	4,365,074	—	—	—	107,376,3	
Depreciation	—	5,493,289	12,787,034	20,771,605	501,094	—	30,195,245	1,454,128	71,202,3	
Disposals	—	—	(27,521)	(1,781,046)	(1,155,928)	—	—	—	(2,964,4	
<b>Balance at end of year</b>	<b>—</b>	<b>23,252,424</b>	<b>37,982,038</b>	<b>79,020,160</b>	<b>3,710,240</b>	<b>—</b>	<b>30,195,245</b>	<b>1,454,128</b>	<b>175,614,2</b>	
<b>Net Book Value</b>	<b>₱46,915,616</b>	<b>₱31,274,154</b>	<b>₱44,586,071</b>	<b>₱36,107,074</b>	<b>₱3,694,643</b>	<b>₱2,914,752</b>	<b>₱103,325,078</b>	<b>3,712,453</b>	<b>₱272,529,8</b>	



2018

	Land	Building and improvements	Leasehold improvements	Furniture, fixtures and equipment	Transportation equipment	Construction in progress	Total
<b>Cost</b>							
Balance at beginning of year	₱46,915,616	₱55,628,116	₱49,417,947	₱69,865,559	₱5,853,115	₱2,997,440	₱230,677,771
Additions	-	90,895	8,783,990	16,015,331	-	10,865,280	35,755,416
Disposals	-	-	-	(3,438,067)	(1,057,163)	-	(4,495,230)
Transfers	-	(1,282,433)	1,650,921	6,087,451	-	(6,455,939)	-
Balance at end of year	46,915,616	54,436,578	59,852,858	88,530,274	4,795,952	7,406,781	261,938,059
<b>Accumulated Depreciation</b>							
Balance at beginning of year	-	13,006,889	18,186,242	41,844,406	5,176,028	-	78,213,565
Depreciation	-	5,544,934	9,641,541	18,216,659	246,200	-	33,649,344
Disposals	-	(792,688)	(2,605,258)	(31,464)	(1,057,154)	-	(4,486,564)
Balance at end of year	-	17,759,135	25,222,525	60,029,601	4,365,074	-	107,376,335
<b>Net Book Value</b>	₱46,915,616	₱36,677,443	₱34,630,333	₱28,500,673	₱430,878	₱7,406,781	₱154,561,724



Construction in progress represents the cost of materials, labor, and other capitalizable expenditures incurred in connection with leasehold improvements of bank premises under establishment or renovation. As of December 31, 2019, the leasehold improvements under construction pertain to the establishment of a branch and are estimated to be completed in February 2020. As of December 31, 2018, the leasehold improvements under construction pertained to establishment and renovations of various branches and are completed in January and February 2019.

Loss on disposal of property and equipment amounted to ₱0.03 million and ₱0.01 million in 2019 and 2018, respectively.

There are no restrictions on the titles of the Bank's property and equipment and the Bank does not have any contractual commitments for the acquisition of property and equipment as of December 31, 2019 and 2018.

## 10. Investment Properties

The composition of and movements in this account follow:

	2019			
	Land	Building	Asset held by SPV	Total
<b>Cost</b>				
Balance at beginning of year	₱7,723,932	₱231,001	₱1,642,665	₱9,597,600
Additions	698,823	-	-	698,821
Disposals	(176,400)	-	-	(176,400)
Balance at end of year	8,246,355	231,001	1,642,665	10,120,021
<b>Accumulated Depreciation</b>				
Balance at beginning and end of year	-	231,000	-	231,000
<b>Allowance for Impairment Losses</b>				
Balance at beginning of year	₱2,388,656	₱-	₱978,411	₱3,367,067
Reversal of impairment	(2,234,633)	-	(978,411)	(3,213,044)
Balance at end of year	154,023	-	-	154,023
<b>Net Book Value</b>	<b>₱8,092,332</b>	<b>₱1</b>	<b>₱1,642,655</b>	<b>₱9,734,998</b>
2018				
	Land	Building	Asset held by SPV	Total
<b>Cost</b>				
Balance at beginning of year	₱8,179,473	₱231,001	₱4,897,413	₱13,307,887
Disposals	(455,541)	-	(3,254,746)	(3,710,289)
Balance at end of year	₱7,723,932	₱231,001	₱1,642,665	₱9,597,598
<b>Accumulated Depreciation</b>				
Balance at beginning and end of year	-	231,000	-	231,000
<b>Allowance for Impairment Losses</b>				
Balance at beginning of year	₱2,758,282	₱-	₱2,537,256	₱5,295,538
Disposals	(369,626)	-	(1,558,845)	(1,928,471)
Balance at end of year	2,388,656	-	978,411	3,367,067
<b>Net Book Value</b>	<b>₱5,335,276</b>	<b>₱1</b>	<b>₱664,254</b>	<b>₱5,999,533</b>

Direct operating expenses on investment properties amounting to ₱0.54 million and ₱0.25 million in 2019 and 2018 are included under 'Taxes and licenses'. In 2019 and 2018, all of the Bank's investment properties are non-revenue generating. The fair values of investment properties are disclosed in Note 4.

The Bank received ₱0.23 million and ₱3.30 million in 2019 and 2018, respectively, for the sale of investment properties. Gain on sale of investment properties amounted to ₱0.05 million and ₱1.50 million in 2019 and 2018, 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 and 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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## 11. Intangible Assets

The composition of and movements in this account follow:

	2019	2018
<b>Cost</b>		
Balance at beginning of year	<b>₱18,788,965</b>	₱15,964,984
Acquisition	<b>351,760</b>	2,823,981
Write-down	<b>(961,400)</b>	–
Balance at end of year	<b>18,179,325</b>	18,788,965
<b>Accumulated Amortization</b>		
Balance at beginning of year	<b>14,281,109</b>	9,833,804
Amortization	<b>2,656,264</b>	4,447,305
Write-down	<b>(283,298)</b>	–
Balance at end of year	<b>16,654,075</b>	14,281,109
<b>Net Book Value</b>	<b>₱1,525,250</b>	₱4,507,856

The Bank wrote down the carrying value of certain intangible assets (under ‘IT expense’) amounting to ₱0.68 million and nil in 2019 and 2018, respectively.

## 12. Other Assets

This account consists of

	2019	2018
<b>Financial assets</b>		
Refundable deposits	<b>₱14,234,293</b>	₱10,339,527
<b>Nonfinancial assets</b>		
Prepaid expenses (Note 20)	<b>47,144,090</b>	44,374,700
Stationeries and supplies	<b>24,868,447</b>	23,348,493
Miscellaneous	<b>17,626,366</b>	22,384,660
	<b>₱103,873,196</b>	₱100,447,380

Prepaid expenses include blanket bond premium, other insurances such as vehicle insurance and the annual fee paid for Temenos and FDS solutions.

Miscellaneous assets include security deposit for leased computer equipment and vehicles and advance rental of the offices and staff houses leased by the Bank.

## 13. Deposit Liabilities

The Bank's deposit liabilities follow:

	2019	2018
Savings deposit:		
Regular savings	<b>₱4,093,682,486</b>	₱3,249,217,590
Special savings	<b>729,793,155</b>	643,706,989
Demand deposit	<b>33,380,679</b>	31,697,262
	<b>₱4,856,856,320</b>	₱3,924,621,841

Regular savings deposit liabilities include the aggregate compulsory savings of ₱50.00 per week collected from each microfinance member in 2019 and 2018. Under an assignment agreement, the pledge savings earn annual interest of 2.00% in 2019 and 2018. Pledge savings equivalent to 15.00% of the loan proceeds serves as guarantee fund of outstanding receivables from members (Note 7).

Demand deposit liabilities are non-interest earning deposit account.

Savings deposits include regular and special savings deposits. Regular savings deposits earn annual interest ranging from 1.50% to 6.00% in 2019 and 2018. Special savings deposits earn interest ranging from 2.00% to 5.50% in 2019 and 2018.

Details of interest expense on deposit liabilities follow:

	2019	2018
Regular savings	<b>₱71,457,423</b>	₱50,042,077
Special savings	<b>20,363,953</b>	17,752,434
	<b>₱91,821,376</b>	₱67,794,511

BSP requires 4.00% reserve requirement for thrift banks. Available reserves as of December 31, 2019 and 2018 amounted to ₱273.95 million and ₱315.55 million, respectively (Note 6). As of December 31, 2019 and 2018, the Bank is compliant with the applicable reserve requirements.

#### 14. Bills Payable

The composition of and movements in this account follow:

	2019	2018
<b>Face value</b>		
Balance at beginning of year	₱1,429,650,000	₱1,043,040,000
Availments	1,230,000,000	1,802,500,000
Principal payments	(1,495,890,000)	(1,415,890,000)
Balance at end of year	1,163,760,000	1,429,650,000
<b>Unamortized transaction cost</b>		
Balance at beginning of year	7,514,772	4,614,423
Availments	9,089,178	12,135,411
Amortization	(9,722,641)	(9,235,062)
Balance at end of year	6,881,309	7,514,772
<b>Carrying value</b>	<b>₱1,156,878,691</b>	<b>₱1,422,135,228</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 3.90% to 6.56% and from 3.00% to 6.56% in 2019 and 2018, respectively.

##### International Finance Corporation (IFC)

On December 3, 2015, the Bank entered into a Loan Agreement (“the Agreement”) with IFC for the availment of loan (“the Loan”) amounting to ₱160.00 million which will mature on December 15, 2022. 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 6.56%, inclusive of 2.70% 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 ₱45.00 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 Foreign Currency Maturity Gap Ratio of not less than (i.e., more negative than) -150.00%;
- 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 ₱192.00 million were held as collateral for the above borrowings as of December 31, 2019 and 2018 (Note 7).

Interest expense on bills payable in 2019 and 2018 amounted to ₱54.76 million and ₱47.97 million, respectively. Amortization of bills payable amounted to ₱9.72 million and ₱8.87 million in 2019 and 2018, respectively.

As of December 31, 2019 and 2018, the Bank is in compliance with the debt covenants.

## 15. Accrued Expenses and Other Liabilities

Accrued expenses include:

	2019	2018
<b>Financial liabilities</b>		
Accrual for vacation leave credits	₱42,240,628	₱32,043,474
Accrued interest payable	17,694,253	17,750,431
Accrued other expenses	35,655,632	17,391,628
	<b>₱95,590,513</b>	<b>₱67,185,533</b>

Accrued other expenses include employee benefits, professional service engagements, and semi-annual assessment of Philippine Deposit Insurance Corporation in pursuant to Regulatory Issuance No. 2017-01.

Other liabilities include:

	2019	2018
<b>Financial liabilities</b>		
Lease liabilities (Note 21)	₱105,836,340	₱6,235,588
Accounts payable (Note 20)	24,643,771	10,897,258
Dividends payable	187,462	120,776
	<b>130,667,573</b>	<b>17,253,622</b>
<b>Nonfinancial liabilities</b>		
Deposit for future stock subscription (Notes 17 and 23)	39,788,150	—
Gross receipts tax	22,576,771	28,873,791
Withholding taxes	8,080,442	5,230,117
Others	12,080,257	13,870,881
	<b>82,525,620</b>	<b>47,974,789</b>
	<b>₱213,193,193</b>	<b>₱65,228,411</b>

Others pertain to obligations arising from statutory payments on employee benefits which include Social Security System, Home Development Mutual Fund, and Philippine Health Insurance Corporation.

## 16. 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:

	2019			2018		
	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	₱26,391,653	₱-	₱26,391,653	₱21,430,132	₱-	₱21,430,132
Due from BSP	670,187,575	-	670,187,575	483,551,094	-	483,551,094
Due from other banks	243,954,082	-	243,954,082	765,439,610	-	765,439,610
Loans and receivables - gross	5,633,608,893	939,939,104	6,573,547,997	4,764,043,593	522,737,770	5,286,781,363
Held-to-collect investment	-	50,850,000	50,850,000	-	20,000,000	20,000,000
Other assets - refundable deposits	8,772,773	5,461,520	14,234,293	10,339,527	-	10,339,527
	<b>6,582,914,976</b>	<b>996,250,624</b>	<b>7,579,165,600</b>	<b>6,044,803,956</b>	<b>542,737,770</b>	<b>6,587,541,726</b>
<b>Nonfinancial Assets</b>						
Property and equipment - gross	-	448,144,076	448,144,076	-	261,938,059	261,938,059
Investment properties - gross	-	10,120,021	10,120,021	-	9,597,598	9,597,598
Intangible assets - gross	-	18,179,325	18,179,325	-	18,788,965	18,788,965
Retirement asset	-	95,782,377	95,782,377	-	104,661,964	104,661,964
Deferred tax asset	-	74,711,954	74,711,954	-	24,811,939	24,811,939
Other assets	72,012,537	17,626,366	89,638,903	23,348,493	66,759,360	90,107,853
	<b>72,012,537</b>	<b>664,564,119</b>	<b>736,576,656</b>	<b>23,348,493</b>	<b>486,557,885</b>	<b>509,906,378</b>
	<b>₱6,654,927,513</b>	<b>₱1,660,814,743</b>	<b>8,315,742,256</b>	<b>₱6,068,152,449</b>	<b>₱1,029,295,655</b>	<b>7,097,448,104</b>
Less: Allowance for credit and impairment losses			272,742,604			139,309,692
Accumulated depreciation and amortization			192,499,310			121,888,442
Unearned interest			3,363,589			2,203,662
			<b>₱7,847,136,753</b>			<b>₱6,834,046,308</b>
<b>Financial Liabilities</b>						
Deposit liabilities						
Demand	₱33,380,679	₱-	₱33,380,679	₱31,697,262	₱-	₱31,697,262
Savings	4,823,069,136	406,505	4,823,475,641	3,879,148,353	13,776,226	3,892,924,579
Bills payable	1,083,471,722	73,406,969	1,156,878,691	1,323,735,228	98,400,000	1,422,135,228
Accrued expenses and other liabilities						
Lease liabilities	53,669,198	52,167,142	105,836,340	3,376,260	2,859,328	6,235,588
Accrued vacation leave credits	7,650,959	34,589,669	42,240,628	9,601,403	22,442,071	32,043,474
Accrued expenses	35,655,632	-	36,655,632	17,391,629	-	17,391,629
Accounts payable	24,643,771	-	24,643,771	10,897,258	-	10,897,258
Accrued interest payable	17,694,253	-	17,694,253	17,750,431	-	17,750,431
Dividends payable	187,462	-	187,462	120,776	-	120,776
	<b>6,080,422,812</b>	<b>160,570,285</b>	<b>6,239,993,097</b>	<b>5,293,718,600</b>	<b>137,477,625</b>	<b>5,431,196,225</b>
<b>Nonfinancial Liabilities</b>						
Income tax payable	44,660,129	-	44,660,129	67,287,991	-	67,287,991
Other liabilities						
Deposit for future stock subscription	39,788,150	-	39,788,150	-	-	-
Accrued taxes	30,657,212	-	30,657,212	34,103,908	-	34,103,908
Others	12,080,258	-	12,080,258	13,870,880	-	13,870,880
	<b>127,185,749</b>	<b>-</b>	<b>127,185,749</b>	<b>115,262,779</b>	<b>-</b>	<b>115,262,779</b>
	<b>₱6,206,608,561</b>	<b>₱160,570,285</b>	<b>₱6,367,178,846</b>	<b>₱5,431,423,450</b>	<b>₱115,035,554</b>	<b>₱5,546,459,004</b>

## 17. Equity

### Capital Stock

As of December 31, 2019 and 2018, the Bank's capital stock consists of:

	2019		2018	
	Shares	Amount	Shares	Amount
Par value – ₱ 100 per share				
Authorized	<b>10,000,000</b>	<b>₱1,000,000,000</b>	10,000,000	₱1,000,000,000
Issued and outstanding				
Beginning balance	<b>7,527,775</b>	<b>752,777,500</b>	4,952,794	₱495,279,400
Issuances of capital stock	–	–	1,215,347	121,534,700
Issuances of stock dividends	<b>2,419,933</b>	<b>241,933,300</b>	1,312,428	131,242,800
Issuance of capital stock from settlement of subscriptions receivable	<b>52,229</b>	<b>5,222,900</b>	47,206	4,720,600
	<b>9,999,937</b>	<b>999,933,700</b>	<b>7,527,775</b>	<b>752,777,500</b>
Subscribed				
Beginning balance	<b>34,653</b>	<b>3,465,300</b>	47,206	4,720,600
Additional subscriptions	<b>17,639</b>	<b>1,763,900</b>	34,653	3,465,300
Issuance of capital stock from settlement of subscriptions receivable	<b>(52,229)</b>	<b>(5,222,900)</b>	(47,206)	(4,720,600)
	<b>63</b>	<b>6,300</b>	<b>34,653</b>	<b>3,465,300</b>
Subscriptions receivable		<b>(6,300)</b>		<b>(3,465,300)</b>
	<b>63</b>	<b>–</b>	<b>34,653</b>	<b>–</b>
	<b>10,000,000</b>	<b>₱999,933,700</b>	<b>7,562,428</b>	<b>₱752,777,500</b>

### Deposit for Future Stock Subscription

Deposit for future stock (DFS) 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.

Financial Reporting Bulletin No. 6, dated January 24, 2013 provides that a bank shall classify a contract to deliver its own equity instruments under equity as a separate account from capital stock if and only if, all of the following elements are present as of the reporting period:

1. The unissued authorized capital of the Bank is insufficient to cover the amount of shares indicated in the contract;
2. There is Board of Directors' approval on the proposed increase in authorized capital stock (for which a deposit was received by the Bank);
3. There is stockholders' approval of the said proposed increase; and
4. The application for the approval of the proposed increase has been filed with the SEC.

The application for approval of the proposed increase is not yet filed with the SEC as of December 31, 2019, the DFS of ₱39.79 million was classified under 'Other liabilities' as of December 31, 2019 (see Note 15). The DFS was paid in cash by its stockholders and related parties.

### Dividends

Dividends declared by the Bank in 2019 and 2018 are the following:

Date of declaration	Cash dividends		Record date
	Per share	Total amount	
November 9, 2019	₱5.50	₱55.00 million	October 31, 2019
May 11, 2019	₱13.00	₱98.32 million	April 30, 2019
July 14, 2018	₱7.00	₱48.13 million	June 30, 2018
April 14, 2018	₱16.00	₱100.00 million	March 31, 2018

Date of declaration	Stock dividends		Record date
	Type	Total amount	
May 11, 2019	Common	₱241.99 million	April 30, 2019
August 11, 2018	Common	₱68.74 million	August 10, 2018
May 12, 2018	Common	₱62.50 million	April 30, 2018

### 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

Under the existing BSP regulations, 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 PFRSs 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.

Under current Banking regulations, the combined capital accounts of each Bank should not be less than an amount equal to ten percent (10.00%) of its risk assets. 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.

The CAR of the Bank as of December 31, 2019 and 2018, as reported to the BSP, is shown in the table below:

	<b>2019</b>	2018
Common Equity Tier 1 (CET1)	<b>₱1,483,943,815</b>	₱1,181,569,222
Tier 1	<b>1,459,131,877</b>	1,163,204,857
Tier 2	<b>29,295,350</b>	51,336,474
Total qualifying capital	<b>1,488,427,227</b>	1,214,541,331
Risk-weighted assets	<b>₱7,947,788,852</b>	₱6,678,158,314
CET1	<b>18.67%</b>	17.69%
Tier 1 capital ratio	<b>18.36%</b>	17.41%
Tier 2 capital ratio	<b>0.37%</b>	0.77%
CAR	<b>18.73%</b>	18.19%

As of December 31, 2019 and 2018, the Bank's CAR and capital are in compliance with the regulatory capital requirements.

As of December 31, 2019 and 2018, the Bank's minimum liquidity ratio is 29.32% and 23.33%, respectively. The Bank is compliant with the applicable BSP requirement.

The Bank has no contingencies and commitments arising from off-balance sheet items as of December 31, 2019 and 2018.

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>2019</b>	2018
Return on average equity	<b>26.22%</b>	36.99%
Return on average assets	<b>5.22%</b>	7.07%
Net interest margin	<b>37.99%</b>	37.28%

## **18. Retirement Benefits**

The Bank, CARD MRI Development Institute, Inc., CARD Mutual Benefit Association, Inc., CARD Bank, Inc., CARD MRI Insurance Agency, Inc., CARD Business Development Service Foundation, Inc., Inc., CARD MRI Information Technology, Inc., CARD Employees Multi-Purpose Cooperative, Responsible Investments for Solidarity and Empowerment Financing Co., BotiCARD Inc., CARD Leasing and Finance Corporation, Rizal Bank, Inc., CARD, Inc. and Mga Likha ni Inay, Inc., 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 120.00% 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 100.00% of the member's employer accumulated value (the Bank's contributions of 8.0% plan salary to Fund A plus credited earnings) and 100.00% 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 100.00% of the Employee Accumulated Value in Fund A be less than 100.00% of plan salary for every year of credited service.

Total retirement expense in 2019 and 2018 related to Hybrid Plan amounted to ₱3.99 million and ₱4.93 million, respectively.

The latest actuarial valuation report covers reporting period as of December 31, 2019 and 2018.



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*	Benefits paid	Transfer from plan assets	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Actuarial changes limiting net defined benefit asset to the asset ceiling	Changes in the effect of limiting net defined benefit asset to the asset ceiling	December
Fair value of plan assets	₱264,588,974	₱-	₱20,794,237	(₱2,839,926)	₱-	(₱9,656,269)	₱-	₱-	₱-	₱-	₱286,659,0
Present value of defined benefit obligation	(105,250,048)	(8,104,254)	(20,574,665)	2,839,926	-	-	(1,086,387)	(48,500,668)	-	(49,587,055)	(172,571,8
Effect of asset ceiling	(54,676,962)	-	(4,210,126)	-	-	-	-	-	40,582,256	40,582,256	(18,304,8
Net defined benefit asset	₱104,661,964	₱12,470,411	₱8,479,857	(₱3,990,554)	₱-	(₱9,656,269)	(₱1,086,387)	(₱48,500,668)	₱40,582,256	₱18,661,068	₱95,782,3

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

2018

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*	Benefits paid	Transfer from plan assets	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Actuarial changes limiting net defined benefit asset to the asset ceiling	Changes in the effect of limiting net defined benefit asset to the asset ceiling	December
Fair value of plan assets	₱235,470,614	₱-	₱14,069,742	(₱1,334,068)	₱7,626,457	(₱1,696,174)	₱-	₱-	₱-	₱-	₱264,588,5
Present value of defined benefit obligation	(95,135,519)	(11,324,484)	(16,813,803)	1,334,068	(7,626,457)	-	2,501,745	10,489,918	-	12,991,663	(105,250,0
Effect of asset ceiling	(37,908,402)	-	(2,187,315)	-	-	-	-	-	(14,581,245)	(14,581,245)	(54,676,5
Net defined benefit asset	₱102,426,693	₱11,324,484	₱6,393,108	(₱4,931,376)	₱-	(₱1,696,174)	₱2,501,745	₱10,489,918	(₱14,581,245)	(₱3,285,756)	₱104,661,5

\* 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:

	2019	2018
Cash and cash equivalents	P233,569,795	P117,530,422
Receivables	33,137,786	-
Investments		
Private bonds	6,507,160	5,820,958
Government securities	3,783,899	126,632,283
Mutual funds	1,633,957	-
Accrued interest receivable	8,026,454	14,605,311
<b>Fair value of plan assets</b>	<b>P286,659,051</b>	<b>P264,588,974</b>

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. Accrued interest receivables pertain to accruals of interest from time deposits and debt securities.

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:

	2019	2018
Discount rates		
January 1	7.70%	5.77%
December 31	5.54%	7.70%
Future salary increases		
January 1	5.00%	5.00%
December 31	5.00%	5.00%

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:

	2019		2018	
	+100bps	-100bps	+100bps	-100bps
Discount rates	(P20,953,893)	P25,470,491	(P12,451,590)	P15,081,732
Salary rates	25,348,561	(21,235,206)	15,348,556	(12,853,212)

As of December 31, 2019 and 2018, the average duration of the defined benefit obligation is 13.5 years and 13.1 years, respectively.

Expected contribution in 2020 is amounting to ₱18.90 million.

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

	2019	2018
Less than one year	<b>₱8,471,281</b>	₱5,691,903
More than 1 year to 5 years	<b>65,109,419</b>	30,445,052
More than 5 years to 10 years	<b>90,271,746</b>	69,995,849
More than 10 years to 15 years	<b>114,618,641</b>	87,490,503
More than 15 years to 20 years	<b>137,006,598</b>	180,394,637
More than 20 years to 25 years	<b>159,294,440</b>	272,413,200
More than 25 years	<b>₱864,045,688</b>	₱955,487,071

## 19. 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 20.00%. 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 2.00% 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 1.00% of net revenue. EAR expenses of the Bank amounted to ₱11.58 million and ₱13.83 million in 2019 and 2018, respectively.

Provision for (benefit from) income tax consists of:

	2019	2018
RCIT	<b>₱182,894,098</b>	₱197,743,518
Final tax	<b>7,893,660</b>	3,140,169
	<b>190,787,758</b>	200,883,687
Deferred	<b>(45,601,064)</b>	(21,448,259)
	<b>₱145,186,694</b>	₱179,435,428

Deferred tax recognized in other comprehensive income (loss) amounted to ₱5.60 million and ₱0.99 million for the years ended December 31, 2019 and 2018, respectively.

Components of deferred tax assets - net are as follows:

	2019	2018
Deferred tax assets on:		
Allowance for credit and impairment losses	₱81,822,781	₱41,412,690
Accumulated vacation leave	12,672,188	9,613,042
Unamortized past service cost	10,138,872	6,011,824
Accrued rent	142,484	533,273
Accumulated depreciation - investment properties	69,300	69,300
	<b>104,845,625</b>	<b>57,640,129</b>
Deferred tax liabilities on:		
Retirement asset	28,734,713	31,398,589
Net right-of-use assets over lease liabilities	1,089,302	-
Gain on foreclosure of investment properties	309,656	1,429,601
	<b>30,133,671</b>	<b>32,828,190</b>
	<b>₱74,711,954</b>	<b>₱24,811,939</b>

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

	2019	2018
Statutory income tax	₱150,003,742	₱173,625,551
Income tax effects of:		
Interest income subject to final tax	(4,847,224)	(1,123,023)
Nondeductible operating expenses	30,176	6,932,900
Provision for income tax	<b>₱145,186,694</b>	<b>₱179,435,428</b>

## 20. 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 18). As of December 31, 2019 and 2018, 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:

	2019	2018
Short-term employee benefits	<b>₱12,643,135</b>	₱10,597,560
Post-employment benefits	<b>12,751,856</b>	11,796,195
	<b>₱25,394,991</b>	₱22,393,755

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.

#### *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, 2019 and 2018:

Category	December 31, 2019		Nature, Terms and Conditions
	Amount/Volume	Outstanding Balance	
<b>Key Management Personnel</b>			
Deposit liabilities		<b>₱13,678,294</b>	These are savings accounts with annual interest rates ranging from 1.50% to 6.00%.
Deposits	<b>₱26,665,903</b>		
Withdrawals	<b>(26,591,103)</b>		
Directors' fees/payable		-	Pertains to per diem payments directors
<b>Shareholders</b>			
Deposit liabilities		<b>326,945,991</b>	These are savings accounts with annual interest rates ranging from 1.50% to 6.00%.
Deposits	<b>277,031,487</b>		
Withdrawals	<b>(244,363,908)</b>		
Loan receivables		<b>100,000,000</b>	This represents CARD Inc.'s SME wholesale lending loan availment on December 20, 2019. The loan is at 5.90% interest rate and is set to mature on June 20, 2020. The loan is fully secured by the savings deposit of the related party to the Bank.
Interest expense/payable	<b>14,207,740</b>	-	Pertains to interest on deposit liabilities.
Accounts receivable		<b>1,022,410</b>	Share on expenses of transferred staff. These are expected to be collected on January 2020.
Charges	<b>3,899,019</b>		
Collections	<b>(2,876,609)</b>		
Accounts payable		<b>465,824</b>	Pertains to share on various expenses. These are expected to be paid on January 2020.
Charges	<b>957,506</b>		
Payments	<b>(491,822)</b>		

December 31, 2018			
Category	Amount/Volume	Outstanding Balance	Nature, Terms and Conditions
<b>Key Management Personnel</b>			
Deposit liabilities		₱13,603,494	These are savings accounts with annual interest rates ranging from 1.5% to 6.0%.
Saving deposits	₱23,947,079		
Withdrawals	(16,893,954)		
Directors' fees/payable	5,459,524	-	Pertains to per diem payments directors
<b>Shareholders</b>			
Deposit liabilities		₱294,278,412	These are savings accounts with annual interest rates ranging from 1.5% to 5.0%.
Deposits	₱507,907,366		
Withdrawals	(511,943,352)		
Interest expense/payable	6,544,049	-	Pertains to interest on deposit liabilities.
Accounts receivable		-	Share on expenses of transferred staff.
Charges	2,239,974		
Collections	(2,239,974)		
Accounts payable		-	Pertains to share on various expenses.
Charges	2,845,185		
Payments	(2,846,145)		

Below is the percentage of total exposures to related parties as against capital:

Category	2019		2018	
	Net exposure	Ratio	Net exposure	Ratio
Key management personnel	₱13,678,294	0.92%	₱13,603,494	1.06%
Shareholders	325,434,225	21.97%	294,278,412	22.86%

#### 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.

As of December 31, 2019 and 2018, the balance of the secured loans to DOSRI are ₱100.04 million and ₱10,431, respectively. There is no unsecured loan to DOSRI as of December 31, 2019 and 2018. 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, 2019 and 2018, the Bank is in compliance with the regulatory requirements.

BSP Circular No. 423 dated March 15, 2004, as amended by BSP Circular No. 914 dated June 23, 2016, provide the rules and regulations governing credit exposures to DOSRI. The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to BSP Circular No. 423 and new DOSRI loans and other credit accommodations granted under said circular as of December 31, 2019 and 2018:

	2019	2018
Total outstanding DOSRI loans	₱100,040,526	₱10,431
Percent of DOSRI accounts to total loans	1.58%	0.00%

There are no unsecured DOSRI accounts in total outstanding DOSRI loans.

## 21. 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. CARD MRI Property Holdings, CARD MBA and third-party lessors.

The following are the amounts recognized in statements of income:

	2019	2018
Lease payments relating to short-term leases and leases with low value assets	<b>₱95,858,972</b>	₱-
Rent expense recorded under PAS 17	-	100,534,134
Depreciation expense of ROU assets included in property and equipment	<b>31,649,372</b>	-
Interest expense on lease liabilities	<b>5,923,662</b>	1,209,048
<b>Total amount recognized in the statements of income</b>	<b>₱133,432,006</b>	<b>₱101,743,182</b>

Rent expense in 2019 pertains to expenses from short-term leases and leases of low-value assets. As of December 31, 2019, and 2018, the Bank has no contingent rent payable.

As of December 31, 2019 and 2018, the carrying amounts of 'Lease liabilities' are as follows:

	2019	2018
Balance at beginning of year	<b>₱6,235,588</b>	₱9,487,783
Effect of adoption of PFRS 16 (Note 2)	<b>66,085,161</b>	-
Balance at beginning of year	<b>72,320,749</b>	9,487,783
Additions	<b>66,164,908</b>	-
Interest expense	<b>5,923,662</b>	1,209,048
Payments	<b>(38,572,979)</b>	(4,461,243)
<b>Balance at end of year</b>	<b>₱105,836,340</b>	<b>₱6,235,588</b>

Beginning balance of lease liabilities pertains to leases classified as finance lease under PAS 17 as reported by the Bank.

Shown below is the maturity analysis of the undiscounted lease payments:

	2019
Within one year	<b>₱53,371,608</b>
Beyond one year	<b>69,815,173</b>
	<b>₱123,186,781</b>

## 22. Notes to Statements of Cash Flows

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

	2019	2018
<b>Non-cash investing activities:</b>		
Additions to property and equipment through lease contracts (Note 9)	₱138,686,905	₱-
Acquisitions of property and equipment on account	-	1,104,499
	<b>₱138,686,905</b>	<b>₱1,104,499</b>

The following table shows the reconciliation analysis of liabilities arising from financing activities for the year ended December 31, 2019 and 2018:

	2019				
	Bills payable (Note 14)	Lease liabilities (Notes 15 and 21)	Deposit for future stock subscription (Note 17)	Dividends payable (Notes 15 and 17)	Total liabilities from financing activities
<b>Beginning balances as at January 1, 2019, as reported</b>	₱1,422,135,228	₱6,235,588	₱-	₱120,776	₱1,428,491,593
Adoption of PFRS 16	-	66,085,161	-	-	66,085,161
<b>Beginning balances as of January 1, 2019, as restated</b>	1,422,135,228	72,320,749	-	120,776	1,494,576,754
Cash flows	(274,979,178)	(38,572,979)	39,788,150	(153,249,274)	(427,013,281)
Non-cash items					
Dividend declaration	-	-	-	153,315,960	153,315,960
New lease contracts entered during the year	-	66,164,908	-	-	66,164,908
Amortization of discount of bills payables	9,722,641	-	-	-	9,722,641
Amortization on interest expenses of lease liabilities	-	5,923,662	-	-	5,923,662
<b>Beginning balances as of December 31, 2019</b>	<b>₱1,156,878,691</b>	<b>₱105,836,340</b>	<b>₱39,788,150</b>	<b>₱187,462</b>	<b>₱1,302,690,644/3</b>

	2018				
	Bills payable (Note 14)	Lease liabilities (Notes 15 and 21)	Deposit for future stock subscription (Note 17)	Dividends payable (Note 15)	Total liabilities from financing activities
Beginning balances as at January 1, 2019, as reported	₱1,038,425,577	₱9,487,783	₱106,295,050	₱182,191	₱1,154,390,601
Cash flows	374,474,589	(4,461,243)	-	(148,193,053)	221,820,293
Non-cash items					
Dividend declaration	-	-	-	148,131,638	148,131,638
Issuance of stock	-	-	(106,295,050)	-	(106,295,050)
Amortization of discount of bills payables	9,235,062	-	-	-	9,235,062
Amortization on interest expenses of lease liabilities	-	1,209,048	-	-	1,209,049
<b>Beginning balances as of December 31, 2019</b>	<b>₱1,422,135,228</b>	<b>₱6,235,588</b>	<b>₱-</b>	<b>₱120,776</b>	<b>₱1,428,491,593</b>

## 23. Events After the Reporting Date

### Deposit for Future Stock Subscription

On July 13, 2019, the Bank's Stockholders approved the Amendment on the Article Seventh of the Bank's Articles of Incorporation, increasing its authorized capital stock from ₱1,000,000,000 to ₱1,500,000,000. The Bank have received the DFS amounting to ₱39.79 million in 2019 (see Note 17). The application for the increase in capital stock was filed by the Bank with the BSP on August 28, 2019 and was approved on February 18, 2020. The application for the increase in capital stock was filed by the Bank with the SEC on March 12, 2020.

The Bank considers the subsequent event as a non-adjusting subsequent event, which do not impact its presentation of financial position and performance as of and for the year ended December 31, 2019.

#### COVID-19 Pandemic

In a move to contain the COVID-19 pandemic, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine throughout the island of Luzon until April 12, 2020, which was subsequently extended to April 30, 2020. The BSP has also issued implementing rules and regulations (IRR) in pursuant to RA No. 11469, otherwise known as the 'Bayanihan to Heal as One Act'. The IRR requires all lenders under BSP supervision to grant a 30-day grace period or extension for the payment of loans due within the enhanced community quarantine period, without imposing additional interest, penalties, or charges on their borrowers. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve.

The Bank considers the events surrounding the outbreak as non-adjusting subsequent events, which do not impact its financial position and performance as of and for the year ended December 31, 2019. However, the outbreak could have a material impact on its 2020 financial results and even periods thereafter. Considering the evolving nature of this outbreak, the Bank cannot determine at this time the impact to its financial position, performance and cash flows. The Bank will continue to monitor the situation.

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#### **24. Approval of the Release of Financial Statements**

The accompanying financial statements were approved and authorized for issue by the Bank's BOD on April 11, 2020.

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#### **25. 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 2019 follow:

Gross receipts tax	₱126,176,420
Business permits and licenses	9,054,864
Documentary stamp tax	7,072,930
Real property tax	476,901
Other taxes	6,411,517
	<u>₱149,192,632</u>

In 2019, withholding taxes remittances and withholding taxes lodged under 'Other liabilities - Accrued taxes' account follow:

Remittances:	
Gross Receipt Tax	₱110,473,441
Expanded withholding tax	11,726,388
Withholding taxes on compensation and benefits	2,182,152
Documentary stamp tax	12,338,159
Final withholding tax on interest expense	14,506,314
	<hr/>
	₱151,226,454

Accrued:	
Gross Receipt Tax	₱22,576,771
Final withholding tax on interest expense	3,666,565
Withholding taxes on compensation and benefits	801,668
Expanded withholding tax	1,042,463
Documentary stamp tax	2,569,746
	<hr/>
	₱30,657,213

Tax Cases and Assessment

The Bank has no outstanding tax assessment and/or legal case filed in court as of December 31, 2019.



# CREDITS

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