



CARDSMEBANK ANNUAL REPORT 2020

BUILDING DIGITAL COMMUNITIES THROUGH OPTIMAL
RESOURCES AND TECHNOLOGY-DRIVEN INITIATIVES

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ABOUT THE COVER



For the last 35 years, CARD MRI has been supporting marginalized women and their families through microfinance services and social development initiatives. As a new era approaches and a New Normal begins, we continue our mission to eradicate poverty armed with optimal resources that will help us achieve our ultimate goal. This 2020, we chose a new path paved with innovations that had proven to be effective in our journey to digitalization.

Our cover embraces the technology-driven initiatives of CARD MRI and addresses the challenges of the pandemic by utilizing key digital strategies to banking in the comforts of one's home.

The cover features Lorna Atienza, 62 years old, a former president of CARD MBA, as she holds one of the most important tools the CARD banking group has devised for a hassle-free mobile banking experience, konek2CARD. The cover entails that there is no limitation as to who uses the mobile banking application, which can be integrated to the lives of the clients we serve for easier, faster, and more efficient transactions. Be they young or old, anyone can freely use konek2CARD as the application fulfills the goal of CARD MRI to financially include those in the hem of the society. Meanwhile, the icons that emanate from the mobile device symbolize the digital communities that we have built to bridge the gaps in communication and encourage a collaborative approach between the mutually reinforcing institutions.

LORNA ATIENZA
Client



VISION

CARD SME Bank, Inc. supports CARD MRI's vision statement as a Group of Mutually Reinforcing Institutions that is dedicated to empower the poor by upholding the core values of competence, family spirit, integrity, stewardship, humility, culture of excellence, and simplicity. As one of the institutions that comprise the CARD MRI and in support of its mission, CARD SME 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

- 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 provide collateralized and non-collateralized loans to non-bankable but viable microfinance and SME projects.
- To grow the bank's SME lending to become the pre-eminent SME Bank in the Philippines to be able to reach more SME beneficiaries.

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.

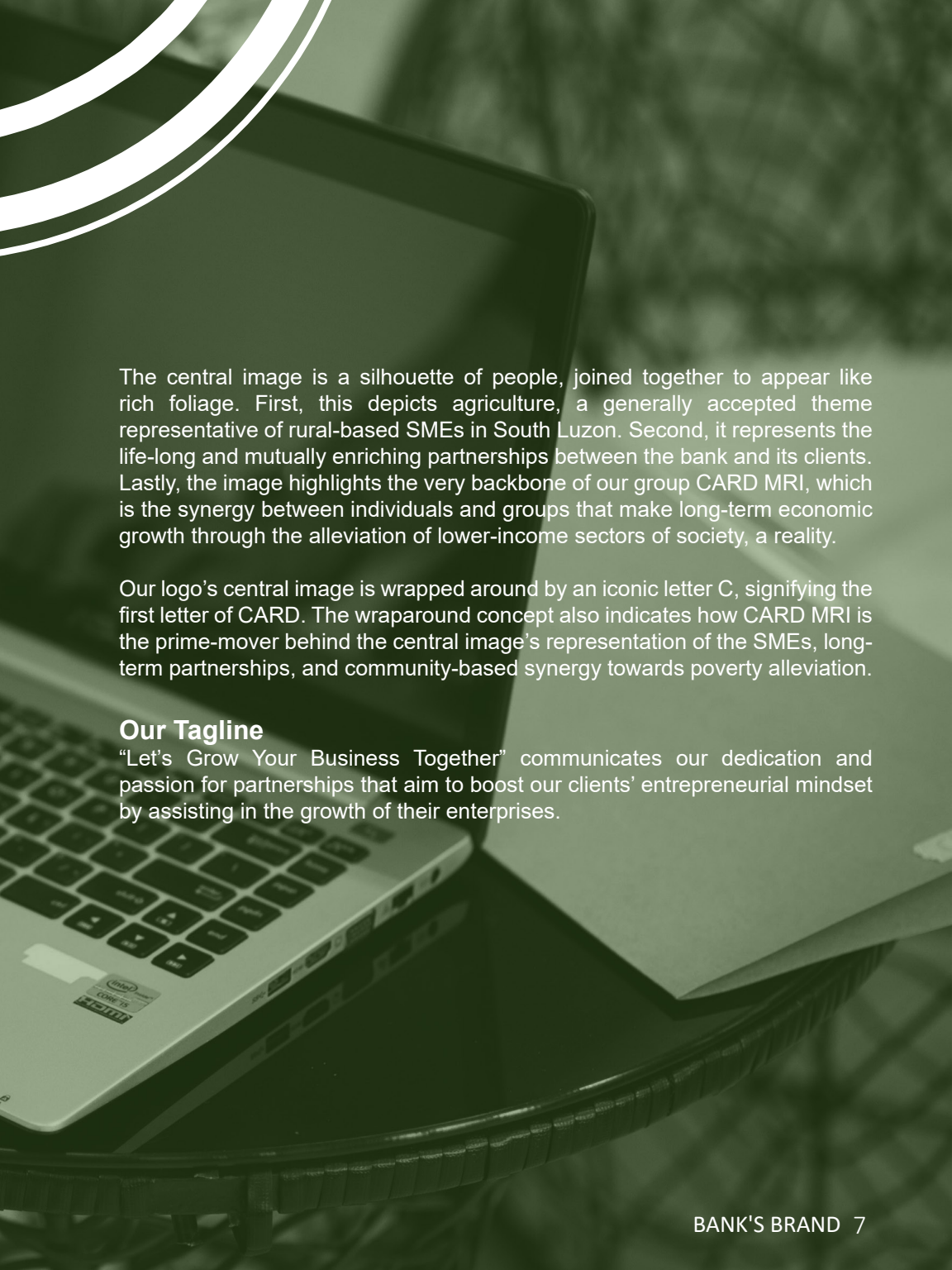
Our Promise

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 institution deem as high-risk and low-ROI.

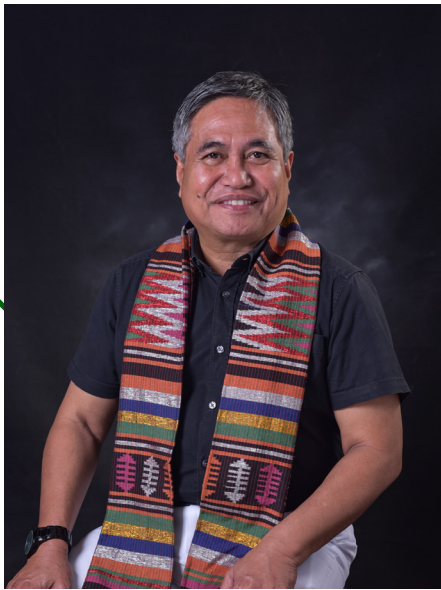


The central image is a silhouette of people, joined together to appear like rich foliage. First, this depicts agriculture, a generally accepted theme representative of rural-based SMEs in South Luzon. Second, it represents the life-long and mutually enriching partnerships between the bank and its clients. 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, long-term partnerships, and community-based synergy towards poverty alleviation.

Our Tagline

"Let's Grow Your Business Together" communicates our dedication and passion for partnerships that aim to boost our clients' entrepreneurial mindset by assisting in the growth of their enterprises.



MENDING THE BROKEN PIECES

Message from the Chairperson



But then, we hit some bumps in 2020. The Taal volcano eruption in January blew ashes to some of our branches in CALABARZON such as Batangas City, Sto. Tomas City, Tanauan City, Lipa City, Balayan, and Lemery in Batangas; and Tagaytay City in Cavite leaving our pillars crippled as our staff and clients were severely affected. We rushed to the evacuation areas and made sure all our staff and clients were well-taken care of.



DR. JAIME ARISTOTLE B. ALIP
Founder and Chairman Emeritus
CARD MRI



New banking products and better non-financial services, aggressive expansion, and more efficient banking experience— these were just some of CARD SME Bank's big plans when we started 2020. We wanted to give nothing but the best products and services to our clients. We were ready to roll our sleeves up and pour our hearts out to do whatever it takes to reach a bigger clientele population to live out our mission to include more poorest of the poor in the collaborative development we are building.

As our operations started catching up, COVID-19 pandemic surprised us. I would have never imagined that a phenomenon as disastrous as this pandemic would happen. Lockdowns were placed and different health protocols were established to protect us from the deadly virus. CARD SME Bank is one with the government as our people's safety is our top priority. Our interactions might be limited but our passion would never be restricted.

Nights and days were longer, but our devoted staff strived to work harder knowing that we aim to create

solutions and strategies to better help our clients, most especially during these trying times. We are thankful to all our staff who were willing to take risks in order to serve our clients. Without them, we could have not fought our battle against COVID-19.

We, together with the whole CARD MRI community, continue to implement our plans as the pandemic became a bit more manageable. We are truly grateful that we have all our existing technologies like konek2CARD which helped us connect to our clients even from a distance. We are also grateful that we have our konek2CARD agents, our Nanays who we trained to assist their fellow members in transacting with their apps within their own communities. Through them, our services are brought closer closer to our clients.

Moreover, our Ugnayan program helped us know our client's situation in order for us to deliver what they need. We conducted virtual center meetings to stay connected without risking our clients' and staff's health. We also made our services more accessible to our clients by providing different alternative delivery channels to them.

As we embark on the "new normal", we would strive to innovate and create new technologies that would enable us to give out a higher level of service our clients truly deserve. We at CARD SME Bank, together with the whole CARD MRI community, and our partners will continue to uphold our mission of achieving a poverty-free Philippines no matter the challenges we face.



As we embark on the "new normal", we would strive to innovate and create new technologies that would enable us to give out a higher level of service our clients truly deserve.

START OF AN ERA

President and CEO's Report



ARISTEO A. DEQUITO
President and CEO



We welcomed 2020 with our arms open and hearts filled with excitement to serve our clients. We believed that it would be a ray of hope for it is the beginning of a new decade.

But 2020 caught us off guard as early as January when the Taal Volcano erupted. Thousands of our fellow Filipinos were affected by the two-week surge of this devastating incident. Lives were lost and properties destroyed which left a lot of us hanging by the thread.

CARD SME Bank wasted no time and rushed to the evacuation areas and delivered all the assistance we could give to all our affected clients and staff. We made sure that they have our support by ensuring that their calamity claims through CARD Pioneer Microinsurance Inc. (CPMI) were disbursed immediately. It was tough but we surpassed it together.

We were slowly recovering from the Taal incident when the COVID-19 pandemic hit us. It silently crept while we were still handling the impact caused by the Taal eruption. While we readily complied to the protocols set by the government to fight the health crisis, the effect of the pandemic went beyond our expectation. With all the lockdowns and different safety measures instituted, CARD SME Bank's movement was also restricted. This pandemic brought different challenges to the institution, but we would never falter for we know we need to serve our clients.

Brought together by distance

The physical distance brought about by the pandemic failed to break us apart; it only made us closer together more than ever. Through our Ugnayan Program, we were able to discuss

our clients' personal circumstances during the pandemic and were able to assess what kind of services they need, all of which were made possible by our digital channels. Through these personal assessments, we were able to provide better and tailor-fitted services to our beloved clients.

Alongside the Ugnayan program, our Business Development Group, with the assistance of Savings Banks Foundation for International Cooperation (SBFIC), conducted a survey on COVID-19 impacts to small and medium enterprises (SMEs) to know how it affected their day-to-day operations. This survey has shed light on different recovery and operational strategies among our clients.

CARD SME Bank, together with the whole CARD MRI, organized a webinar on Crisis Management for SMEs to further assist them on what strategies they could use to cope and bounce back to the business landscape during the pandemic. The three-series webinar was held on August 3, 12, and 14, 2020 and was attended by a total of 155 participants.

Maximizing the digital platforms

CARD SME Bank with the help of the whole CARD MRI community worked

night and day to ensure that all our services would reach all our clients during these trying times. We held our center meetings virtually to make sure that our clients are updated on all important matters.

It is during this time when we realized the true importance of our digitization initiatives starting with our Core Banking System (CBS) which paved the way for easier and faster banking experience for our clients. This year, 21 of our branches have fully migrated to CBS.

Our konek2CARD mobile banking app has also been of great help for us to take our services to our clients without them risking their safety. We were able to enrol a total of 76,155 members, 2,557 non-members, and 602 agents this year. Our CARD Sulit Padala (CSP) was also greatly utilized as a channel of sending and receiving remittances. We were able to make 204 pay in transactions amounting to a total of PhP 3,335,472 while we made 340 pay out transactions which amounted to PhP 6,330,165 this year.

Strengthening our foundation

This year, we were able to open three branches in Nasugbu, Batangas; Lagao, General Santos; and



Bacoor, Cavite. We relocated our Lemery, Batangas branch to better serve our clients in that area. We have also successfully transitioned the Asuncion and Dujali units in Panabo from CARD, Inc. and happily welcomed their 1,710 members and 6 staff.

CARD SME Bank could have not survived the pandemic if it was not for the undying commitment and devotion of our staff to deliver our services to our clients. We want to give out a big salute to each and every staff who risked their lives and did whatever it took to make it through. They are the reason why we are still standing stronger than ever.

As a sign of our continuous appreciation and for the betterment of our services, we conducted a training for branch staff on “Audit Findings, updated Policies and Procedures and Review of Duties and Responsibilities in Relation to the Branch structure and Workflow” on October 24, 2020. We also provided a loan documentation training for our Regional Directors, Loan Managers, Bookkeeper, and Loan Admin Assistant on November 6, 2020. Lastly, we organized a consultation



We intensify our digital transformation efforts to provide faster and more convenient services.

workshop and training with SBFIC on "Establishing a Sustainable Finance Framework for CARD SME Bank" held on September 24, 2020 by Dr. Tobias Peylo.

We always strive to develop and upgrade our services to better fit the needs of our clients that is why this year, we consolidated two of our Agri programs: Small Agri Loan Program and SME Agrifinance. This is also a direct response to the SBFIC project of our Business Development Group.

Embracing the new normal

CARD SME Bank aims to be one of the front runners as the economy tries to bounce back. We have a lot in store in the following years as we intensify our digital transformation efforts to provide faster and more convenient services to our clients. In 2020, we launched our own konek2CARD mobile app to continue providing our banking services to our clients while we battle the effects of COVID-19. Through the app, our clients were able to do transactions including payment of loans and transfer of funds.

By 2021, more CARD Sulit Padala outlets will be established, digital sari-sari stores will be launched, our own funds transfer service will be offered through partnership with InstaPay, and a chatbot called MILA (My Instant Loan Assistant) will also be available soon for faster loan applications and approval. In the near future, we also envision for the Big Data Analytics to be maximized, and more agricultural products and services will be offered.

As the world embraces the digital platform even more, we cannot help but look at things with a silver lining. The marriage between the traditional and digital means of banking embodies the new normal set upon by this new wave of digital acceptance. This brought ease and convenience onto the next level which benefits both our clients and staff as this could mean a better work-life balance among our staff and one-click banking experience to our clients. It is truly the start of a new era for the entire banking landscape.



ONLINE UGNAYAN AT KWENTUHAN



Online Ugnayan at Kwentuhan

@CARDkwento · Community

It was in March 2020 when Luzon was placed under Enhanced Community Quarantine (ECQ) to mitigate the effects of the pandemic. During this time, the Philippines imposed health and safety protocols as well as checkpoints to restrict travel to different places in the country. Face to face interactions also halted, and in its place were virtual gatherings to avoid the spread of the virus.

With this, CARD MRI announced a nationwide moratorium on its loans in accordance to the regulations set by the Bangko Sentral ng Pilipinas. The mutually reinforcing institutions also took a pause to regroup and re-strategize to put its staff and clients' health as its top priority without compromising the relationship they have built overtime.

To bridge the distance between CARD MRI and its clients during the pandemic, Ugnayan at Kwentuhan was formed. The project allowed CARD MRI to stay connected with its clients and staff by means of constant communication. Through phone conversations and various online activities, CARD MRI assures its clients that it will continue to be an ever-present help through its programs.

It has also come up with a way to encourage its members amid challenging times by sharing with them stories of hope through Ang Kwentong Center Ko. This chronicles the lives of nanays

in 142 Centers in Luzon, Visayas, and Mindanao whose lives changed for the better because of CARD MRI's dedication to its core mission of eradicating poverty in the Philippines.

Moreover, to boost the morale of both its staff and clients, CARD MRI also took the opportunity to gather them in a series of four online training sessions that let them reminisce about the history of CARD MRI and its journey. Following the minimum health standards even after the ECQ was lifted, they gathered just like they do during Center Meetings and listened to CARD MRI's institutional heads as they recount the story of how CARD came to be.

During the online training session, attended by approximately 500 participants per session, they shared both laughter and tears because of the stories they have heard and imparted to the community.

However intangible these stories and conversations are, these are an important foundation in CARD MRI's relationship with its clients. With Ugnayan at Kwentuhan, CARD MRI ensures that their relationship with their clients and staff will not falter even with a global pandemic underway. Through this initiative, CARD hopes to gather more stories of hope from its clients and staff as it continues its journey towards recovery.



HOPE AMIDST THE STORM

It is still clear in Eva Encarnacion's mind how challenging the year 2020 is, but being a CARD SME Bank member made the weight a bit lighter. CARD SME Bank helped her and the whole Subic Ilaya 3 Center, Lemery Branch to pick up the pieces and stand up on their feet again.

Eva has been with CARD SME Bank for 11 years now, and she has seen how their center progressed from its establishment on February 26, 2009 to how it is today. It is still fresh in her memory when she and her friends used to walk for 30 minutes to reach their center on time for their center meetings and learn about CARD SME Bank's services. These services made them decide to become members at that very moment and never looked back.

CARD SME Bank has been of great help to Eva and to the members of Subic Ilaya 3 especially when it comes to the financial assistance it provides among them. Just like her co-members, Eva and her family started with a Php5,000 loan to buy some fishing nets and screens to start a small fishing business in Taal Lake. From those humble beginnings, Eva managed to grow their business and now have their own fishing cages which improve their business' efficiency. She can also now make loans amounting to Php30,000 to continuously invest and support their business.

For the members of Subic Ilaya 3, CARD SME Bank is more than just a financial institution who lends money for the poor. It is a financial institution with the heart to really serve the marginalized communities just like theirs. Through different education and training programs, CARD SME

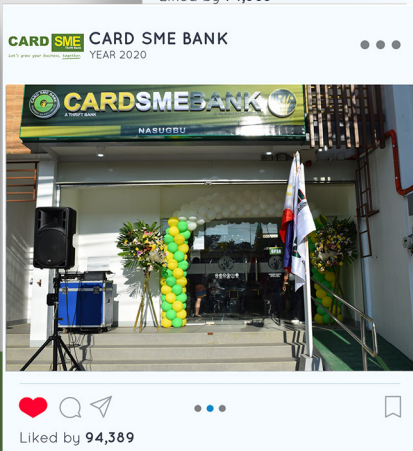
Bank taught them to be wise in handling their hard-earned money, including what they borrowed from the banking institution. Because of these, they are able to secure insurance policies for their whole family and save enough money to send their children to school. Moreover, Eva also had the opportunity to attend an Enterprise Development Training in CARD MRI-Development Institute in order to help her improve and maximize her business' potential.

Alongside these education programs, Eva and her co-members are also grateful for the health benefits given by CARD SME Bank, not only for them but for their families also. Through different Community Health Days, they enjoy free health check-ups, health advice, and dental services which are a big help to them and their community.

Eva also shared that one of the most important things she has as a member of CARD SME Bank is the relationships she has built through the years. She met different people whom she kept and treated like family.

This very essence of family spirit is the reason why Eva and the members of Subic Ilaya 3 are happy to be with CARD SME Bank. This family helped them get through the different challenges posed by 2020— from the Taal Eruption in January to the raging COVID-19 pandemic. They can never be more grateful for having CARD SME Bank by their side and being their ray of hope amidst the gloomy and hazy storm the world is facing. For them, one thing is for sure, CARD SME Bank will be with them until the very last poor is lifted from poverty.







878

UNIT OFFICES/
BRANCH-LITE UNITS

35

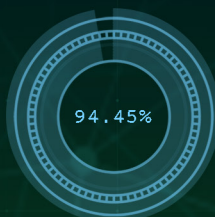
BRANCHES

1

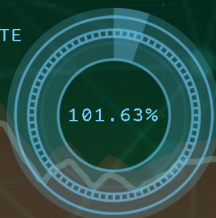
HEAD OFFICE

2,754

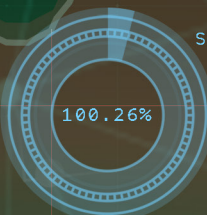
STAFF



REPAYMENT RATE

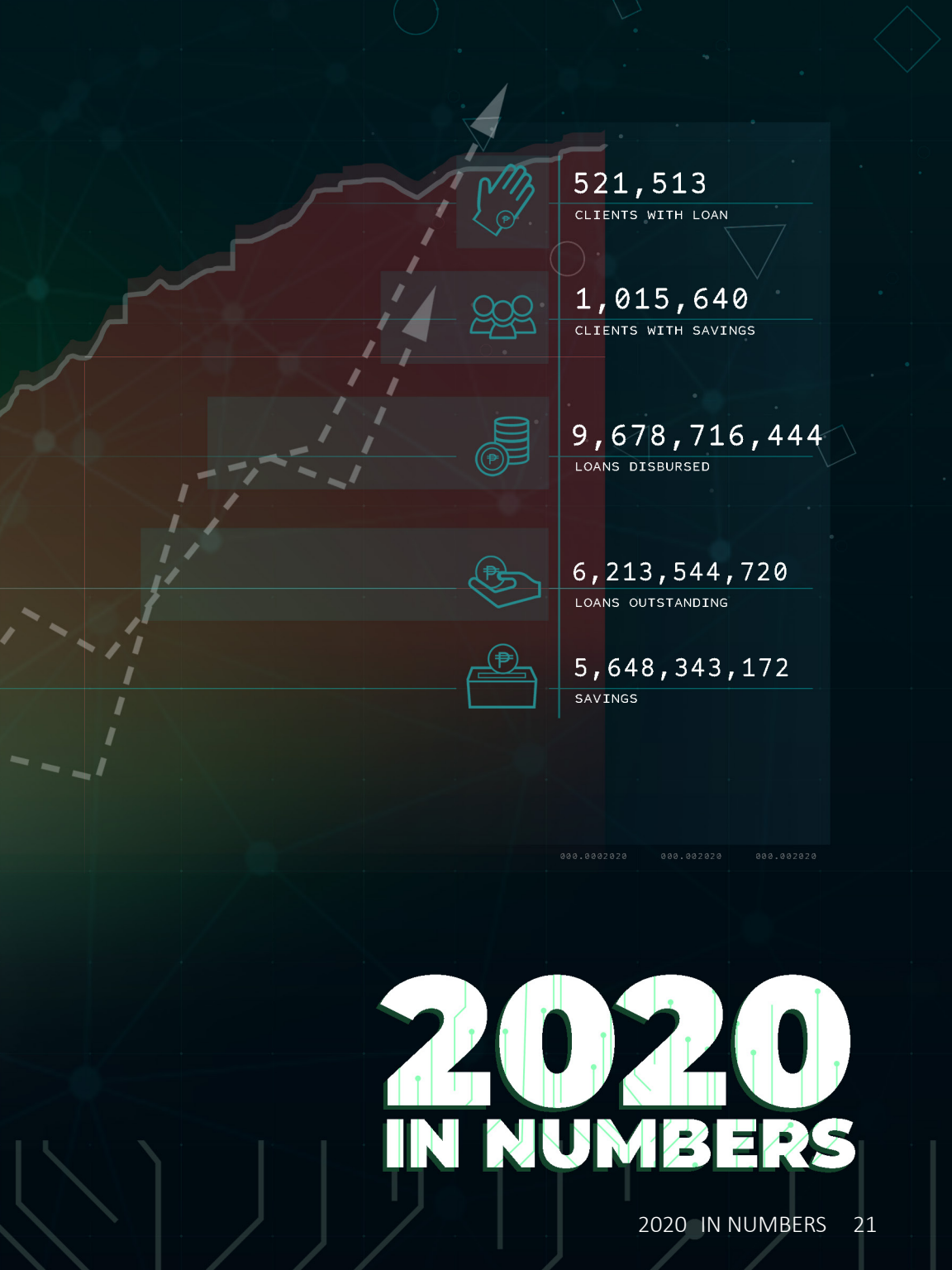


OPERATIONAL
SELF-SUFFICIENCY



Financial
Self-Sufficiency





521,513

CLIENTS WITH LOAN



1,015,640

CLIENTS WITH SAVINGS



9,678,716,444

LOANS DISBURSED



6,213,544,720

LOANS OUTSTANDING



5,648,343,172

SAVINGS

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2020 IN NUMBERS

FINANCIAL HIGHLIGHTS

<i>Minimum Required Data</i>	2020 Current Year	2019 Previous Year
Profitability		
Total Net Interest Income	1,428,728,058	2,354,157,423
Total Non-Interest Income	25,431,671	16,344,963
Total Non-Interest Expenses	1,406,609,091	1,870,489,910
Pre-Provision Profit	47,550,638	500,012,476
Allowance for Credit Losses	267,919,267	272,588,581
Net Income	14,815,202	354,825,782
Selected Balance Sheet Data		
Liquid Assets	1,701,538,780	940,533,310
Gross Loans	6,216,007,185	6,297,595,827
Total Assets	8,553,038,583	7,847,136,753
Total Deposit	5,648,343,172	4,856,856,320
Total Equity	1,540,755,711	1,479,957,907
Selected Ratios		
Return on Average Equity	2.66%	26.22%
Return on Average Assets	0.49%	5.22%
Capital Adequacy Ratio (CAR)	19.93%	18.73%
Others		
Cash Dividend Declared	112,500,000	153,315,960
Head Count		
Officer	233	220
Staff	2,521	2,752
Minimum Liquidity Ratio		
	42.13%	29.32%

Capital Structure and Capital Adequacy		
<i>Tier 1 Capital</i>	<i>2020</i>	<i>2019</i>
Paid up common stock	1,155,622,800.00	999,993,700.00
Retained earnings	357,419,818.81	105,461,049.86
Undivided profits	26,489,700.74	378,489,065.93
Total Core Tier 1 Capital	1,539,532,319.55	1,483,943,815.80
<i>Tier 2 Capital</i>		
General loan loss provision	48,096,841.96	29,295,349.52
Total Core Tier 2 Capital	48,096,841.96	29,295,349.52
Total Qualifying Capital	1,587,629,161.51	1,513,239,165.31
Deductions from Tier 1 and Tier 2 capital;	(75,427,985.16)	(24,811,938.63)
TOTAL QUALIFYING CAPITAL	1,512,201,176.35	1,488,427,226.68
Capital Requirements for credit risk;	4,735,903,149.53	5,786,498,345.56
Capital Requirements for market risk;		
Capital Requirements for operational risk;	2,851,244,446.57	2,161,290,506.11
Total and Tier 1 Capital Adequacy Ratio	19.93%	18.73%

MANAGEMENT COMMITTEE

ARISTEO A. DEQUITO

President and CEO

CYNTHIA B. BALDEO

Executive Vice President and COO

MANOLO M. MARTINEZ

Vice President for Marketing

CHERRY A. BONCAJES

Assistant Vice President - Operations

ANITA F. RAPERA

Assistant Vice President - Operations

FLORENCE CASTILLO

Assistant Vice President- Operations

RODEL BOMBASE

Assistant Vice President- Operation

JEANNIE T. LA ROSA

Assistant Vice President - Finance

JERRY V. MONTEJO

Assistant Vice President for Risk Management

ALLAN D. DIMAANO

Chief Information Officer

BENEDICT A. AME

Chief Compliance Officer

JENNIFER P. MASA

Deputy Director for Compliance

JOVEN N. ROBES

Deputy Director for HR

MILDRED B. MATIENZO

Deputy Director for Finance

RAYMOND UY

Deputy Director for Audit

LOURDES A. MARASIGAN

Credit Risk Management Head

JEANIEBETH A. MAGUNDAYAO

DCC Manager

PETER PASIA

Legal Manager

ROSS MEINARD C. RAMOS

Information Technology Manager

GLEXTER S. MARASIGAN

Data Scientist

ARIEL F. DE VILLA

Security Officer

ROSSANA A. CACHA

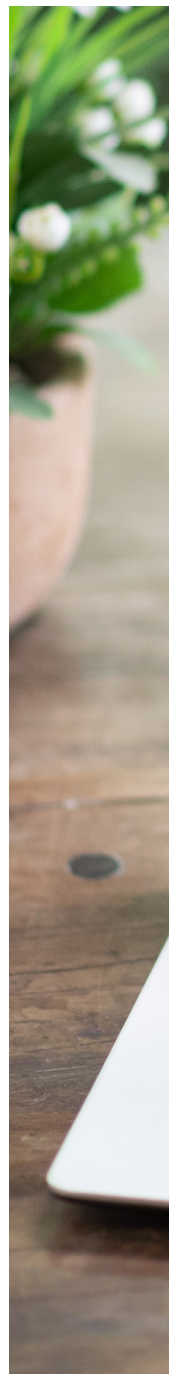
Policy Officer

JERROM A. IBARDELOZA

Information Security Officer

NORBERTO A. DE GUZMAN

Credit Risk Management Officer





MANAGEMENT COMMITTEE

NORALYN D. SILVESTRE

Regional Director

FREDERICK NICASIO M. TORRES

Regional Director

JOY G. PALOMIQUE

Regional Director

LEONIDA M. GUTIERREZ

Regional Director

PATRICIA G. SABALLO

Regional Director

JULIANA M. SALCEDO

Regional Director

ROSELLA F. SANSANO

Regional Director

MARITES ANGARA

Regional Director

AMALIA R. DITCHOSO

Regional Director

MARY ROSE L. VENERAYAN

Regional Director

JAYSON P. SOLOSA

Regional Director

EVA O. MANDAHILAN

Regional Director

GERILYN P. BAUTISTA

Regional Director

JADE T. UBAS

Regional Director

MARIBETH C. QUILT

Regional Director

JOVEN B. BALDOZA

Regional Director

SHIELO K. REYES

Regional Director

RACHEL A. COLIS

Senior Area Manager

BERLINDA F. SALAZAR

Senior Area Manager

IAN M. MADRONA

Senior Area Manager

MADONNA U. BAUTISTA

Senior Area Manager

HELARIO I. DIVINO

Senior Area Manager

EUGENIANO D. GABBAC

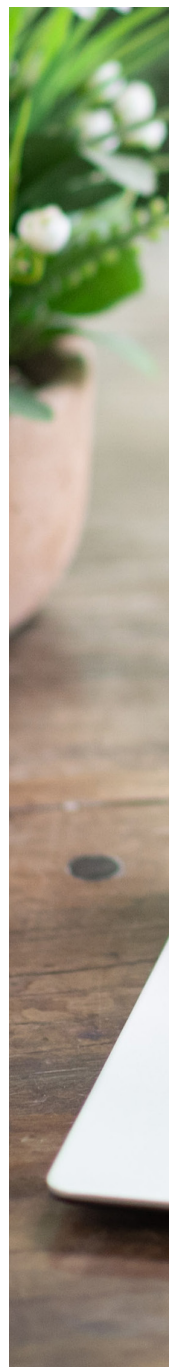
Senior Area Manager

JEANNY BABE F. BALANDRA

Senior Area Manager

BIBIANA A. ALIMPOLOS

Senior Area Manager





CARD SME BANK MANAGEMENT COMMITTEE

- | | | | | |
|------------------------|--------------------|-------------------|----------------------|---------------------|
| Gerilyn Bautista | Rose Cacho | Joven Robes | Rachelle cols | shielo reyes |
| Jeaniebeth Mangundayao | Maril Ramos | Ariel P. De Villa | Shine B. Matienzo | Raymond Uy |
| Belle Salazar | Peter Phalo | CSME Jerrom ib... | an Madrona/CSM... | Jade T. Ubas |
| Eugene Gabbac | jeanny babe bal... | bibiana almpol | Maribeth Quile | Dhess Marasigan |
| Jenny Mlaza | Glexter Marasigan | Norbs De Guzman | Helario I. Divino... | Joven B. Baldoza... |
| | | | Helario I. Divino | Hloven B. Baldoza |

BOARD OF DIRECTORS

DR. JAIME ARISTOTLE B. ALIP
Chairperson

MS. MARY JANE A. PERRERAS
Vice Chairperson for External Affairs

MS. MILAGROS C. ROJAS
Director/Corporate Treasurer

MR. ARISTEO A. DEQUITO
Director/ President and CEO

MS. MA. ELENA M. RUIZ
Director

MS. ELMA B. VALENZUELA
Director

MS. FLORDELIZA L. SARMIENTO
Vice Chairperson for Administration

MS. CHONA A. FELESEDARIO
Independent Director

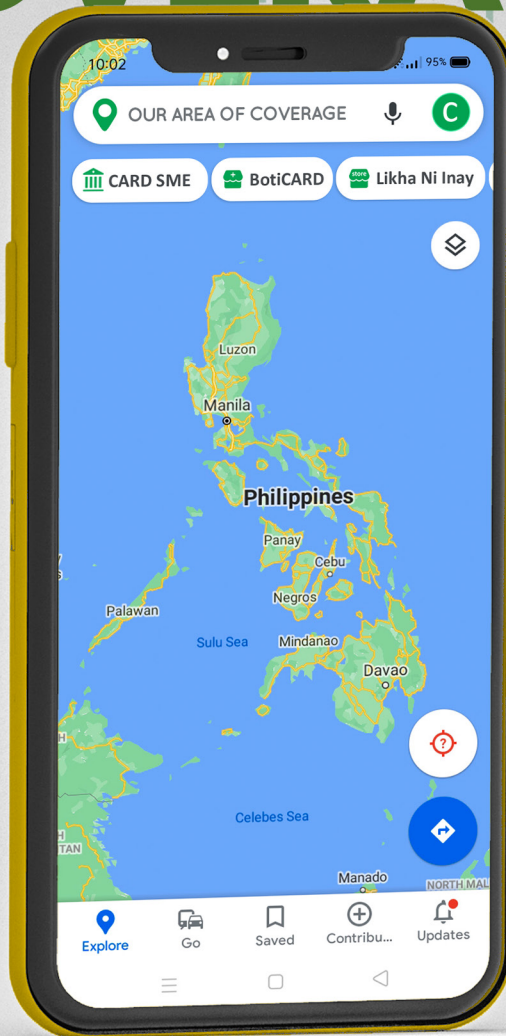
DR. GILBERTO M. LLANTO
Independent Director

ATTY. WILFREDO B. DOMO-ONG
Independent Director

MS. GLORIA R. ESTRELLADO
Independent Director



OUR AREA OF COVERAGE



MAIN OFFICE

San Pablo City, Laguna

LUZON MAIN BRANCHES

San Pablo City
Sto Tomas City
Lipa City
Balayan
Tagaytay City
Sta. Rosa City
Calamba City
Lemery
General Mariano Alvarez
Tanauan City

Rosario
Balayan
Batangas City
Nasugbu
Bacoor City
San Pedro City
Cavite City
Dasmariñas City
Trece Martires City
Caloocan City

Puerto Princesa City
Naga City
San Jose Del Monte City
Balanga City
Subic
Dagupan City
Vigan City
Manaoag

LUZON BLUS

Candelaria
Bay
Tiaong
Talisay
Laurel
Malvar
Mataas na Kahoy
Balete
Cuenca
San Jose
Calaca
Calatagan
Lian
Nasugbu
Tuy
Silang
Mendez
Alfonso
Cabuyao
Taal
Agoncillo
San Luis
Alitagtag
San Nicolas
Carmona

Malvar
Ibaan
Padre Garcia
Calaca
Calatagan
Lian
Tuy
Lobo
Bauan
San Pascual
Mabini
Taysan
Lian
Imus City
Molino
Biñan
Noveleta
Kawit
Rosario
Naic
Indang
Maragondon
General Trias
Tanza
Malabon City

Navotas City
Valenzuela City
Quezon City
Iriga
Sipocot
Pamplona
Marilao
Meycauayan
Norzagaray
Sta. Maria
Novaliches
Caloocan City
Del Monte
Orion
Orani
Mariveles
Dinalupihan
Bagac
Morong
Samal
Hermosa
Pilar
Lima
Olangapo
Castillejos

San Narciso
San Marcelino
San Felipe
San Antonio
Sta. Barbara
Calasiao
Binmaley
Mangaldan
San Fabian
Caoayan
Bantay
San Juan
Sinait
Magsingal
Sto. Domingo
Badoc
Sta. Catalina
Pinili
Sison
San Jacinto
Pozorrubio
San Manuel
Binalonan

VISAYAS MAIN BRANCHES

Lapu-Lapu City
Talisay City
Toledo City

VISAYAS BLUS

Cordova
Mandaue City
Talamban
Lilo-an
Sta. Rosa
Consolacion

Minglanilla
Cebu City
Pinamungajan
Balamban
Asturias

MINDANAO MAIN BRANCHES

General Santos City
Zamboanga City
Cagayan de Oro City
Panabo City

Pagadian City
Lagao, General
Santos City

MINDANAO BLUS

Polomolok
El Salvador
Laguindingan
Tagoloan
Jasaan
Carmen

Sto. Tomas
Kapalong
Asuncion
Braulio E. Dujali
Dumaliniao
Malungon

Label
Malapatan

INSTITUTIONAL PARTNERSHIP

Partnerships/Collaborations

Agricultural Guarantee Fund Pool
Banco de Oro
Bank of the Philippine Islands
Bellavita Land Corporation
ChinaBank Savings
Development Bank of the Philippines (DBP)
German Savings Bank Foundation, Germany
International Finance Corporation
Landbank of the Philippines
Maybank
Metro Commercial and Industrial Services Corporation
Metropolitan Bank and Trust Corporation
PS Bank
Rizal Commercial Banking Corporation
Rocking Moon Foundation, Inc.
Rural Bank of Talisay, Inc.
Savings Bank Foundation for International Cooperation, Germany
Security Bank
SGV & Co.
Small Business Corporation
Social Security System
Union Bank of the Philippines
United Coconut Planters Bank

Regulatory Bodies

Bangko Sentral ng Pilipinas (BSP)
Bureau of Internal Revenue
Department of Labor and Employment
National Privacy Commission
Philippine Deposit Insurance Corporation (PDIC)
Securities and Exchange Commission (SEC)

Affiliations

Association of Bank Compliance Officers
Bankers Institute of the Philippines, Inc.
BancNet, Inc.
BAP Credit Bureau
Chamber of Thrift Banks
Microfinance Data Sharing (MiDAS)
Philippine Chamber of Commerce and Industry (PCCI)
Philippine Chamber of Commerce and Industries (PCCI) Batangas
San Pablo Bankers' Association

CORPORATE GOVERNANCE



MISSION, VISION AND OBJECTIVES

VISION

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

MISSION

CARD SME Bank is committed to:

- 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 provide collateralized and non-collateralized loans to non-bankable but viable microfinance and SME projects
- To grow the bank's SME lending to become the pre-eminent SME Bank in the Philippines to be able to reach more SME beneficiaries

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 Twenty (20) million poorest Filipinos provided with financial services by 2030.

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

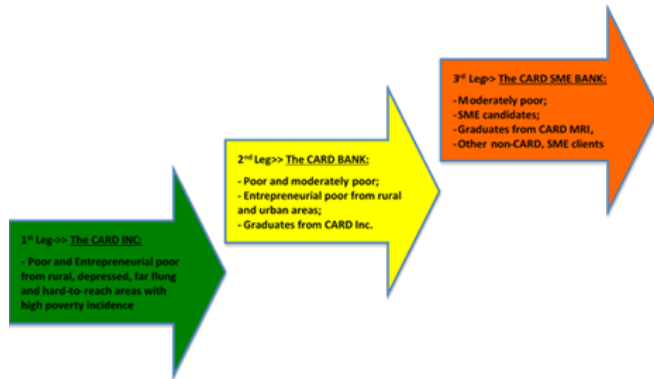
atmosphere of mutual respect.

- **FAMILY SPIRIT.** CARD SME Bank, guided by its genuine love for the poor, builds and nurture 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 always live a simple life in words and in deeds.
- **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., 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:

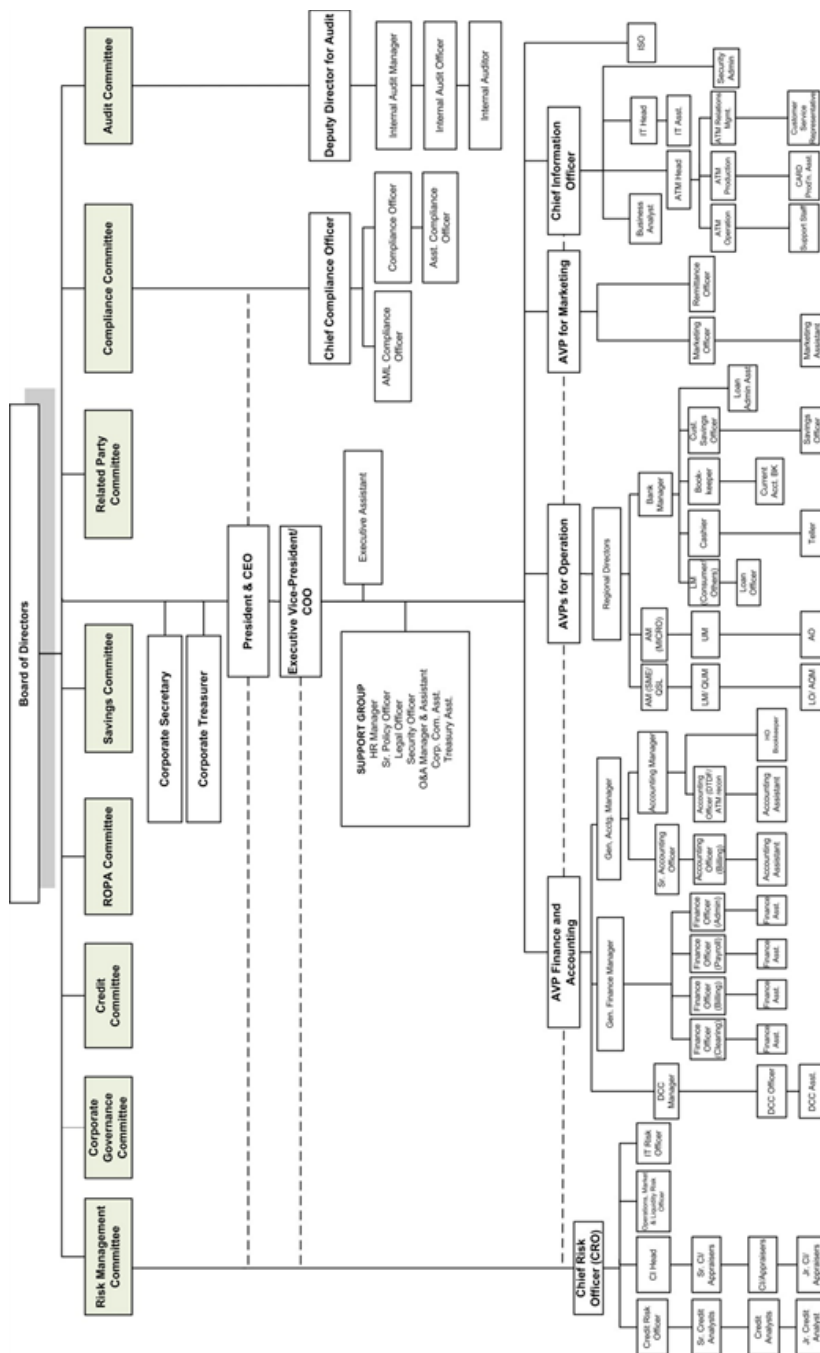


As one of the members of CARD MRI group, CARD SME Bank's target market is also synchronized and deeply thought about to ensure that all the member-institutions reinforced each other in the attainment of the mission and vision of ultimately empowering the poor by upholding the core values of competence,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

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RISK MANAGEMENT AND CORPORATE GOVERNANCE

CARD SME Bank, Inc.'s corporate governance practice adheres to CARD MRI's 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 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 or 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 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.

CHAIRMAN OF THE BOARD OF DIRECTORS

The Chairman of the Board of Directors 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, 2020; 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 2020	
Dr. Jaime Aristotle B. Alip	Non-Executive	13 yrs.	3.351%	12/12	100%
Ms. Flordeliza L. Sarmiento	Non-Executive	13 yrs.	4.500%	12/12	100%
Ms. Mary Jane A. Perreras	Non-Executive	10 yrs.	1.038%	12/12	100%
Ms. Milagros C. Rojas	Non-Executive	13 yrs.	0.300%	12/12	100%
Ms. Elma B. Valenzuela	Non-Executive	2 yrs. and 7 mths.	4.500%	12/12	100%
Ms. Maria Elena M. Ruiz	Non-Executive	9 yrs.	0.000%	12/12	100%
Mr. Aristeo A. Dequito	Executive	4 yrs.	0.739%	12/12	100%
Dr. Gilberto M. Llanto	Independent	9 yrs.	0.000%	12/12	100%
Atty. Wilfredo B. Domo-ong	Independent	9 yrs.	0.000%	12/12	100%
Ms. Gloria R. Estrellado	Independent	1 yr. and 10 mths.	0.000%	12/12	100%
Ms. Chona A. Felesedario	Independent	1 yr. and 10 mths.	0.000%	12/12	100%

BOARD QUALIFICATIONS

Name	Age and Nationality	Date Elected	Shares Held	Qualifications
Dr. Jaime Aristotle B. Alip Chairman of the Board	63, Filipino	May 9, 2020	399,642 (Direct)	With more than 30 years of experience and expertise in the field of microfinance, banking, microinsurance and related fields Educational Attainment: BS Agriculture Major in Agricultural Economics, MS in Professional Studies, PhD in Organization Development, OPM Program in Harvard Business School BSP and other Trainings Attended: 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
	Other Current Directorship and Officership:			
	Institution		Position	
	CARD Bank, Inc.		Chairman/Director	
	CMDI		Chairman/Trustee	
	ICMIF		Director	
	ICMIF Foundation		Chairman/Trustee	
	IGNITE Foundation		Trustee	
	CARD, Inc. (A Microfinance NGO)		Chairman Emeritus	
	RIMANSI Organization for Asia and Pacific		Chairman Emeritus	
	Rizal College of Laguna		Director	
	CARAGA Renewable Energy Corp.		Director	
	Microfinance Information Data Sharing, Inc. (MIDAS)		Chairman	

Name	Age and Nationality	Date Elected	Shares Held	Qualifications
Ms. Flordeliza L. Sarmiento Vice-Chairperson for Administration	58, Filipino	May 9, 2020	536,631 (Direct)	With more than 30 years of experience in microfinance, banking, and other related fields Educational Attainment: BS in Agriculture, Master's Degree - MBA, Executive MBA, and Advanced Management Program BSP and other trainings attended: 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
	Other Current Directorship and Officership:			
	Institution		Position	
	CARD, Inc. (A Microfinance NGO)		Trustee/President	
	CARD Bank, Inc.		Director	
	CARD MRI Rizal Bank		Chairman/Director	
	CARD-BDSFI		Trustee	
	CMDI		Director/President	
	CARD MRI Holdings Inc.		Director	
	FDS Asya Pte. Ltd.		Director	
Ms. Mary Jane Pererras Vice Chair for External Affairs	64, Filipino	May 9, 2020	123,761 (Direct)	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. Educational Attainment: BS Medical Technology in University of Sto. Tomas, and Executive MBA in Asian Institute of Management BSP and other trainings attended: 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
	Other Current Directorship and Officership:			
	Institution		Position	
	Chamber of Thrift Bank		Board of Trustee	

Name	Age and Nationality	Date Elected	Shares Held	Qualifications
Mr. Aristeo A. Dequito Director/President and CEO	53, Filipino	May 9, 2020	93,532 (Direct)	With more than 30 years of experience in microfinance, 23 years of which is in banking and finance. Educational Attainment: 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. BSP and other trainings attended: 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
	Other Current Directorship and Officership:			
	Institution		Position	
	CARD-BDSFI		Chairman/Director	
	MICRO VENTURES, INC.		Director	
CARD, INC., A MI-CROFINANCE NGO		Trustee		
Ms. Elma B. Valenzuela Director	56, Filipino	May 9, 2020	536,631 (Direct)	With more than 30 years of experience in microfinance and 5 years of which is banking and finance. Educational Attainment: Bachelor of Science in Agriculture from Gregorio Araneta University Foundation, Master's in Business Administration from Trinity College of Quezon City, Executive MBA from Asian Institute of Management, and Advance Management Program at Harvard Business School BSP and other trainings attended: 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
	Other Current Directorship and Officership:			
	Institution		Position	
	CARD MRI Rizal Bank, Inc.		Director/President and CEO	
	CARD, Inc. (A Microfinance NGO)		Board of Trustee	

Name	Age and Nationality	Date Elected	Shares Held	Qualifications
Ms. Maria Elena M. Ruiz Director	71, Filipino	May 9, 2020	2 (Direct)	With more than 26 years of experience in banking and finance
	Other Current Directorship and Officership:			Educational Attainment: Bachelor of Science in Commerce from College of the Holy Spirit BSP and other trainings attended: 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
	Institution		Position	
	CARD Inc. (A Microfinance NGO)		Trustee	
Ms. Milagros C. Rojas Director/Treasurer	53, Filipino	May 9, 2020	35,832 (Direct)	With more than 30 years of experience in banking and finance
	Other Current Directorship and Officership:			Educational Attainment: Bachelor of Science in Commerce major in Entrepreneurship from Assumption College BSP and other trainings attended: Anti-Money Laundering/Combating the Financing of Terrorism, Risk Management Seminar, IT Governance Principle Course, Basic Rural banking Course and Good Governance Seminar.
	Institution		Position	
	N/A			
Dr. Gilberto M. Llanto Independent Board	70, Filipino	May 9, 2020	3 (Direct)	A professional economist who has held various executive and research positions 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.
	Other Current Directorship and Officership:			Educational Attainment: A. B. Philosophy, M.S. Economic Program, M.A. Economics, and Ph.D. Economics. BSP and other trainings attended: Governance for Board of Directors, Briefing on BSP Cir.706 Updated AML Rules and Regulations, and Agricultural Banking.
	Institution		Position	
	CARD Bank, Inc.		Director	
	CMDI		Trustee	
	Philippine Institute for Development Studies		Trustee	

Name	Age and Nationality	Date Elected	Shares Held	Qualifications
Atty. Wilfredo B. Domo-ong	80, Filipino	May 9, 2020	3 (Direct)	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. Educational Attainment: Bachelor of Science in Commerce and Law Graduated at the Manuel L. Quezon University BSP and other trainings attended: 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.
	Other Current Directorship and Officership:			
	Institution		Position	
	Rizal Microfinance Bank		Director	
Ms. Gloria R. Estrellado Independent Board	67, Filipino	May 9, 2020	1 (Direct)	An entrepreneur and former Barangay Official. Educational Attainment: High School Graduate BSP and other Trainings Attended: IT Governance Seminar, Anti-Money Laundering/Combating the Financing of Terrorism, Corporate Governance Seminar, Risk Management Agrarian Reform Law and Paralegal Skills Training.
	Other Current Directorship and Officership:			
	Institution		Position	
	N/A			
Ms. Chona A. Felesedario Independent Board	67, Filipino	May 9, 2020	1 (Direct)	An entrepreneur and active officer in different associations in their locality. Educational Attainment: Bachelor of Science in Elementary Education undergraduate. BSP and other Trainings Attended: Basic Course on Governance for Board of Directors and Senior Management, Governance on Communities Default Task and Customer Care Training.
	Other Current Directorship and Officership:			
	Institution		Position	
	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	Attendance		Position
Ms. Chona A. Felesedario	12/12	100%	Chairperson
Ms. Flordeliza Sarmiento	12/12	100%	Member
Atty. Wilfredo B. Domo-ong	12/12	100%	Member

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 met 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	Attendance		Position
Ms. Gloria R. Estrellado	12/12	100%	Chairperson
Ms. Maryjane A. Perreras	12/12	100%	Member
Atty. Wilfredo B. Domo-ong	12/12	100%	Member

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 three (3) members of the Board of Directors, majority of whom are independent directors including the Chairperson. The committee regularly met every 2nd Saturday of the month or as the need arises.

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

- a. Oversee the risk management framework.
- b. Oversee adherence to risk appetite.
- c. Oversee the risk management function.

C. Audit Committee

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

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 director, who have knowledge of financial reporting and internal controls. The committee has regularly met every 2nd d Saturday of the month or as the need arises.

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

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

D. Related Party Transactions (RPT) Committee

Committee Member	Attendance		Position
Atty. Wilfredo B. Domo-ong	12/12	100%	Chairperson
Ms. Mary Jane A. Perreras	12/12	100%	Member
Dr. Gilberto M. Llanto	12/12	100%	Member
Ms. Gloria R. Estrellado	13/15	87%	Member

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 refrain from evaluating such particular transaction. Independent unit such as Chief Compliance Officer and the Deputy Director for Audit sit as resource person of the committee. The committee regularly met 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.

- e. Ensures that transactions with related parties, including write-off of exposures, are subject to periodic independent review or audit process.
- f. 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	Attendance		Position
Atty. Wilfredo B. Domo-ong	11/12	92%	Chairperson
Ms. Mary Jane A. Perreras	12/12	100%	Member
Ms. Cynthia B. Baldeo	11/12	92%	Member
Mr Benito R. Pagaspas	12/12	100%	Member
Mr. Benedict A. Ame	12/12	100%	Member
Mr. Raymund A. Uy	12/12	100%	Member

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 met 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 tasks of the Compliance Committee include the following:

- a. 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.
- b. Ensure that updated compliance program was approved by the Board, oversee, and promotes its effective implementation.
- c. Ensuring that compliance issues encounter by the Bank were immediately resolved and acted upon.
- d. Ensuring that duties and responsibilities of Board of Directors stated under Section 132 of the MORB: Powers/responsibilities and duties of Director were done.
- e. 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.
- f. Review and take action, as necessary, on AML related reports coming from the bank's compliance office.
- g. Shall oversee and ensure the effective performance of the AML/TF functions of the Bank's Compliance Office.

F. Outsourcing Oversight Committee

Committee Member	Attendance		Position
Mr. Aristeo A. Dequito	11/12	100%	Chairperson
Ms. Cynthia B. Baldeo	10/12	83%	Vice Chair
Ms. Jeannie T. La Rosa	11/12	100%	Member
Mr. Allan D. Dimaano	12/12	100%	Member
Mr. Jerry Montejo	12/12	100%	Member
Committee Member	Attendance		Position
Mr. Benedict A. Ame	12/12	100%	Member
Ms. Cherry A. Boncajes	12/12	100%	Member

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 met 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	Attendance		Position
Mr. Aristeo A. Dequito	12/12	100%	Chairperson
Ms. Cynthia Baldeo	12/12	100%	Vice Chair
Ms. Jeannie T. La Rosa	12/12	100%	Member
Mr. Benedict A. Ame	12/12	100%	Member
Mr. Allan Dimaano	12/12	100%	Member

Mr. Jerrom Ibardeola	12/12	100%	Member
Mr. Ross Meinard C. Ramos	12/12	100%	Member
Mr. Dennis Dimaculangan	12/12	100%	Member
Mr. Glexter Marasigan	12/12	100%	Member

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 met once a month 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 on proceeding with purpose IT projects.
- Serves as formalized group that is responsible for ensuring 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	Attendance		Position
Mr. Jeannie T. La Rosa	12/12	100%	Chairperson
Ms. Cynthia B. Baldeo	11/12	97%	Vice Chair
Mr. Aristeo A. Dequito	12/12	100%	Member
Mr. Benedict A. Ame	12/12	100%	Member
Mr. Cherry A. Boncajes	12/12	100%	Member

Mr. Jerry Montejo	12/12	100%	Member
Ms. Anita Rapera	12/12	100%	Member
Ms. Florence Castiloo	12/12	100%	Member
Ms. Noralyn Silvestre*	4/5	80%	Member
Ms. Mildred Matienzo	12/12	100%	Member
Mr. Rodel Bombase	9/12	75%	Member

**Committee Membership ended effective June 2020*

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 met regularly once a month and held every Wednesday before the Board Meeting. The ALCO Chairperson updates during Risk Management Committee any risk identifies concerning financial management of the bank.

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

- 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 adequate liquidity for emergencies.
- Ensure that profitability and sustainability of the institution through proactive balance sheet management.
- 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).
- 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. Remittance Committee

Committee Member	Attendance		Position
Ms. Maria Elena M. Ruiz	12/12	100%	Chairperson
Ms. Cynthia B. Baldeo	12/12	100%	Vice Chair
Dr. Edzel A. Ramos	11/12	97%	Member
Committee Member	Attendance		Position
Mr. Manolo M. Martinez	12/12	100%	Member

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 met every 2nd Saturday of the month and is composed Once (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:

- Monitoring of movement of savings portfolio including performance of Savings Officers.
- Monitoring of remittance transactions and recommend strategic initiatives to increase volume of transactions.
- Recommending savings promos and campaigns to increase deposit portfolio.
- Reviewing of sales promos and campaigns proposed by the Marketing Unit.
- Identifying applicable trainings for Savings Officers
- Act as sponsor for marketing proposals for savings mobilization.
- Define project success measures.
- Follow progress on on-going marketing promotions.

J. Real and Other Properties Acquired (ROPA) Committee

Committee Member	Attendance		Position
Ms. Milagros C. Rojas	12/12	100%	Chairperson
Ms. Lourdes Marasigan	12/12	100%	Vice Chair
Mr. Benedict A. Ame	12/12	100%	Member
Mr. Peter Pacia	12/12	100%	Member

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 Credit Risk Management Unit Officer. The committee met once a month held every Thursday prior to Board Meeting.

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 proposal 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 PhP500,000 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 PhP500,000. 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 serve 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 assist 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. Its 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, BRI, 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 Head is also designated as the liaison officer of the compliance office in their respective branches. Regional Head 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 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 handle 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 an 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 ensured that risk exposure to ML/TF was identified, understand, and assess when dealing with its customers, based on geographical areas of operations and customer, 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.



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 ID & 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 Benefit 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; and
- 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);
- Conducting Background and credit investigation and Loan Utilization Check; and
- 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 feedback, 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 or cardsme.atmoperations@cardmri.com or visit our website 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

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
Mr. Aristeo A. Dequito, President and Chief Executive Officer 53, Filipino	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.
Ms. Cynthia B. Baldeo Executive Vice President and Chief Operating Officer 56, Filipino	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.
Ms. Cherry B. Boncajes Assistant Vice President for Operation 44, Filipino	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

SENIOR MANAGEMENT	PROFILE
Ms. Anita F. Rapera Assistant Vice President for Operation 52, Filipino	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.
Ms. Florence C. Castillo Assistant Vice President for Operation 42, Filipino	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 Leadership and Diversity for Innovation Program at Wharton University of Pennsylvania 2020.

SENIOR MANAGEMENT	PROFILE
Mr. Rodel T. Bombase Assistant Vice President for Operation 42, Filipino	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.
Ms. Jeannie T. La Rosa Assistant Vice President for Finance and Accounting 42, Filipino	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.
Mr. Benedict A. Ame Chief Compliance Officer 40, Filipino	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.

SENIOR MANAGEMENT	PROFILE
Mr. Jerry V. Montejo Head of Risk Management 45, Filipino	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.
Mr. Raymond A. Uy Deputy Director for Audit 36, Filipino	Mr. Uy started with CARD as Account Officer prior to becoming an 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
Mr. Manolo C. Martinez Head of Marketing and Product Development 52, Filipino	Mr. Martinez was formerly a Business Manager of UNIONBANK, Sales 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.

SENIOR MANAGEMENT	PROFILE
Mr. Allan D. Dimaano Chief Information Officer 46, Filipino	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.

LIST OF MAJOR STOCKHOLDER

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	36.329%	Voting
CARD EMPC	Filipino	Common	30.010%	Voting



CARDSMEBA

A THRIFT BANK

BACOR BRANCH

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 consider the Bank's internally 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 his election as member 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.

Amidst the COVID 19 pandemic, the board, senior management, officers and staff continuously attend seminars, training and orientations provided by the external and in-house training providers such as BAIPHIL, ABCOMP, CTB, CMDI and the Compliance Unit. Supervisory Assessment Framework (SAFr) webinar was attended by the board and senior management, Branch

Focus Training was developed and implemented to address operational lapses of officers and staff at the branch level, a refresher training for Account Officers, Unit Managers and Area Managers, and AMLA, Data Privacy and Compliance Orientation was also conducted to the majority of the bank personnel. The Compliance Unit also attended Anti-Money Laundering & Combating the Financing of Terrorism webinars, Compliance Framework, Supervisory Assessment Framework (SAFr), and Related Party Transactions Training was attended.

The Microfinance and Health Awareness Unit also conducted Mental Health and COVID awareness webinars to the bank's officers and staff in response to the COVID 19 Pandemic and to ensure minimum health standards are efficiently implemented in all CARD SME Bank Offices and Staff Houses.

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 Head 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.

PERFORMANCE ASSESSMENT

Board Members

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.

Senior Management

CARD SME Bank, Inc. follow a standard performance evaluation process for all regular employees (Senior Management, Officers and Staff) annually covering the twelve months period. All employee accomplished the standard Performance Evaluation form which result serve as the annual performance report of the employee. Performance evaluation considers both quantitative and qualitative performance of the employee.

A special performance evaluation was also conducted depending on specific needs such as but not limited to promotion, transfer of assignment, or lateral transfer among others. Any personnel action related to the conduct of performance appraisal should be acted on time. It is the responsibility of the management to ensure that report on individual performance is properly documented and submitted to corresponding offices. Performance evaluation was conducted by the immediate supervisor and approved by the next level higher authority. For members of the Senior Management, approval of the performance evaluation report is thru the office of the President and CEO. Except for the members of the executive committee and head of the audit, risk and compliance unit whose performance evaluation approval is thru their respective committee chairperson or thru the office of the Chairman or Vice-Chairperson for Administration.

REMUNERATION POLICY

Board Members

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 Officer 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 and 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 consumer.
- 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) 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 or cardsme.atmoperations@cardmri.com or visit our website www.cardmri.com/cardsme
- Installation of suggestion box and incidents complaint logbooks in all Branches and Branch-Lite Unit offices.

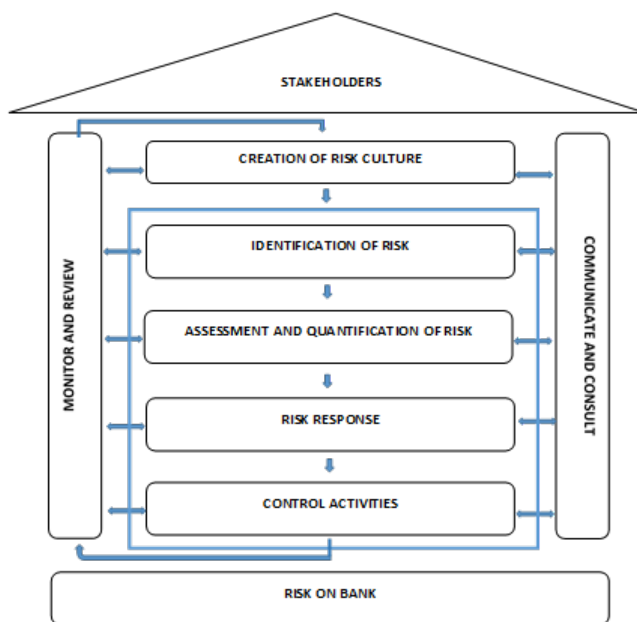


RISK MANAGEMENT FRAMEWORK

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 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

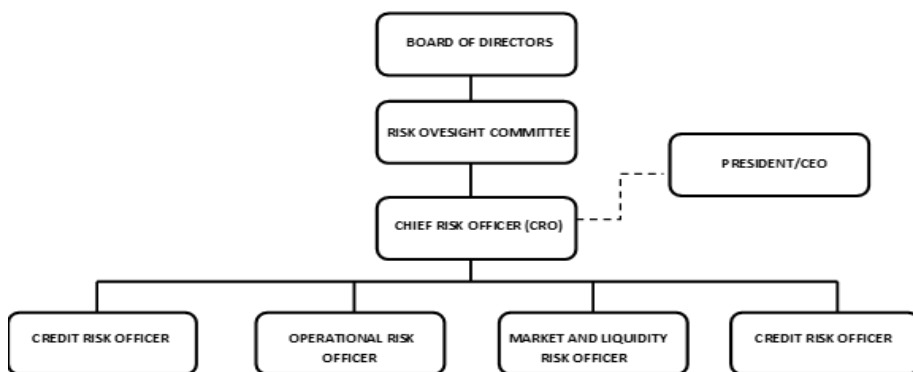
The ROC advises the board of directors on the Bank's overall current and future risk appetite, oversees senior management's adherence to the risk appetite statement, and reports on the state of risk culture of the bank. The ROC shall:

- 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. For the year 2020, six (6) loan accounts were granted to DOSRI with outstanding balance amounting to 0.449 million as of December 31, 2020 which is 0.0072% of the total loan outstanding of the bank. Details of the related party transactions are presented in the Note 20 of the Audited Financial Statement.

CORPORATE SOCIAL RESPONSIBILITY

Policy Objective

To cater in social empowerment in Corporate Social Responsibility (CSR) programs for CARD SME Bank create more opportunities to raise savings mobilization, reduce default rates and measure more positive community impact among members.

Policy Statement

CARD SME Bank shall ensure that the CSR investment shall proactively consider as a business opportunity and strategy to support the Social Performance Management as a whole.

For almost three decades, CARD SME Bank assured that the CSR addresses the impact on the lives of its beneficiaries, its relevance in addressing current society concerns, its long-term commitment to continue the program and services, and its effectiveness in inspiring other institutions to resonate the same initiatives.

CARD SME Bank aim to provide holistic social development service to the poor by giving its clients access to health services. CARD SME Bank clients, their children and deserving students from indigent and poorest communities have also the opportunity to get educational assistance and scholarships. CARD SME Bank also ensures that its members and their families can get back on their feet through immediate provision of relief goods, stress debriefing, health missions, and immediate claims payment.

CARD SME Bank believes that financial support must be paired with suitable and effective community development services so that poverty eradication can be achieved. CARD SME Bank has been very active in delivering various programs which may assist its clients to support their growing enterprises as well as their other needs in health and education.

A. SCHOLARSHIP PROGRAM

Believing that education brings about change in the community, CARD SME Bank together with members of CARD MRI offers educational assistance and scholarship through the CARD Scholarship Program (CSP) under the Resource Mobilization Unit (RMU) of CARD MRI. This was launched in 2000 and CSP has been actively and successfully providing a platform for qualified students to have well-deserved opportunities for education.

B. HEALTH PROTECTION PROGRAM

CARD SME Bank ensures that health condition of its clients is protected. We found out that most members and their families suffer from common, treatable, and/ or preventable illnesses. Thus, the Microfinance and Health Protection Program was conceptualized. Greater availability and access to affordable physician consultation services; affordable, quality prescription drugs to treat the most common diseases; and more information about how to use health care services that are available, including when to seek treatment for themselves and their families are the greatest healthcare needs of these families.

With the restriction on social gatherings and strict implementation of social distancing, the bank and the CARD MRI has deferred its regular activities in providing Credit with Education and community health days. However, with its desire to continuously provide medical assistance to the members and to the public, following health service initiatives were provided in the midst of COVID-19 threat.

1. E-Doctor Consultation

In response to the COVID-19 pandemic where there are physical limitations, the Microfinance and Health Protection (MaHP) program unit launched a free online health consultation using Facebook page where our medical health practitioners continue to provide medical support to the communities nationwide.

2. E-Doctor Webinar

The CARD e-Doctor also, became a venue for CARD SME Bank to inform and educate the general public about many certain health concerns and issues. Despite the health threat, CARD SME Bank continues its advocacy in raising awareness on health and wellness.

3. CARD MRI Buy-and Sell

To support the CARD microentrepreneurs, CARD MRI created an online community for its clients and members to continue their businesses despite restricted mobility due to the ECQ. This Facebook page allows CARD clients to buy and sell their products.

We continue to provide these primary healthcare needs and business support which we already extended across the country.

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.
- » Other Loans - These product intends to assist microfinance members to support the family needs for education, health, and insurance. Maximum loan amount is up to PHP10,000.00.

SME Loans

- » 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

AUDITED FINANCIAL STATEMENTS

2020



3,3
ACTIVE

6,9
CLIENTS

7,1
CLIENTS

27,2
LOANS D

31,8
LOANS O

27,3
SAVINGS

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, 2020 and 2019, 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, 2020 and 2019, 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.



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

	December 31	
	2020	2019
ASSETS		
Cash and other cash items (Note 6)	₱48,177,003	₱26,391,653
Due from Bangko Sentral ng Pilipinas (Note 6)	1,322,053,915	670,187,575
Due from other banks (Note 6)	331,307,862	243,954,082
Loans and receivables (Note 7)	6,216,007,185	6,297,595,827
Financial assets at amortized cost (Note 8)	50,850,000	50,850,000
Property and equipment (Note 9)	279,108,637	272,529,841
Investment properties (Note 10)	8,532,786	9,734,998
Intangible assets (Note 11)	17,321,211	1,525,250
Retirement asset (Note 20)	98,343,779	95,782,377
Deferred tax assets (Note 21)	66,300,305	74,711,954
Other assets (Note 12)	115,035,900	103,873,196
TOTAL ASSETS	₱8,553,038,583	₱7,847,136,753
LIABILITIES AND EQUITY		
Liabilities		
Deposit liabilities (Notes 13)		
Demand	₱84,524,387	₱33,380,679
Savings	5,563,818,785	4,823,475,641
	5,648,343,172	4,856,856,320
Bills payable (Note 14)	1,090,908,588	1,156,878,691
Income tax payable	252,638	44,660,129
Accrued interest and other expenses (Note 15)	86,784,111	95,590,513
Other liabilities (Note 15)	185,994,363	213,193,193
	7,012,282,872	6,367,178,846
Equity		
Common stock (Note 17)	1,155,622,800	999,993,700
Surplus (Note 7)	372,235,003	469,919,801
Remeasurement gains on retirement plan (Note 20)	12,897,908	10,044,406
	1,540,755,711	1,479,957,907
TOTAL LIABILITIES AND EQUITY	₱8,553,038,583	₱7,847,136,753

See accompanying Notes to Financial Statements.



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

	Years Ended December 31	
	2020	2019
INTEREST INCOME		
Loans and receivables (Note 7)	₱1,601,546,693	₱2,473,008,380
Due from BSP and other banks (Note 6)	18,412,617	30,687,892
Financial assets at amortized cost (Note 8)	3,111,999	2,704,250
Security deposits	624,375	265,541
	1,623,695,684	2,506,666,063
INTEREST EXPENSE		
Deposit liabilities (Notes 13 and 20)	136,351,979	91,821,376
Bills payable (Note 14)	49,642,444	54,763,602
Lease liabilities (Note 23)	8,973,203	5,923,662
	194,967,626	152,508,640
NET INTEREST INCOME	1,428,728,058	2,354,157,423
OTHER INCOME (LOSS)		
Net gain (loss) on sale and write-off of fixed and intangible assets (Notes 9, 10 and 11)	(144,087)	2,548,885
Miscellaneous (Note 18)	25,575,758	13,796,078
	25,431,671	16,344,963
TOTAL OPERATING INCOME	1,454,159,729	2,370,502,386
OPERATING EXPENSES		
Compensation and fringe benefits (Note 22)	614,756,571	747,015,813
Taxes and licenses	132,235,176	149,192,632
Depreciation and amortization (Notes 9 and 11)	120,970,036	73,858,659
Information technology (Note 22)	115,195,114	123,201,918
Transportation and travel	82,352,293	140,287,151
Stationery and office supplies	78,880,111	101,064,650
Occupancy and equipment-related cost (Notes 22 and 23)	71,562,604	108,405,066
Security, messengerial and janitorial	51,289,936	51,899,082
Power, light and water	35,078,157	32,848,126
Employee trainings (Note 22)	25,677,542	87,233,373
Provision for credit losses (Note 7)	19,651,928	148,796,365
Program monitoring	11,976,219	25,931,574
Representation and entertainment (Note 21)	6,463,363	11,584,942
Professional fees	4,157,122	12,948,891
Miscellaneous (Note 19)	36,362,919	56,221,668
TOTAL OPERATING EXPENSES	1,406,609,091	1,870,489,910
INCOME BEFORE INCOME TAX	47,550,638	500,012,476
PROVISION FOR INCOME TAX (Note 21)	32,735,436	145,186,694
NET INCOME	₱14,815,202	₱354,825,782

See accompanying Notes to Financial Statements.



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

	Years Ended December 31	
	2020	2019
NET INCOME	₱14,815,202	₱354,825,782
OTHER COMPREHENSIVE LOSS		
<i>Other comprehensive income (loss) not recycled to profit or loss in subsequent periods:</i>		
Changes in remeasurement gains (losses) on retirement plan (Note 20)	4,076,432	(18,661,068)
Income tax effect	(1,222,930)	5,598,319
	2,853,502	(13,062,749)
TOTAL COMPREHENSIVE INCOME	₱17,668,704	₱341,763,033

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 20)	Total
Balance at January 1, 2020	P999,993,700	P406,450,053	P63,469,748	P10,044,406	P1,479,957,907
Transfers from surplus to surplus reserves (Note 17)	—	(13,865,189)	13,865,189	—	—
Issuance of new capital stock (Notes 17 and 24)	88,126,800	—	—	—	88,126,800
Collection of subscriptions receivable (Note 17)	6,300	—	—	—	6,300
Total comprehensive income for the year	—	14,815,202	—	2,853,502	17,668,704
Stock dividends declared (Note 17)	67,496,000	(67,500,000)	—	—	(4,000)
Cash dividends declared (Note 17)	—	(45,000,000)	—	—	(45,000,000)
Balance at December 31, 2020	P1,155,622,800	P294,900,066	P77,334,937	P12,897,908	P1,540,755,711
Balance at January 1, 2019	P752,777,500	P510,273,499	P129,780	P23,107,155	P1,286,287,934
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)
Balance at December 31, 2019	P999,993,700	P406,450,053	P63,469,748	P10,044,406	P1,479,957,907

See accompanying Notes to Financial Statements.



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

	Years Ended December 31	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱47,550,638	₱500,012,476
Adjustments for:		
Depreciation and amortization (Notes 9 and 11)	120,970,036	73,858,659
Provision for credit losses (Note 7)	19,651,928	148,796,365
Retirement expense (Note 20)	13,501,918	3,990,554
Amortization of discount on bills payable (Note 14)	10,522,597	9,722,641
Interest expense on lease liabilities (Note 23)	8,973,203	5,923,662
Net loss (income) on sale and write-down of fixed and intangible assets (Notes 9, 10 and 11)	144,087	(2,548,885)
Changes in operating assets and liabilities:		
Decrease (increase) in the amounts of:		
Loans and receivables	61,936,714	(1,298,455,937)
Other assets	(11,162,704)	(11,165,289)
Increase (decrease) in the amounts of:		
Deposit liabilities	791,486,852	932,234,479
Accrued interest and other expense	(8,806,402)	(124,910,980)
Other liabilities	(15,835,755)	163,127,787
Net cash generated from operations	1,038,933,112	400,585,532
Income taxes paid	(69,954,208)	(213,415,620)
Retirement contributions paid (Note 20)	(11,986,888)	(13,772,035)
Net cash provided by operating activities	956,992,016	173,397,877
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property and equipment (Notes 9 and 23)	(36,219,692)	(50,521,962)
Intangible assets (Note 11)	(19,301,616)	(351,760)
Financial assets at amortized cost (Note 8)	—	(30,850,000)
Proceeds from sale of investment properties (Note 10)	1,058,125	228,700
Net cash used in investing activities	(54,463,183)	(81,495,022)
CASH FLOWS FROM FINANCING ACTIVITIES		
Settlement of bills payable (Notes 14 and 24)	(1,414,640,000)	(1,495,890,000)
Availments of bills payable (Notes 14 and 24)	1,338,147,300	1,220,910,822
Payment of principal portion of lease liabilities (Notes 23 and 24)	(68,371,613)	(38,572,979)
Issuance of new shares (Notes 17 and 24)	48,338,650	—
Cash dividends paid (Note 17)	(45,000,000)	(153,249,274)
Collections of subscriptions receivable (Note 17)	6,300	5,222,900
Fractional stock dividends paid in cash (Note 17)	(4,000)	—
Receipt of deposit for future stock subscription (Notes 15, 17 and 24)	—	39,788,150
Net cash used in financing activities	(141,523,363)	(421,790,381)

(Forward)



	Years Ended December 31	
	2020	2019
NET INCREASE IN CASH AND CASH EQUIVALENTS	₱761,005,470	(₱329,887,526)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and other cash items	26,391,653	21,430,132
Due from Bangko Sentral ng Pilipinas	670,187,575	483,551,094
Due from other banks	243,954,082	765,439,610
	940,533,310	1,270,420,836
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)		
Cash and other cash items	48,177,003	26,391,653
Due from Bangko Sentral ng Pilipinas	1,322,053,915	670,187,575
Due from other banks	331,307,862	243,954,082
	₱1,701,538,780	₱940,533,310
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest received	₱1,576,778,953	₱2,502,196,412
Interest paid	150,117,640	146,007,692

See accompanying Notes to Financial Statements.



CARD SME BANK, INC., A THRIFT BANK

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

CARD SME Bank Inc., A Thrift Bank (the Bank), formerly known as Rural Bank of Sto. Tomas (Batangas), Inc., was incorporated in the Philippines on October 4, 1961. The Bank was granted the authority to operate by the Bangko Sentral ng Pilipinas (BSP) on May 10, 1962 as a Rural Bank with principal office in General Malvar Avenue, Sto. Tomas, Batangas. The Bank was granted by the BSP the authority to operate as a thrift Bank on June 15, 2011. On July 25, 2011, the Bank formally started its operations as a thrift Bank. Currently, its principal place of business is at 120 M. Paulino St., corner Burgos St., San Pablo City, Laguna. The Bank offers a wide range of products and services such as deposit and loan products mainly to the consumer market. As of December 31, 2020 and 2019, the Bank has 36 and 33 branches, respectively.

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

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

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

- a. Change of the corporate name from 'Rural Bank of Sto. Tomas (Batangas), Inc.' to 'CARD SME Bank, Inc., A Thrift Bank';
- b. Change of the primary and secondary purposes from that of rural Banking to thrift Banking; and
- c. Change of the principal office address from 'General Malvar Avenue, Sto. Tomas, Batangas' to 'San Pablo City, Laguna'.

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

On December 7, 2017, the BSP approved the increase in the authorized capital stock of the Bank from 500 million to 1 billion and the change of principal office address from San Pablo City, Laguna to #120 M. Paulino Corner Burgos St. San Pablo City, Laguna. On March 16, 2018, the SEC approved the changes in the AOI.

On February 13, 2020, the BSP approved the increase in the authorized capital stock of the Bank from 1 billion to 1.5 billion. On August 20, 2020, the SEC approved the changes in the AOI.



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

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, 2020 and 2019, the Bank is 36.33% and 34.82% owned by CARD, Inc., respectively.

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, 2020. 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.



New Standard and Interpretation

Amendments to Accounting Standards

The adoption of the following amendments and improvements to accounting standards as at January 1, 2020 did not have an impact on the financial statements of the Bank:

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*
The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

- Conceptual Framework for Financial Reporting issued on March 29, 2018
The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the standard-setters in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

- Amendments to PFRS 16, *COVID-19-related Rent Concessions*
The amendments provide relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:
 - The rent concession is a direct consequence of COVID-19;
 - The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
 - Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
 - There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

The amendments are effective for annual reporting periods beginning on or after June 1, 2020. Early adoption is permitted.

- Amendments to PFRS 3, *Business Combinations, Definition of a Business*
The amendments to PFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarifies that a business can



exist without including all of the inputs and processes needed to create outputs. These amendments may impact future periods should the Bank enter into any business combinations.

- Amendments to PFRS 7, *Financial Instruments: Disclosures* and PFRS 9, *Financial Instruments, Interest Rate Benchmark Reform*
The amendments to PFRS 9 provide a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

Future Changes in Accounting Standards

Listed below are accounting standards and interpretations issued but not yet effective up to the date of issuance of the Bank's financial statements. The Bank intends to adopt these standards when they become effective. Except as otherwise indicated, the Bank does not expect the adoption of these new and amended standards and interpretations to have significant impact on the financial statements.

Effective beginning on or after January 1, 2021

- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*

Effective beginning on or after January 1, 2022

- Amendments to PFRS 3, *Reference to the Conceptual Framework*
- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*
- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*
- *Annual Improvements to PFRSs 2018-2020 Cycle*
 - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*
 - Amendments to PFRS 9, *Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities*
 - Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

Effective beginning on or after January 1, 2023

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*
- PFRS 17, *Insurance Contracts*

Deferred effectivity

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

Summary of Significant Accounting Policies

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks that are highly liquid, readily convertible to known amounts of cash, with original maturities of three months or less from dates of placements and that are subject to an insignificant risk of changes in value.

Due from BSP includes statutory reserves required by the BSP, which the Bank considers as cash equivalents wherein drawings can be made to meet cash requirement. 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, 2020 and 2019.

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 fair value through profit or loss (FVTPL).

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', '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, 2020 and 2019, 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 conditions. ECL allowances are measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition. The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the



reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial instrument.

For non-credit-impaired financial instruments:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. The Bank recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. A SICR is deemed present in SME loans with 1 day up to 89 days past due but does not demonstrate objective evidence of impairment as of reporting date. The Bank recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:

- Financial instruments are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The ECL model requires that lifetime ECL be recognized for impaired financial instruments.

The Bank recognizes lifetime ECL on all of its non-impaired financial instruments since the Bank assessed that the expected life of its financial assets does not exceed 12 months. As a result, the Bank considers these instruments under Stage 1, regardless of whether SICR already exists since initial recognition.

The Bank uses internal credit assessment and approvals at various levels to determine the credit risk of exposures at initial recognition. Assessment can be quantitative or qualitative and depends on the materiality of the facility or the complexity of the portfolio to be assessed.

The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, in all cases when the borrower becomes past due on its contractual payments (day 1) in case of microfinance loans and at least 90 days past due in case of SME loans and other credit exposures. As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted. An instrument is considered to be no longer in default (i.e., to have cured) when it no longer meets any of the default criteria for a consecutive period of 180 days (i.e. consecutive payments from the borrowers for 180 days).

Expected Credit Loss (ECL) is a function of the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment.

The PD represents the likelihood that a credit exposure will not be repaid and will go into default. EAD represents an estimate of the outstanding amount of credit exposure at the time a default may occur. For off-balance sheet and undrawn amounts, EAD includes an estimate of any further amounts to be drawn at the time of default. LGD is the amount that may not be recovered in the event of default. LGD takes into consideration the amount and quality of any collateral held.



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.

If modifications are considered by the Bank as substantial based on qualitative factors, the loan is derecognized. If a receivable has been renegotiated or modified without this resulting in derecognition, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded, based on the change in cash flows discounted at the loan's original effective interest rate (EIR). Modification gain or loss is recognized in 'Provision for credit losses' in the statement of income. The Bank also assesses whether there has been a SICR by comparing the risk of default at reporting date based on modified terms, and the risk of default at initial recognition date based on original terms. Derecognition decisions and classification between Stages 2 and 3 are determined on a case-by-case basis.

Modification

In certain circumstances, the Bank modifies the original terms and conditions of a credit exposure to form a new loan agreement or payment schedule. The modifications may include, but are not limited to, change in interest rate and terms, principal amount, maturity date, date and amount of periodic payments and accrual of interest and charges.

When the contractual terms of a financial asset are renegotiated or otherwise modified due to reasons other than impairment (i.e., statutory relief) and the renegotiation or modification does not result in the derecognition of that financial asset, the Bank shall recalculate the gross carrying amount of the financial asset and shall recognize the net modification gain or loss in the statements of income as a deduction in interest.

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).

Whether the Bank has retained control of the transferred asset depends on the transferee's ability to sell the asset. If the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, the entity has not retained control.

Financial liabilities

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

Prepayments

Prepayments are expenses paid in advance and recorded as asset before they are utilized. This account consists of prepaid rentals and prepaid expenses under 'Other assets' in the statement of financial position. Prepayments are apportioned over the period covered by the payments and charged to the appropriate accounts in the statements of income when incurred.

Property and Equipment

The Bank's property and equipment consist of land, building, equipment and right-of-use assets that do not qualify as investment properties.

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

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



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

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

Building and improvements	5 to 15 years
Furniture, fixtures, and equipment	2 to 5 years
Transportation equipment	3 to 7 years
Leasehold improvements	3 to 5 years or term of the lease, whichever is shorter
ROU assets - office space	1.5 to 9 years
ROU assets – vehicles	1.5 to 2 years
ROU assets - IT equipment	1.5 years

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

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

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

Subscribed common stock is recognized at subscribed amount net of subscription receivable. This will be debited upon full payment of the subscription and issuance of the shares of stock. Subscriptions receivable pertains to uncollected portion of subscribed stocks. The subscription receivable is presented as asset when it is expected to be collected within 12 months or contra-equity when it is expected to be collected for more than 12 months.

Surplus

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

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

Dividends

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

Deposit for Future Stock Subscription

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

- the unissued authorized capital stock of the Bank is insufficient to cover the amount of shares indicated in the contract;



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

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

Other Comprehensive Income

OCI comprises items of income and expenses that are recognized directly in equity. OCI items are either reclassified to profit or loss or directly within equity in subsequent periods.

Revenue Recognition

Under PFRS 15, *Revenue from Contracts with Customers*, revenue is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those services.

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

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.

Revenue outside the scope of PFRS 15

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.

Expense Recognition

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

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



Interest expense

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

Taxes and licenses

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

Leases

The 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.

Income Taxes

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

Current tax

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

Deferred tax

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

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

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

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



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

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

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

Provisions and Contingencies

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

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

Events After the Reporting Date

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

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

(a) 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.

(b) 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).

(c) Going concern assessment

Management has assessed the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Accordingly, the financial statements are prepared on a going concern basis.

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.

(a) Expected credit losses on financial assets

The Bank reviews its financial asset and commitments at each reporting date to determine the amount of expected credit losses to be recognized in the balance sheet and any changes thereto in the statement of income. In particular, judgments and estimates by management are required in determining the following:

- whether a financial asset has had a significant increase in credit risk since initial recognition;
- whether default has taken place and what comprises a default;
- macro-economic factors that are relevant in measuring a financial asset's probability of default as well as the Bank's forecast of these macro-economic factors;
- probability weights applied over a range of possible outcomes; and
- sufficiency and appropriateness of data used, and relationships assumed in building the components of the Bank's expected credit loss models .



The related allowance for credit losses of financial assets are disclosed in Note 7.

(b) Recognition of deferred tax assets

The amount of deferred tax assets recognized by the Bank is based on the estimate of future taxable income. Significant management judgment is required to determine the amount of deferred tax asset that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning.

The Bank reviews the carrying amount of deferred tax asset at each reporting date and reduces this to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized. The recognized and unrecognized deferred tax assets for the Bank are disclosed in Note 21.

(c) Present value of defined benefit obligation

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

In determining the appropriate discount rate, management considers the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout at reporting date, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. Future salary increases are based on expected future inflation rates for the specific country. The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. The present value of the retirement liability and fair value of plan assets are disclosed in Note 20.

(d) Valuation of other long-term employee benefits

Other long-term employee benefits pertain to the vacation leave credits that can be carried over and monetized by the employees. The valuation of the Bank's accrual for other long-term employee benefits are dependent on certain assumptions used by its internal actuary in calculating such amounts. Those assumptions include, among others, discount and salary rates, future salary increase and average remaining working lives of employees.

As at December 31, 2020 and 2019, the amount of other long-term employee benefits accrued by the Bank is ₱13.08 million and ₱42.24 million, respectively (Note 15).

(e) Leases - Estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and 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 Bank estimates the IBR using observable inputs (by reference to average bank lending rates).

The Bank's lease liabilities amounted to ₱118.88 million and ₱105.84 million as of December 31, 2020 and 2019, respectively (Note 23).



4. Fair Value Measurement and Fair Value Hierarchy

Fair Value Measurement

As of December 31, 2020, and 2019, except as discussed below, the carrying values of the Bank's financial assets and financial liabilities as reflected in the statements of financial position and related notes approximate their fair values.

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

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

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

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

Noncurrent portion of unquoted debt securities and financial assets at amortized cost

Fair values of noncurrent portion of unquoted debt securities and financial assets at amortized cost were determined using the discounted cash flows method.

Noncurrent portion of refundable deposits and lease liabilities

Fair value of noncurrent portion of refundable deposits and lease liabilities were determined using the discounted cash flows method.

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 used by the Bank:

	Valuation Techniques	Significant Unobservable inputs
Investment Property - Land	Market Data Approach	Location, size, shape, utility/neighborhood, improvements and time element
Investment Property – Building	Modified Quantity Survey Approach	Depreciated replacement cost
Noncurrent portion of unquoted debt securities and financial assets at amortized cost	Discounted cash flows method	Interpolated Philippine zero rates ranging from 0.99% to 3.00% and from 3.37% to 4.46% in 2020 and 2019, respectively.



	Valuation Techniques	Significant Unobservable inputs
Noncurrent portion of refundable deposits and lease liabilities	Discounted cash flows method	Incremental borrowing rates ranging from 3.96% to 7.19% and from 5.11% to in 2020 and 2019, respectively.

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

Valuation

Techniques, Inputs and Assumptions

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

Fair Value Hierarchy

The following table summarizes the carrying values and the fair values by level of the fair value hierarchy of the Bank's assets and liabilities that are carried at fair value or for which fair values is as at December 31, 2020 and 2019:

2020					
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets and liabilities for which fair values are disclosed*:					
<i>Financial assets</i>					
Loans and receivables					
SME (Small and medium-sized enterprises) loans	P710,231,623	P-	P-	P958,070,237	P958,070,237
Unquoted debt securities	128,868,750	-	-	141,931,430	141,931,430
Financial assets at amortized cost	30,850,000	-	-	34,162,752	34,162,752
Other asset - refundable deposits	6,258,354	-	-	6,258,354	6,258,354
<i>Nonfinancial asset</i>					
Investment properties	8,532,786	-	-	21,517,900	21,517,900
<i>Financial liabilities</i>					
Deposit liabilities	709,233	-	-	704,162	704,162
Bills payable	24,429,446	-	-	24,817,510	24,817,510
Lease liabilities	63,163,907	-	-	63,163,907	63,163,907
Accrued vacation leave credits	13,076,063	-	-	13,076,063	13,076,063

*Pertains to noncurrent assets and liabilities

2019					
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets and liabilities for which fair values are disclosed*:					
<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	5,461,520	-	-	5,461,520	5,461,520

(Forward)



	2019				Total Fair Value
	Carrying Value	Level 1	Level 2	Level 3	
<i>Nonfinancial asset</i>					
Investment properties	P9,734,998	P—	P—	P23,317,900	P23,317,900
<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	34,589,669	—	—	34,589,669	34,589,669

*Pertains to noncurrent assets and liabilities

As of December 31 ,2020 and 2019, 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 2020 and 2019.

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.

Modification

In certain circumstances, the Bank modifies the original terms and conditions of a credit exposure to form a new loan agreement or payment schedule. The modifications can be given depending on the borrower's or counterparty's current or expected financial difficulty. The modifications may include, but are not limited to, change in interest rate and terms, principal amount, maturity date, date and amount of periodic payments and accrual of interest and charges.



On March 24, 2020, Republic Act No. 11469 or the “Bayanihan to Heal as One Act” (Bayanihan 1) was enacted declaring a state of national emergency over the entire country to control the spread of the Coronavirus Disease 2019 (COVID-19). Among the provisions of Bayanihan 1 is the implementation of a 30-day grace period for all loans with principal and/or interest falling due within the period of the Enhanced Community Quarantine without incurring interest on interest, on penalties, fees and other charges. Further, on September 11, 2020, Republic Act No. 11494 or the “Bayanihan to Recover as One Act” (Bayanihan 2) was enacted and part of the provisions of the Bayanihan 2 is the implementation of a one-time 60-day grace period to be granted for the payment of all existing, current and outstanding loans falling due, or any part thereof, on or before December 31, 2020, without incurring interest on interest, penalties, fees and other charges, thereby extending the maturity of said loans. In addition, Bayanihan 2 allows loans to be settled on a staggered basis without interest on interests, penalties, fees or other charges until December 31, 2020 or as may be agreed upon by both parties.

The impact of loan modifications as a result of the Bayanihan 1 and Bayanihan 2 Acts amounted to a loss of ₱140.92 million. For the year ended December 31, 2020, the net impact of the loan modifications (i.e., after subsequent accretion of the modified loans) amounted to a loss of ₱12.94 million recorded as a deduction to the interest income from loans and receivables.

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.

2020				
	Maximum Exposure to Credit Risk*	Fair Value of Collateral and Credit Enhancements	Financial Effect of Collateral or Credit Enhancements	Net Exposure to Credit Risk
Loans and receivables:				
Microfinance loans	₱5,123,802,876	₱1,179,369,356	₱1,159,300,182	₱3,964,502,694
SME loans	948,168,950	310,148,531	193,883,526	754,285,424
	₱6,071,971,826	₱1,489,517,887	₱1,353,183,708	₱4,718,788,118

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

2019				
	Maximum Exposure to Credit Risk*	Fair Value of Collateral and Credit Enhancements	Financial Effect of Collateral or Credit Enhancements	Net Exposure to Credit Risk
Loans and receivables:				
Microfinance loans	₱4,970,956,427	₱774,927,873	₱774,927,873	₱4,196,028,554
SME loans	1,166,541,967	359,411,880	207,639,828	958,902,139
	₱6,137,498,394	₱1,134,339,753	₱982,567,701	₱5,154,930,693

*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 15.00% of the loaned amount of the member as of December 31, 2020 and 2019. For SME loans, collateral includes real and chattel mortgages while credit enhancement consists of deposit hold-out equivalent to 10.00% of the loaned amount or the related actual savings account balance in excess of the minimum maintaining balance, whichever is lower.

As of December 31, 2020 and 2019, 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, 2020 and 2019:

2020					
	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	P=	P4,164,909,757	P=	P=	P4,164,909,757
Real estate and construction	-	662,372,474	-	19,919,927	682,292,401
Agriculture, hunting and forestry	-	899,452,719	-	-	899,452,719
Government	1,322,053,915	128,862,608	-	-	1,450,916,523
Financial intermediaries	331,307,862	1,568,173	50,850,000	-	383,726,035
Manufacturing	-	363,826,662	-	-	363,826,662
Other community, social and personal service activities	-	278,534,620	-	-	278,534,620
	1,653,361,777	6,499,527,013	50,850,000	19,919,927	8,223,658,717
Allowance for credit losses	-	(267,919,267)	-	-	(267,919,267)
Unearned interest and discount	-	(15,600,561)	-	-	(15,600,561)
Total	P1,653,361,777	P6,216,007,185	P50,850,000	P19,919,927	P7,940,138,889

*Included under 'Other assets' (Note 12)

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	P=	P3,924,955,677	P=	P=	P3,924,955,677
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)
Total	P914,141,657	P6,297,595,827	P50,850,000	P14,234,293	P7,276,821,777

*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 3.00% minimum threshold. However, PD ratings are already tailored depending on the days past due of Microfinance loan.

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, 2020 and 2019:

	December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Due from BSP (Note 6)	P1,322,053,915	P-	P-	P1,322,053,915
Due from other banks (Note 6)	331,307,862	-	-	331,307,862
Loans and receivables (Note 7):				
Loans and discounts:				
Microfinance	4,650,946,332	-	569,802,633	5,220,748,965
SME	875,533,714	9,987,938	107,274,104	992,795,756
Unquoted debt securities	126,792,049	-	-	126,792,049
Other receivables:				
Accrued interest receivable	137,138,842	-	-	137,138,842
Accounts receivable	19,956,136	-	-	19,956,136
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)	19,919,927	-	-	19,919,927
	P7,536,594,042	P9,987,938	P677,076,737	P8,223,658,717

	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:				
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
	P7,147,363,885	P108,719,615	P296,690,447	P7,552,773,947

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.

	2020			
	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Microfinance Loans				
Neither past due nor impaired				
High grade	P=	P=	P=	P=
Standard Grade	4,650,946,332	—	—	4,650,946,332
Substandard	—	—	—	—
Past due but not impaired	—	—	—	—
Past due and impaired	—	—	569,802,633	569,802,633
	P4,650,946,332	P=	P569,802,633	P5,220,748,965

	2019			
	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Microfinance Loans				
Neither past due nor impaired				
High grade	P=	P=	P=	P=
Standard Grade	5,034,846,339	—	—	5,034,846,339
Substandard	—	—	—	—
Past due but not impaired	—	—	—	—
Past due and impaired	—	—	131,339,481	131,339,481
	P5,034,846,339	P=	P131,339,481	P5,166,185,820

	2020			
	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
SME Loans				
Neither past due nor impaired				
High grade	P=	P=	P=	P=
Standard Grade	875,533,714	—	—	875,533,714
Substandard	—	—	—	—
Past due but not impaired	—	9,987,938	—	9,987,938
Past due and impaired	—	—	107,274,104	107,274,104
	P875,533,714	P9,987,938	P107,274,104	P992,795,756

	2019			
	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
SME Loans				
Neither past due nor impaired				
High grade	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
	P952,616,373	P108,719,615	P101,991,373	P1,163,327,361



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, 2020 and 2019:

	2020				
	On demand and up to 1 month	More than 1 month to 6 months	More than 6 months to 1 year	Beyond 1 year	Total
Financial Assets					
Due from BSP (Note 6)	₱1,322,418,544	₱-	₱-	₱-	₱1,322,418,544
Due from other Banks (Note 6)	331,307,862	-	-	-	331,307,862
Loans and receivables:					
Loans and discounts	1,070,817,862	2,611,427,451	1,957,848,850	710,589,400	6,350,683,563
Unquoted debt securities	-	-	-	128,868,750	128,868,750
Other receivables:					
Accounts receivable	19,956,136	-	-	-	19,956,136
Sales contract receivable	-	-	-	2,095,265	2,095,265
Financial assets at amortized cost	-	-	20,000,000	30,850,000	50,850,000
Other assets - refundable	-	-	13,661,573	6,258,354	19,919,927
	2,744,500,404	2,611,427,451	1,991,510,423	878,661,769	8,226,100,047
Financial Liabilities					
Deposit liabilities:					
Demand	84,524,387	-	-	-	84,524,387
Savings*	4,134,243,741	409,519,174	102,379,794	917,676,076	5,563,818,785
Bills payable	154,957,778	630,166,051	317,231,324	25,697,361	1,128,052,514
Accrued expenses and other liabilities:					
Lease liabilities	6,184,158	27,366,547	24,680,469	67,803,548	126,034,722
Accrued interest payable	-	53,571,036	-	-	53,571,036
Accrued other expenses	-	20,137,113	-	-	20,137,113
Accrual for vacation leave credits	-	-	-	13,076,063	13,076,063
Accounts payable	-	9,628,654	-	-	9,628,654
Dividends payable	187,583	-	-	-	187,583
	4,380,097,647	1,150,388,575	444,291,587	1,024,253,048	6,999,030,857
Net undiscounted financial assets (liabilities)	(₱1,635,597,243)	₱1,461,038,876	₱1,547,218,836	(₱145,591,279)	₱1,227,069,190

* Based on behavioral expectations

	2019				
	On demand and up to 1 month	More than 1 month to 6 months	More than 6 months to 1 year	Beyond 1 year	Total
Financial Assets					
Due from BSP (Note 6)	₱670,187,575	₱-	₱-	₱-	₱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
	1,141,997,460	4,373,198,695	1,378,664,572	1,038,504,406	7,932,365,133
Financial Liabilities					
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

(Forward)



	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	
Accrual for vacation leave credits	P—	P7,650,959	P—	P34,589,669	P42,240,628
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
	4,375,403,185	487,868,118	1,244,538,696	186,938,321	6,294,748,320
Net undiscounted financial assets (liabilities)	(P3,233,405,725)	P3,885,330,577	P134,125,876	P851,566,085	P1,637,616,813

* Based on behavioral expectations

As of December 31, 2020 and 2019, the Bank had a total of P2,010.00 million and P1,760.00 million credit lines with local Banks, respectively, out of which, P1,350.00 million and P1,230.00 million had been drawn as of December 31, 2020 and 2019, 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 is set at a fixed rate of 21.00% in 2020 and 2019. 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% per annum both in 2020 and 2019. 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, 2020 and 2019, 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 1.00% to 6.00% interest per annum in 2020 and 2019, respectively. Special savings deposits earn 1.60% to 4.00% interest per annum in 2020 and 2019. These special savings deposits are concentrated on 30 days to one year maturity.

The Bank pays fixed interest rates on bills payable from 3.00% to 6.56% in 2020 and from 3.90% to 6.56% in 2019.

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.

6. Cash and Cash Equivalents

The composition of this account follows:

	2020	2019
Cash	₱48,177,003	₱26,391,653
Due from BSP	1,322,053,915	670,187,575
Due from other banks	331,307,862	243,954,082
	₱1,701,538,780	₱940,533,310

Cash includes cash in vault and in automated teller machines.

Due from BSP consists of:

	2020	2019
Overnight deposit facility	₱749,000,000	₱-
Overnight reverse repurchase facility	258,554,353	96,235,513
Demand deposit	174,499,562	273,952,062
Time deposit facility	140,000,000	300,000,000
	₱1,322,053,915	₱670,187,575

Due from BSP includes the aggregate balance of noninterest-bearing peso savings and demand deposit account which the Bank maintains in compliance with the BSP requirements to meet regular and liquidity reserves on deposits. As of December 31, 2020 and 2019, the Bank is compliant with the applicable reserve requirements (Note 13).

Overnight reverse repurchase is a placement made by the Bank to BSP. The reverse repurchase facility of the BSP is an overnight facility where BSP acts as a seller of government securities. The securities are offered using a fixed-rate and full-allotment method, where individual bidders are awarded a portion of the total offer depending on their bid size.



Time deposit facilities earn interests ranging from 1.50% to 4.13% and 3.75% to 6.65%, respectively, with maturity ranging from 30 to 90 days.

Interest income on BSP placements amounted to ₱16.71 million and ₱12.12 million in 2020 and 2019, respectively.

Due from other banks consists of:

	2020	2019
Demand deposit	₱302,193,460	₱214,192,966
Savings deposit	29,114,402	29,761,116
	₱331,307,862	₱243,954,082

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 3.25% and from 0.30% to 0.75% for the years ended December 31, 2020 and 2019, respectively.

Interest income on due from other banks amounted to ₱1.71 million and ₱18.57 million in 2020 and 2019, respectively.

7. Loans and Receivables

This account consists of:

	2020	2019
Loans and discounts:		
Microfinance	₱5,220,748,965	₱5,166,185,820
SME	992,795,756	1,163,327,361
	6,213,544,721	6,329,513,181
Unquoted debt securities	126,792,049	152,820,263
	6,340,336,770	6,482,333,444
Unearned interest income	(15,600,561)	(3,363,589)
	6,324,736,209	6,478,969,855
Other receivables:		
Accrued interest receivable	137,138,842	77,902,985
Accounts receivable (Note 22)	19,956,136	11,216,303
Sales contract receivable	2,095,265	2,095,265
	6,483,926,452	6,570,184,408
Allowance for credit and impairment losses	(267,919,267)	(272,588,581)
	₱6,216,007,185	₱6,297,595,827

Microfinance loans amounting to ₱492.00 million and ₱192.00 million were held as collateral for borrowings with the International Finance Corporation as of December 31, 2020 and 2019 (Note 14).

Loans and discounts earn the following interest rates:

	2020	2019
Loans and discounts:		
Microfinance	9.57%-86.44%	9.57%-86.44%
SME	5.90%-88.67%	5.90%-88.67%



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 2.00% to 5.36% and from 3.00% to 5.75% in 2020 and 2019, respectively. Amortization of discount on loans amounted to ₱5.88 million and ₱13.70 million in 2020 and 2019, respectively.

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

	2020	2019
Loans and discounts:		
Microfinance	₱1,503,791,337	₱2,340,417,645
SME	93,707,067	123,513,265
Unquoted debt securities	4,048,289	9,077,470
	₱1,601,546,693	₱2,473,008,380

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):

	2020			
	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Loss allowance at January 1, 2020	₱60,017,441	₱5,564,361	₱207,006,779	₱272,588,581
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(823,294)	823,294	–	–
Transfer from Stage 1 to Stage 3	(5,079,525)	–	5,079,525	–
Transfer from Stage 2 to Stage 1	5,451,654	(5,451,654)	–	–
Transfer from Stage 2 to Stage 3	–	(914,635)	914,635	–
Transfer from Stage 3 to Stage 1	12,748,495	–	(12,748,495)	–
Transfer from Stage 3 to Stage 2	–	637,837	(637,837)	–
New financial assets originated or purchased	41,317,993	–	–	41,317,993
Changes in PDs/LGDs/EADs	1,076,881	7,889,110	96,770,446	105,736,437
Financial assets derecognized during the period	(54,754,125)	(7,559,607)	(65,088,770)	(127,402,502)
Total net P&L charge during the period	(61,921)	(4,575,655)	24,289,504	19,651,928
Other movements without P&L impact				
Write-offs, foreclosures and other movements	–	–	(24,321,242)	(24,321,242)
Total movements without P&L impact	–	–	(24,321,242)	(24,321,242)
Loss allowance at December 31, 2020	₱59,955,520	₱988,706	₱206,975,041	₱267,919,267

	2019			
	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Loss allowance at January 1, 2019	₱55,523,634	₱2,045,231	₱78,373,760	₱135,942,625
Movements with P&L impact				
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)
Total net P&L charge during the period	4,493,807	3,519,130	140,783,428	148,796,365
Other movements without P&L impact				
Write-offs, foreclosures and other movements	–	–	(12,150,409)	(12,150,409)
Total movements without P&L impact	–	–	(12,150,409)	(12,150,409)
Loss allowance at December 31, 2019	₱60,017,441	₱5,564,361	₱207,006,779	₱272,588,581



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

	2020			
	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, 2020	₱6,164,774,346	₱108,719,615	₱296,690,447	₱6,570,184,408
Transfers:				
Transfer from Stage 1 to Stage 2	(14,723,777)	14,723,777	—	—
Transfer from Stage 1 to Stage 3	(591,200,611)	—	591,200,611	—
Transfer from Stage 2 to Stage 1	44,114,000	(44,114,000)	—	—
Transfer from Stage 2 to Stage 3	—	(7,401,099)	7,401,099	—
Transfer from Stage 3 to Stage 1	19,924,869	—	(19,924,869)	—
Transfer from Stage 3 to Stage 2	—	971,198	(971,198)	—
New financial assets originated or purchased	7,035,834,153	—	—	7,035,834,153
Collections of principal and interest	(2,245,970,454)	(1,740,296)	(36,010,091)	(2,283,720,841)
Financial assets derecognized during the period	(4,615,890,749)	(61,171,257)	(136,988,020)	(4,814,050,026)
Financial assets written-off during the period	—	—	(24,321,242)	(24,321,242)
Gross carrying amount and accrued interest receivables as at December 31, 2020	₱5,796,861,777	₱9,987,938	₱677,076,737	₱6,483,926,452

	2019			
	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, 2019	₱5,103,312,567	₱6,204,356	₱175,060,778	₱5,284,577,701
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)	(84,564,298)	(4,559,620,594)
Financial assets written-off during the period	—	—	(12,150,409)	(12,150,409)
Gross carrying amount and accrued interest receivables as at December 31, 2019	₱6,164,774,346	₱108,719,615	₱296,690,447	₱6,570,184,408

While the Bank recognizes in 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 1.00% of all outstanding Stage 1 loan accounts. In 2020 and 2019, the amount of surplus reserve for this purpose increased by ₱77.33 million and ₱63.34 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, 2020 and 2019, the Bank's PAR amounted to ₱687.06 million and ₱405.41 million, respectively. The allowance for credit losses recognized for past due loans amounted to ₱207.96 million and ₱212.57 million as of December 31, 2020 and 2019, respectively.



As of December 31, 2020 and 2019, performing and nonperforming loans (NPLs) based on Circular No. 772 and as reported to the BSP amounted as follows:

	2020	2019
Microfinance Loans		
Performing loans		
Business	₱4,020,541,817	₱4,176,684,035
Educational	28,195,115	127,157,772
Others	602,209,400	731,004,532
	4,650,946,332	5,034,846,339
Nonperforming loans		
Business	479,143,782	121,655,274
Educational	12,847,328	3,214,303
Others	77,811,523	6,469,904
	569,802,633	131,339,481
Balance at end of year	₱5,220,748,965	₱5,166,185,820
SME Loans		
Performing loans		
Agricultural	₱71,410,246	₱80,396,251
Business	450,056,109	613,895,609
Housing	220,771,782	232,819,798
Fringe	19,065,515	20,431,400
Car	114,230,062	5,073,315
	875,533,714	952,616,373
Past due but not impaired		
Agricultural	1,712,358	2,402,754
Business	6,762,701	9,854,620
Housing	1,091,333	251,267
Fringe	–	201,079
Car	421,546	96,009,895
	9,987,938	108,719,615
Nonperforming loans		
Agricultural	20,345,362	16,141,314
Business	72,529,165	60,460,644
Housing	9,229,909	3,078,637
Fringe	1,726,358	1,055,437
Car	3,443,310	21,255,342
	107,274,104	101,991,373
Balance at end of year	₱992,795,756	₱1,163,327,361

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, 2020 and 2019:

	2020	2019
Secured portion		
Deposit hold-out (Note 13)	₱1,187,459,709	₱745,643,464
Chattel mortgage	165,033,982	4,270,000
	1,352,493,691	749,913,464
Unsecured portion	4,861,051,030	5,579,599,717
	₱6,213,544,721	₱6,329,513,181

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

	2020		2019	
	Amount	%	Amount	%
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	₱4,075,541,277	65.59	₱3,878,749,216	61.28
Agriculture, hunting and forestry	879,354,167	14.15	684,521,107	10.81
Real estate and construction	650,050,789	10.46	745,155,470	11.77
Manufacturing	355,300,999	5.72	175,186,728	2.77
Financial intermediaries	1,540,648	0.02	—	0.00
Other community, social and personal service activities	251,756,841	4.06	845,900,660	13.37
	₱6,213,544,721	100.00	₱6,329,513,181	100.00

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, 2020 and 2019, held-to-collect investments have an outstanding balance amounting to ₱50.85 million. 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 20.00% minimum liquidity ratio requirement by BSP (see Note 17).

Financial assets at amortized cost earned interest income amounting to ₱3.11 million and ₱2.70 million in 2020 and 2019, respectively.



9. Property and Equipment

The composition of and movements in this account follow:

2020									
	Land	Building and improvements	Leasehold improvements	Furniture, fixtures and equipment	Transportation equipment	Construction in progress	ROI assets - Office space	ROI assets - Vehicles and IT equipment	Total
Cost									
Balance at beginning of year	P46,915,616	P54,526,578	P82,568,109	P115,127,234	P7,404,883	P2,914,752	P133,520,323	P5,166,581	P448,144,076
Additions	-	1,033,600	4,002,173	1,464,437	1,664,437	9,836,190	79,960,033	7,974,893	124,154,618
Disposals	-	(1,130,013)	(5,903,186)	(46,363,080)	(1,635,013)	-	-	-	(55,031,292)
Transfers	-	-	11,806,942	-	-	(11,806,942)	-	-	-
Balance at end of year	46,915,616	54,430,165	92,474,038	88,647,446	7,234,307	944,000	213,480,356	13,141,474	517,267,402
Accumulated depreciation									
Balance at beginning of year	-	23,252,424	37,982,038	79,020,160	3,710,240	-	30,195,245	1,454,128	175,614,235
Depreciation	-	5,470,991	15,979,878	20,367,590	1,055,073	-	68,733,485	5,857,364	117,464,381
Disposals	-	(1,130,013)	(5,903,186)	(46,251,639)	(1,635,013)	-	-	-	(54,919,851)
Balance at end of year	-	27,593,402	48,058,730	53,136,111	3,130,300	-	98,928,730	7,311,492	238,158,765
Net book value	P46,915,616	P26,836,763	P44,415,308	P35,511,335	P4,104,007	P944,000	P114,551,626	P5,829,982	P279,108,637
2019									
	Land	Building and improvements	Leasehold improvements	Furniture, fixtures and equipment	Transportation equipment	Construction in progress	ROI assets - Office space	ROI assets - Vehicles and IT equipment	Total
Cost									
Balance at beginning of year	P46,915,616	P54,436,578	P59,852,858	P88,530,274	P4,795,952	P7,406,781	P69,113,762	P-	P331,051,821
Additions	-	90,000	4,725,337	28,378,244	3,764,869	13,563,512	64,406,561	5,166,581	120,095,104
Disposals	-	-	(65,627)	(1,781,284)	(1,155,938)	-	-	-	(3,002,849)
Transfers	-	-	18,055,541	-	-	(18,055,541)	-	-	-
Balance at end of year	46,915,616	54,526,578	82,568,109	115,127,234	7,404,883	2,914,752	133,520,323	5,166,581	448,144,076
Accumulated depreciation									
Balance at beginning of year	-	17,759,135	25,222,525	60,029,601	4,365,074	-	-	-	107,376,335
Depreciation	-	5,493,289	12,787,034	20,771,605	501,094	-	30,195,245	1,454,128	71,202,395
Disposals	-	-	(27,521)	(1,781,046)	(1,155,928)	-	-	-	(2,964,495)
Balance at end of year	-	23,252,424	37,982,038	79,020,160	3,710,240	-	30,195,245	1,454,128	175,614,235
Net book value	P46,915,616	P31,274,154	P44,586,071	P36,107,074	P3,694,643	P2,914,752	P103,325,078	P3,712,453	P272,529,841



Depreciation and amortization charged to the statements of income is presented under 'Depreciation and amortization' which consists of:

	2020	2019
Property and equipment	₱117,464,381	₱71,202,395
Intangible assets (Note 11)	3,505,655	2,656,264
	₱120,970,036	₱73,858,659

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, 2020, the leasehold improvements under construction pertain to the renovation of a branch and are estimated to be completed in February 2021. As of December 31, 2019, the leasehold improvements under construction pertain to the establishment of a branch and was completed in February 2020.

Loss on disposal of property and equipment amounted to ₱0.11 million and ₱0.03 million in 2020 and 2019, 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, 2020 and 2019.

10. Investment Properties

The composition of and movements in this account follow:

	2020			
	Land	Building	Asset held by SPV	Total
Cost				
Balance at beginning of year	₱8,246,355	₱231,001	₱1,642,665	₱10,120,021
Disposals	(670,500)	—	(685,735)	(1,356,235)
Balance at end of year	7,575,855	231,001	956,930	8,763,786
Accumulated depreciation	—	231,000	—	231,000
Allowance for impairment losses				
Balance at beginning of year	154,023	—	—	154,023
Disposals	(154,023)	—	—	(154,023)
Balance at end of year	—	—	—	—
Net book value	₱7,575,855	₱1	₱956,930	₱8,532,786

	2019			
	Land	Building	Asset held by SPV	Total
Cost				
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
Accumulated depreciation	—	231,000	—	231,000
Allowance for impairment losses				
Balance at beginning of year	2,388,656	—	978,411	3,367,067
Reversals	(2,234,633)	—	(978,411)	(3,213,044)
Balance at end of year	154,023	—	—	154,023
Net Book Value	₱8,092,332	₱1	₱1,642,655	₱9,734,998



Direct operating expenses on investment properties amounting to ₱0.37 million and ₱0.54 million in 2020 and 2019 are included under 'Taxes and licenses'. In 2020 and 2019, 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 ₱1.17 million and ₱0.23 million in 2020 and 2019, respectively, for the sale of investment properties. Sale of investment properties resulted to ₱0.13 million loss and ₱0.05 million gain in 2020 and 2019, 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.

11. Intangible Assets

The composition of and movements in this account follow:

	2020	2019
Cost		
Balance at beginning of year	₱18,179,325	₱18,788,965
Acquisition	19,301,616	351,760
Write-down	—	(961,400)
Balance at end of year	37,480,941	18,179,325
Accumulated amortization		
Balance at beginning of year	16,654,075	14,281,109
Amortization	3,505,655	2,656,264
Write-down	—	(283,298)
Balance at end of year	20,159,730	16,654,075
Net book value	₱17,321,211	₱1,525,250

In 2019, the Bank has written down the carrying value of certain intangible assets (under 'IT expense') amounting to ₱0.68 million.



12. Other Assets

This account consists of

	2020	2019
Financial assets		
Refundable deposits	₱19,919,927	₱14,234,293
Nonfinancial assets		
Prepaid expenses (Note 22)	64,729,010	47,144,090
Stationeries and supplies	26,986,963	24,868,447
Miscellaneous	3,400,000	17,626,366
	₱115,035,900	₱103,873,196

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:

	2020	2019
Savings deposit		
Regular savings	₱4,206,259,490	₱4,093,682,486
Special savings	1,357,559,295	729,793,155
Demand deposit	84,524,387	33,380,679
	₱5,648,343,172	₱4,856,856,320

Regular savings deposit liabilities include the aggregate compulsory savings of ₱50.00 per week collected from each microfinance member in 2020 and 2019. Under an assignment agreement, the pledge savings earn annual interest of 1.50% in 2020 and 2019. 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 1.00% to 6.00% and 1.50% to 6.00% in 2020 and 2019, respectively. Special savings deposits earn interest ranging from 1.60% to 4.00% and 2.00% to 5.50% in 2020 and 2019, respectively.

Details of interest expense on deposit liabilities follow:

	2020	2019
Regular savings	₱104,159,838	₱71,457,423
Special savings	32,192,141	20,363,953
	₱136,351,979	₱91,821,376



BSP requires 3.00% reserve requirement for thrift banks. Available reserves as of December 31, 2020 and 2019 amounted to ₱174.50 million and ₱273.95 million, respectively (Note 6). As of December 31, 2020 and 2019, the Bank is compliant with the applicable reserve requirements.

14. Bills Payable

The composition of and movements in this account follow:

	2020	2019
Face value		
Balance at beginning of year	₱1,163,760,000	₱1,429,650,000
Availments	1,350,000,000	1,230,000,000
Principal payments	(1,414,640,000)	(1,495,890,000)
Balance at end of year	1,099,120,000	1,163,760,000
Unamortized transaction cost		
Balance at beginning of year	6,881,309	7,514,772
Availments	11,852,700	9,089,178
Amortization	(10,522,597)	(9,722,641)
Balance at end of year	8,211,412	6,881,309
Carrying value	₱1,090,908,588	₱1,156,878,691

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 3.00% to 6.56% and from 3.90% to 6.56% in 2020 and 2019, 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.

On December 18, 2020, the Bank entered into a Loan Agreement (“the Agreement”) with IFC for the availment of loan (“the Loan”) amounting to ₱250.00 million which will mature on November 29, 2021. 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 3.49%, inclusive of 1.70% spread, and has a tenor of one year. The principal of the note is repaid annually.

Borrowings from IFC contain the following embedded derivatives:

- 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
- Cross currency swap which allows the parties to exchange interest payments and principals denominated in different currencies (in USD and Philippine Pesos).



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

Debt covenants

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

a. Negative covenants

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

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

b. Financial covenants

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

- Risk Weighted Capital Adequacy Ratio of not less than 10.00%
- Equity to Assets Ratio of not less than 5.00%
- Economic Group Exposure Ratio of not more than 15.00%
- Aggregate Large Exposure Ratio of not more than 400.00%



- Related Party Exposure Ratio of not more than 15.00%
- Open Credit Exposures Ratio of not more than 25.00%
- Fixed Assets Plus Equity Participants Ratio of not more than 35.00%
- Aggregate Foreign Exchange Risk Ratio of not more than 25.00%
- Single Currency Foreign Exchange Risk Ratio of not more than 10.00%
- Interest Rate Risk Ratio of not less than -10.00% and not more than 10.00%
- Aggregate Interest Rate Risk Ratio of not less than -20.00% and not more than 20.00%
- Foreign Currency Maturity Gap Ratio of not less than (i.e., more negative than) -150.00%;
- 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, 2020. Microfinance loans amounting to ₱492.00 million and ₱192.00 million were held as collateral for the above borrowings as of December 31, 2020 and 2019, respectively (Note 7).

Interest expense on bills payable in 2020 and 2019 amounted to ₱49.64 million and ₱54.76 million, respectively. Amortization of bills payable amounted to ₱10.52 million and ₱9.72 million in 2020 and 2019, respectively.

15. Accrued Expenses and Other Liabilities

Accrued expenses include:

	2020	2019
Financial liabilities		
Accrual for vacation leave credits	₱13,076,063	₱42,240,628
Accrued interest payable	53,571,036	17,694,253
Accrued other expenses	20,137,012	35,655,632
	₱86,784,111	₱95,590,513

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:

	2020	2019
Financial liabilities		
Lease liabilities (Note 23)	₱118,876,632	₱105,836,340
Accounts payable (Note 22)	9,628,654	24,643,771
Dividends payable	187,583	187,462
	128,692,869	130,667,573

(Forward)



	2020	2019
Nonfinancial liabilities		
Gross receipts tax	P29,883,139	P22,576,771
Withholding taxes	13,652,640	8,080,442
Deposit for future stock subscription (Notes 17 and 24)	—	39,788,150
Others	13,765,715	12,080,257
	57,301,494	82,525,620
	P185,994,363	P213,193,193

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.

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:

	2020			2019		
	Less than Twelve Months	Over Twelve Months	Total	Less than Twelve Months	Over Twelve Months	Total
Financial Assets						
Cash and other cash items	P48,177,003	P—	P48,177,003	P26,391,653	P—	P26,391,653
Due from BSP	1,322,053,915	—	1,322,053,915	670,187,575	—	670,187,575
Due from other banks	331,307,862	—	331,307,862	243,954,082	—	243,954,082
Loans and receivables - gross	5,650,166,929	849,360,084	6,499,527,013	5,633,608,893	939,939,104	6,573,547,997
Financial assets at amortized cost	20,000,000	30,850,000	50,850,000	—	50,850,000	50,850,000
Other assets - refundable deposits	13,661,573	6,258,354	19,919,927	8,772,773	5,461,520	14,234,293
	7,385,367,282	886,468,438	8,271,835,720	6,582,914,976	996,250,624	7,579,165,600
Nonfinancial Assets						
Property and equipment - gross	—	517,267,402	517,267,402	—	448,144,076	448,144,076
Investment properties - gross	—	8,763,786	8,763,786	—	10,120,021	10,120,021
Intangible assets - gross	—	37,480,941	37,480,941	—	18,179,325	18,179,325
Retirement asset	—	98,343,779	98,343,779	—	95,782,377	95,782,377
Deferred tax asset	—	66,300,305	66,300,305	—	74,711,954	74,711,954
Other assets	91,715,973	3,400,000	95,115,973	72,012,537	17,626,366	89,638,903
	91,715,973	731,556,213	823,272,186	72,012,537	664,564,119	736,576,656
	P7,477,083,255	P1,618,024,651	9,095,107,906	P6,654,927,513	P1,660,814,743	8,315,742,256
Less: Allowance for credit and impairment losses			267,919,267			272,742,604
Accumulated depreciation and amortization			258,549,495			192,499,310
Unearned interest			15,600,561			3,363,589
			P8,553,038,583			P7,847,136,753
Financial Liabilities						
Deposit liabilities						
Demand	P84,524,387	P—	P84,524,387	P33,380,679	P—	P33,380,679
Savings	5,563,109,552	709,233	5,563,818,785	4,823,069,136	406,505	4,823,475,641
Bills payable	1,066,479,142	24,429,446	1,090,908,588	1,083,471,722	73,406,969	1,156,878,691
Accrued expenses and other liabilities						
Lease liabilities	15,879,717	102,996,915	118,876,632	53,669,198	52,167,142	105,836,340
Accrued interest payable	53,571,036	—	53,571,036	17,694,253	—	17,694,253
Accrued expenses	20,137,113	—	20,137,113	35,655,632	—	36,655,632
Accrued vacation leave credits	—	13,076,063	13,076,063	7,650,959	34,589,669	42,240,628
Accounts payable	9,628,654	—	9,628,654	24,643,771	—	24,643,771
Dividends payable	187,483	—	187,483	187,462	—	187,462
	6,813,517,084	141,211,657	6,954,728,741	6,080,422,812	160,570,285	6,239,993,097
Nonfinancial Liabilities						
Income tax payable	252,638	—	252,638	44,660,129	—	44,660,129
Other liabilities						
Accrued taxes	43,535,779	—	43,535,779	30,657,212	—	30,657,212
Deposit for future stock subscription	—	—	—	39,788,150	—	39,788,150
Others	13,765,714	—	13,765,714	12,080,258	—	12,080,258
	57,554,131	—	57,554,131	127,185,749	—	127,185,749
	P6,871,071,215	P141,211,657	P7,012,282,872	P6,206,608,561	P160,570,285	P6,367,178,846



17. Equity

Capital Stock

As of December 31, 2020 and 2019, the Bank's capital stock consists of:

	2020		2019	
	Shares	Amount	Shares	Amount
Par value – P 100 per share				
Authorized	15,000,000	₱1,500,000,000	10,000,000	₱1,000,000,000
Issued and outstanding				
Beginning balance	9,999,937	999,993,700	7,527,775	752,777,500
Issuances of stock dividends	674,960	67,496,000	2,419,933	241,993,300
Issuances of capital stock	483,387	48,338,650	–	–
Issuance of capital stock to settle deposit for future stock subscription	397,881	39,788,150	–	–
Issuance of capital stock from settlement of subscriptions receivable	63	6,300	52,229	5,222,900
	11,556,228	1,155,622,800	9,999,937	999,993,700
Subscribed				
Beginning balance	63	6,300	34,653	3,465,300
Additional subscriptions	–	–	17,639	1,763,900
Issuance of capital stock from settlement of subscriptions receivable	(63)	(6,300)	(52,229)	(5,222,900)
	–	–	63	6,300
Subscriptions receivable	–	–	–	(6,300)
	–	–	63	–
	11,556,228	₱1,155,622,800	10,000,000	₱999,933,700

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 the increase in capital stock was filed by the Bank with the BSP on August 28, 2019 and was approved on February 13, 2020. The application for the increase in capital stock was filed by the Bank with the SEC on March 12, 2020 and was approved on August 20, 2020.

In 2020, the Bank issued capital stock with par value totaling ₱39.79 million to settle the DFS subscription outstanding as at December 31, 2019 (Note 24).



Dividends

Dividends declared by the Bank in 2020 and 2019 are the following:

Date of declaration	Cash dividends		Record date
	Per share	Total amount	
December 12, 2020	₱4.00	₱45.00 million	October 31, 2020
November 9, 2019	₱5.50	₱55.00 million	October 31, 2019
May 11, 2019	₱13.00	₱98.32 million	April 30, 2019

Date of declaration	Stock dividends		Record date
	Type	Total amount	
December 12, 2020	Common	₱67.50 million	October 31, 2020
May 11, 2019	Common	₱241.99 million	April 30, 2019

In the Resolution No. 006-S-2020 dated December 12, 2020, the stockholders of the Bank approved the declaration of stock dividends totaling ₱67.50 million.

Stockholders entitled to receive fractional shares resulting from stock dividends declared by the Bank shall receive cash in lieu of capital stocks. In 2020, total stock dividends paid in cash amounted to ₱4,000.

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, 2020 and 2019, as reported to the BSP, is shown in the table below:

	2020	2019
Common Equity Tier 1 (CET1)	₱1,539,532,320	₱1,483,943,815
Tier 1	1,464,104,334	1,459,131,877
Tier 2	48,096,842	29,295,350
Total qualifying capital	1,512,201,176	1,488,427,227
Risk-weighted assets	₱7,587,147,596	₱7,947,788,852
CET1	20.29%	18.67%
Tier 1 capital ratio	19.30%	18.36%
Tier 2 capital ratio	0.63%	0.37%
CAR	19.93%	18.73%

As of December 31, 2020 and 2019, the Bank's CAR and capital are in compliance with the regulatory capital requirements.

As of December 31, 2020 and 2019, the Bank's minimum liquidity ratio is 42.13% and 29.32%, 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, 2020 and 2019.

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:

	2020	2019
Return on average equity	2.66%	26.22%
Return on average assets	0.49%	5.22%
Net interest margin	16.82%	37.99%

18. Miscellaneous Income

This account consists of:

	2020	2019
Loans-related fees and other charges	₱11,943,263	₱7,841,865
Deposit-related fees and other charges	6,706,928	1,431,019
Fees from remittances	2,284,253	136,371
Overages	1,397,740	1,042,469
Recoveries from written-off accounts	1,307,878	463,297
Commission income	820,501	364,463
Others	1,115,195	2,489,594
	₱25,575,758	₱13,769,078

Others include appraisal and processing fee, gain from disposal of supplies, income from ATM replacement and rental income.



19. Miscellaneous Expenses

This account consists of:

	2020	2019
Insurance	₱13,510,317	₱10,413,011
Honorarium and director's fees	4,366,013	8,146,242
Donations and charitable contributions	2,736,942	15,991,000
Fines, penalties, and other charges	2,023,849	7,279,288
Supervision and examination fee	1,980,321	1,650,931
Advertising and publicity	668,379	1,508,065
Periodicals and magazines	583,056	692,703
Community development	352,865	1,875,644
Membership fees and dues	349,461	298,437
Litigation expense	92,462	60,872
Others	9,699,254	8,305,475
	₱36,362,919	₱56,221,668

Others include expenses related to burial and calamity assistance, COVID-19, flu vaccine, one-time processing fee for IFC COVID-19 credit facility, overtime meals, scholarship allowance and subdivision dues.

20. 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., 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, CARD MRI Rizal Bank, Inc., CARD, Inc., FDS Asya Philippines, Inc., CARD MRI Property Management, Inc. CARD MRI Hijos Tours, Inc., CARD MRI Publishing House, Inc., CARD MRI Astro Laboratories 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 8.00% plan salary to Fund A plus credited earnings) and 100.00% of the Member's Employee accumulated value (member's own contributions up to 10.00% 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 2020 and 2019 related to Hybrid Plan amounted to ₱13.50 million and ₱3.99 million, respectively. The latest actuarial valuation report covers reporting period as of December 31, 2020 and 2019.



Changes in retirement asset are as follows:

2020												
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 interest)	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial experience	Changes in the effect of limiting net defined benefit asset to the asset ceiling	Subtotal	Contribution by employee
	₹286,659,051	₹—	₹16,218,279	₹16,218,279	(₹2,082,805)	₹2,275,242	(₹4,744,259)	₹—	₹—	₹—	(₹4,744,259)	₹11,986,888
Fair value of plan assets												₹31,631,256
Present value of defined benefit obligation	(172,571,842)	(19,145,629)	(9,560,480)	(28,706,109)	2,082,805	(2,275,242)	—	1,561,492	11,903,127	(10,742,520)	2,722,099	(198,748,289)
Effect of asset ceiling	(18,304,832)	—	(1,014,088)	(1,014,088)	—	—	—	—	—	—	6,098,592	(13,220,328)
Net defined benefit asset	₹95,782,377	(₹19,145,629)	₹5,643,711	(₹13,501,918)	—	—	(₹4,744,259)	₹1,561,492	₹11,903,127	(₹10,742,520)	₹4,076,432	₹11,986,888
												₹98,443,779

* Included in Compensation and benefit in the statements of income.

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

2019											
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 interest)	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial experience	Changes in the effect of limiting net defined benefit asset to the asset ceiling	Subtotal
Fair value of plan assets	₹264,588,974	—	₹20,294,237	₹20,294,237	(₹2,839,926)	—	(₹9,656,269)	—	—	—	(₹9,656,269)
Present value of defined benefit obligation	(105,250,048)	(12,470,411)	(8,104,254)	(20,574,665)	2,839,926	—	—	(1,086,387)	(40,818,549)	(7,682,119)	(49,587,055)
Effect of asset ceiling	(54,676,962)	—	(4,210,126)	(4,210,126)	—	—	—	—	—	—	40,582,256
Net defined benefit asset	₹104,661,964	(₹12,470,411)	₹8,479,857	(₹3,990,554)	—	—	—	(₹1,086,387)	(₹40,818,549)	(₹7,682,119)	₹40,582,256
											₹13,661,068
											₹13,772,035
											₹28,66,659,031

* 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:

	2020	2019
Cash and cash equivalents	₱143,612,577	₱233,569,795
Receivables	25,942,116	33,137,786
Investments		
Private bonds	4,747,780	6,507,160
Government securities	127,383,239	3,783,899
Mutual funds	1,520,531	1,633,957
Others	7,106,153	8,026,454
Fair value of plan assets	₱310,312,396	₱286,659,051

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:

	2020	2019
Discount rates		
January 1	5.54%	7.70%
December 31	3.98%	5.54%
Future salary increases		
January 1	5.00%	5.00%
December 31	3.00%	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:

	2020		2019	
	+100bps	-100bps	+100bps	-100bps
Discount rates	(₱23,068,535)	₱27,922,062	(₱20,953,893)	₱25,470,491
Salary rates	27,916,115	(23,475,335)	25,348,561	(21,235,206)



As of December 31, 2020 and 2019, the average duration of the defined benefit obligation is 12.80 years and 13.50 years, respectively.

Expected contribution in 2020 is amounting to ₱16.67 million.

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

	2020	2019
Less than one year	₱10,813,444	₱8,471,281
More than 1 year to 5 years	55,235,322	65,109,419
More than 5 years to 10 years	89,706,472	90,271,746
More than 10 years to 15 years	117,831,836	114,618,641
More than 15 years to 20 years	161,430,372	137,006,598
More than 20 years to 25 years	198,839,528	159,294,440
More than 25 years	405,115,565	864,045,688

21. 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 30.00%. Interest allowed as a deductible expense shall be reduced by 33.00% 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 ₱6.46 million and ₱11.58 million in 2020 and 2019, respectively.

Provision for (benefit from) income tax consists of:

	2020	2019
RCIT	₱-	₱182,894,098
MCIT	20,414,747	-
Final tax	5,131,970	7,893,660
	25,546,717	190,787,758
Deferred	7,188,719	(45,601,064)
	₱32,735,436	₱145,186,694



Deferred tax recognized in other comprehensive income (loss) amounted to ₱1.22 million and ₱5.60 million for the years ended December 31, 2020 and 2019, respectively.

Components of deferred tax assets - net are as follows:

	2020	2019
Deferred tax assets on:		
Allowance for credit and impairment losses	₱80,375,780	₱81,822,781
Unearned interest income	3,883,050	—
Accumulated vacation leave	3,922,819	12,672,188
Unamortized past service cost	8,141,933	10,138,872
Accrued rent	142,484	142,484
Accumulated depreciation - investment properties	69,300	69,300
	96,535,366	104,845,625
Deferred tax liabilities on:		
Retirement asset	29,503,134	28,734,713
Net right-of-use assets over lease liabilities	731,927	1,089,302
Gain on foreclosure of investment properties	—	309,656
	30,235,061	30,133,671
	₱66,300,305	₱74,711,954

The Bank did not recognize deferred tax asset resulting from the excess of MCIT over RCIT as at December 31, 2020. Details of the Bank's MCIT follow:

Year	Amount of Excess	Used/Expired	Balance	Expiry Year
2020	₱17,321,017	₱—	₱17,321,017	2023

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

	2020	2019
Statutory income tax	₱14,265,193	₱150,003,742
Income tax effects of:		
Interest income subject to final tax	(5,704,023)	(4,847,224)
Nondeductible operating expenses	24,174,266	30,176
Provision for income tax	₱32,735,436	₱145,186,694

22. 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 20). As of December 31, 2020 and 2019, 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:

	2020	2019
Short-term employee benefits	₱14,194,064	₱12,643,135
Post-employment benefits	31,015,189	12,751,856
	₱45,209,253	₱25,394,991

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, 2020 and 2019:

Category	Amount/Volume	December 31, 2020	
		Outstanding Balance	Nature, Terms and Conditions
Key Management Personnel			
Deposit liabilities		₱19,006,231	These are savings accounts with annual interest rates ranging from 1.50% to 6.00%.
Deposits	₱21,626,364		
Withdrawals	(16,298,427)		
Directors' fees payable		-	Pertains to per diem payments directors
Shareholders			
Deposit liabilities		386,723,544	These are savings accounts with annual interest rates ranging from 1.50% to 6.00%.
Deposits	1,594,350,793		
Withdrawals	(1,534,573,240)		
Interest expense payable		6,575,074	Pertains to interest on deposit liabilities.
Accounts receivable		702,565	Share on expenses of transferred staff. These are expected to be collected on January 2021.
Charges	6,472,869		
Collections	(6,792,714)		

(Forward)



December 31, 2020			
Category	Amount/Volume	Outstanding Balance	Nature, Terms and Conditions
Accounts payable		P=	Pertains to share on various expenses. These are expected to be paid on January 2020.
Charges	₱1,768,863		
Payments	(2,234,687)		
December 31, 2019			
Category	Amount/Volume	Outstanding Balance	Nature, Terms and Conditions
Key Management Personnel		₱13,678,294	These are savings accounts with annual interest rates ranging from 1.50% to 6.00%.
Deposit liabilities			
Deposits	₱26,665,903		
Withdrawals	(26,591,103)		
Directors' fees/payable		–	Pertains to per diem payments directors
Shareholders			
Deposit liabilities		326,945,991	These are savings accounts with annual interest rates ranging from 1.50% to 6.00%.
Deposits	277,031,487		
Withdrawals	(244,363,908)		
Loan receivables		100,000,000	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	14,207,740	–	Pertains to interest on deposit liabilities.
Accounts receivable		1,022,410	Share on expenses of transferred staff. These are expected to be collected on January 2020.
Charges	3,899,019		
Collections	(2,876,609)		
Accounts payable		465,824	Pertains to share on various expenses. These are expected to be paid on January 2020.
Charges	957,506		
Payments	(491,822)		

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

Category	2020		2019	
	Net exposure	Ratio	Net exposure	Ratio
Key management personnel	₱19,006,231	1.64%	₱13,678,294	0.92%
Shareholders	386,723,544	33.46%	325,434,225	21.97%

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, 70.00% 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, 2020 and 2019, the balance of the secured loans to DOSRI are ₱0.72 million and ₱100.04 million, respectively. There is no unsecured loan to DOSRI as of December 31, 2020 and 2019. In the aggregate, loans to DOSRI generally should not exceed total equity or 15.00% of total loan portfolio, whichever is lower. As of December 31, 2020 and 2019, 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, 2020 and 2019:

	2020	2019
Total outstanding DOSRI loans		
Current	₱732,242	₱100,040,526
Past due	—	—
	₱732,242	₱100,040,526
Percent of DOSRI accounts to total loans	0.01%	1.58%

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

23. Lease Contracts

The Bank leases the premises occupied by some of its branches in which lease payments are subjected to escalation clauses ranging from 3.00% to 10.00%. 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:

	2020	2019
Depreciation expense of ROU assets included in property and equipment	₱74,590,849	₱31,649,372
Lease payments relating to short-term leases and leases with low value assets	62,398,626	95,858,972
Interest expense on lease liabilities	8,973,203	5,923,662
Total amount recognized in the statements of income	₱145,962,678	₱133,432,006

Rent expense in 2020 and 2019 pertains to expenses from short-term leases and leases of low-value assets. As of December 31, 2020 and 2019, the Bank has no contingent rent payable.

As of December 31, 2020 and 2019, the carrying amounts of 'Lease liabilities' are as follows:

	2020	2019
Balance at beginning of year	₱105,836,340	₱72,320,749
Additions	72,438,702	66,164,908
Interest expense	8,973,203	5,923,662
Payments	(68,371,613)	(38,572,979)
Balance at end of year	₱118,876,632	₱105,836,340

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:

	2020	2019
Within one year	₱58,231,174	₱50,512,482
Beyond one year	67,803,548	69,815,173
	₱126,034,722	₱120,327,655

24. Notes to Statements of Cash Flows

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

	2020	2019
Additions to property and equipment through lease contracts (Note 9)	₱87,934,925	₱138,686,905
Reduction in accounts payable resulting from disposal of property and equipment	111,441	—

The following table shows the reconciliation analysis of liabilities arising from financing activities for the year ended December 31, 2020 and 2019.

	2020				
	Bills payable (Note 14)	Lease liabilities (Notes 15 and 23)	Deposit for future stock subscription (Note 17)	Dividends payable (Notes 15 and 17)	Total liabilities from financing activities
Beginning balances as at					
January 1, 2020	₱1,156,878,691	₱105,836,340	₱39,788,150	₱187,462	₱1,302,690,643
Cash inflows	1,338,147,300	—	—	—	1,338,147,300
Cash outflows	(1,414,640,000)	(68,371,613)	—	—	(1,483,011,613)
Net cash flows	(76,492,700)	(68,371,613)	—	—	(144,864,313)
Non-cash items					
Issuance of capital stock			(39,788,150)		(39,788,150)
New lease contracts entered during the year	—	72,438,702	—	—	72,438,702
Amortization of discount of bills payables	10,522,597	—	—	—	10,522,597
Amortization on interest expenses of lease liabilities	—	8,973,203	—	—	8,973,203
Ending balances as of					
December 31, 2020	₱1,090,908,588	₱118,876,632	₱—	₱187,462	₱1,209,972,682

	2019				
	Bills payable (Note 14)	Lease liabilities (Notes 15 and 23)	Deposit for future stock subscription (Note 17)	Dividends payable (Notes 15 and 17)	Total liabilities from financing activities
Beginning balances as of					
January 1, 2019	₱1,422,135,228	₱72,320,749	₱—	₱120,776	₱1,494,576,754
Cash inflows	1,220,910,822	—	—	—	1,220,910,822
Cash outflows	(1,495,890,000)	(38,572,979)	39,788,150	(153,249,274)	1,647,924,103
Net cash flows	(274,979,178)	(38,572,979)	39,788,150	(153,249,274)	(427,013,281)

(Forward)



	2019				
	Bills payable (Note 14)	Lease liabilities (Notes 15 and 23)	Deposit for future stock subscription (Note 17)	Dividends payable (Notes 15 and 17)	Total liabilities from financing activities
Non-cash items					
Dividend declaration	P–	P–	P–	P153,315,960	P153,315,960
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
Ending balances as of December 31, 2019	P1,156,878,691	P105,836,340	P39,788,150	P187,462	P1,302,690,644

25. Events After the Reporting Date

Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act

President Rodrigo Duterte signed into law on March 26, 2021 the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act to attract more investments and maintain fiscal prudence and stability in the Philippines. Republic Act (RA) 11534 or the CREATE Act introduces reforms to the corporate income tax and incentives systems. It takes effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or April 11, 2021.

The following are the key changes to the Philippine tax law pursuant to the CREATE Act which have an impact on the Company:

- Effective July 1, 2020, regular corporate income tax (RCIT) rate is reduced from 30.00% to 25.00% for domestic and resident foreign corporations. For domestic corporations with net taxable income not exceeding P5.00 million and with total assets not exceeding P100.00 million (excluding land on which the business entity's office, plant and equipment are situated) during the taxable year, the RCIT rate is reduced to 20.00%.
- Minimum corporate income tax (MCIT) rate reduced from 2.00% to 1.00% of gross income effective July 1, 2020 to June 30, 2023.
- Imposition of improperly accumulated earnings tax (IAET) is repealed.

As clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretations Committee Q&A No. 2020-07, the CREATE Act was not considered substantively enacted as of December 31, 2020 even though some of the provisions have retroactive effect to July 1, 2020. The passage of the CREATE Act into law on March 26, 2021 is considered as a non-adjusting subsequent event. Accordingly, current and deferred taxes as of and for the year ended December 31, 2020 continued to be computed and measured using the applicable income tax rates as of December 31, 2020 (i.e., 30.00% RCIT / 2.00% MCIT) for financial reporting purposes.

Applying the provisions of the CREATE Act, the Company would have been subjected to lower regular corporate income tax rate of 25.00% effective July 1, 2020.

- Based on the provisions of Revenue Regulations (RR) No. 5-2021 dated April 8, 2021 issued by the BIR, the prorated CIT rate of the Company for CY2020 is 25.00%. This will result in lower provision for current income tax for the year ended December 31, 2020 and lower income tax payable as of December 31, 2020. The reduced amounts will be reflected in the Company's 2020



annual income tax return. However, for financial reporting purposes, the changes will only be recognized in the 2021 financial statements.

The effects of the changes mentioned above are shown below:

	As of December 31, 2020	Effect of changes in tax rates	Adjusted amount based on the reduced tax rates
Statement of Income			
Current tax expense	₱20,414,747	(₱5,124,673)	₱15,290,074
Net income of the year	14,815,184	5,124,673	19,939,857
Statement of Financial Position			
Prepaid tax	—	4,872,035	4,872,035
Income tax payable	252,638	(252,638)	—
Statement of Changes in Equity			
Surplus	372,235,003	5,124,673	377,359,676

26. Approval of the Release of Financial Statements

The accompanying financial statements were approved and authorized for issue by the Bank's BOD on April 29, 2021.

27. 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 2020 follow:

Gross receipts tax	₱83,543,190
Business permits and licenses	9,543,195
Documentary stamp tax	36,405,119
Real property tax	366,626
Other taxes	2,377,046
	₱132,235,176

In 2020, withholding taxes remittances and withholding taxes lodged under 'Other liabilities - Accrued taxes' account follow:

Remittances:	
Gross Receipt Tax	₱83,543,190
Expanded withholding tax	11,834,249
Withholding taxes on compensation and benefits	974,835
Documentary stamp tax	43,112,020
Final withholding tax on interest expense	17,051,703
	₱156,515,997



Accrued:	
Gross Receipt Tax	₱29,883,139
Expanded withholding tax	2,261,562
Withholding taxes on compensation and benefits	—
Documentary stamp tax	7,651,127
Final withholding tax on interest expense	3,739,951
	₱43,535,779

Tax Cases and Assessment

On September 11, 2020, the Bureau of Internal Revenue (BIR) has rendered a letter of authority to examine the books of accounts and other accounting records for all internal revenue taxes including documentary stamp taxes and other taxes for the taxable period January 1, 2019 to December 31, 2019. The first follow-up request for presentation of accounting records and the second and final notice for presentation of records was received on October 13, 2020 and November 19, 2020, respectively. Documents were submitted on November 19, 2020. The BIR has rendered assessment following the inspection of the Bank's accounting books and records as of February 23, 2021. The Bank settled the assessment on February 24, 2021.





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