BREAKING BARRIERS

RIZAL RURAL BANK, INC.
ANNUAL REPORT 2014

ABOUT THE COVER

Leodegaria Gamez, the recipient of Galing ni Nanay 2014 for RRB, stands in front of the product display in her furniture store in Mabitac, Laguna. Looking back, she recalls how many obstacles she has faced before finally achieving the accomplishments she has today.

MISSION

CARD MRI is committed to:

- Empower socially and economically challenged women and families through continuous access to financial, microinsurance, educational, livelihood, health and other capacity-building services that eventually transform them into responsible citizens for their community and the environment;
- Enable the women members to gain control and ownership of financial and social development institutions; and
- Partner with appropriate agencies, private institutions, and people and community organizations to facilitate achievement of mutual goals.

VISION

CARD MRI is a world-class leader in microfinance and community-based social development undertakings that improves the quality of life of socially and economically challenged women and families towards nation building.

BRAVING THE STORMS

Leodegaria Gamez, an RRB Client and recipient of the Galing ni Nanay Awards 2014 for RRB tells her remarkable experience on standing tall after facing a difficult challenge and how Rizal Rural Bank (Taytay, Rizal), Inc. gave her the hope she was praying for.

There are some things in life that remain uncertain even when we try our best to prevent it. I am no stranger to this. When a typhoon badly hit the Philippines a few years ago, it has affected the lives of many of the residents in Mabitac, Laguna including my family.

Our family's main source of income is our business. Unfortunately, due to this typhoon, many of our products were destroyed. This severed the condition of our business. Most of the capital for my business were loaned. The pressure to pay these loans back were so extreme that my family made the decision to pawn our house and lot.

If it had not been for my faith and my family's support, I could have just given up on my dreams.

In 2008, it almost came to me as a heaven-sent blessing when my daughter informed me about a non-government organization offering microfinance loans for microentrepreneurs like me. Though hesitant at first, I made up my mind that this just might be the turning point for Gredasca Handicrafts, the business my family runs.

The Center for Agriculture and Rural Development (CARD), Inc., a non-governement organization that aims to uplift the lives of socioeconomically challenged women and their families through access to financial services and community development programs, was the NGO who lifted my spirit up in those darkest times. For me, joining CARD, Inc. was my second chance. Indeed, it trained me become wiser in managing my finances. I was so determined as a client. I never missed a center meeting. I always paid on time. I always participated in the activities of our center.

It was in 2014 that our center was recognized to be ready to go into formal banking. The former CARD, Inc. unit was then transitioned as a micro banking office (MBO) of RRB. Here, we were able to avail new products that assisted our growing business even more. These MBOs serve us clients who used to be unbanked and underbanked by giving us access to financial services suited to our needs. RRB was acquired by the CARD MRI group in 2012.

It is not only in Mabitac, Laguna where such transition happens. Since the areas where RRB are present used to be CARD, Inc. areas, many of the units that are ready to be transitioned become RRB MBOs. We were told that since our accounts were ready for such transition, we can properly cope up with a more formal banking system. We are assured that we will get the same quality service in spite of this major change.

I am definite that my business will be well taken care of since I can also identify strongly with RRB. Back in the days, RRB battled so many challenges, too. One was improving the ratings they got from Bangko Sentral ng Pilipinas (BSP). As a client of RRB, it makes me feel proud that our bank's rating went up. With the dedication of RRB's staff to comply to the rules and regulations of the central bank, I am sure that in the years to come, they will hit the highest rating that BSP gives.

Because of this notable improvement, BSP approved RRB's request to open 18 new micro-banking offices (MBOs) in the areas of Sta. Cruz, Laguna, San Fernando, Pampanga, and Taytay, Rizal.

RRB, based on experience, is a bank that listens to our needs. Many of us clients have evolving needs; one of these is a savings product that is tailored-fit to our background and lifestyle. We are excited to know that by 2015, RRB will be exploring new and innovative ways to cultivate a savings culture not only with us, their clients, but also with our families. It is one of my aspirations to also teach my children and grandchildren the benefits and advantages of saving for the future.

As I was inspired by RRB's innovative nature, I also innovated my own products. Early in my business, I was only using rattan as the primary raw materials for the furniture I was selling. Now, we also offer furniture made from synthetic materials. We found that these materials can withstand varying weather conditions that most of our clients are looking for nowadays. For me, this is also an advantage since we can come up with more flexible designs for our products.

We feel so blessed that clients storm our shop and bulk of orders come from different parts of the country and even abroad. Some prominent personalities in the country are even patronizing

our products. Some of our furniture are displayed in leading department stores. Proving its quality and competitiveness, our products is now being exported abroad, majorly in South Korea.

I am also pleased that with our business, we can also help other people in our community. As of now, Gredasca Handicrafts is manned by 12 skilled and well-rounded workers. They are not limited to productions, but also accept repairs and restorations as part of our after-sales service.

Now that we earn a stable monthly income, we have acquired a residential lot, three units of tricycle, a motorbike, a Rusco elf, and a delivery truck. Soon enough, we will be finally building our dream house.

I owe my success first to God and next to CARD. I humbly believe that all the blessings I receive now are results of my faith and hard work. RRB and I, we have fought and survived strong storms but we came out even more triumphant. I am certain that we will break any barriers that come our way as long as we work hand-in-hand together.

PRESIDENT'S REPORT

"We remain standing because of the solid support we get from our clients. They are the source of our strength, the reason behind our success. In them, we have found not only a great partner but a trusted friend as well. Together we realized that difficulties offers great opportunities in life. As long as we are united and with God on our side, we will break all the barriers.."

Flordeliza L. Sarmiento
President and CEO
Rizal Rural Bank, Inc.

In 2014, we provided our clients with financial products and services that best suited their needs. The following are our financial update as of December 2014:

60,385 CLIENTS SERVED

58,695 CLIENTS INCLUDING SAVERS

46,088 ACTIVE CLIENTS WITH LOANS

PhP 1,220,074,039.00
AMOUNT OF LOANS DISBURSED

PhP 307,350,238.62
AMOUNT OF SAVINGS

99.77%
REPAYMENT RATE

127.04%
OSS*

125.59%
FSS**

*Operating Self Sufficiency/Revenue Cost Ratio
**Financial Self Sufficiency

Our offices are also located in the following provinces:

- Rizal
- Laguna
- Pampanga

We ensure that our presence is felt whenever our clients needed our assistance.

210
Total number of staff

1 **HEAD OFFICE**
3 **BRANCHES**
21 **MICRO BANKING OFFICES**

Together with these institutions and organizations that share the same mission as ours, we provide our clients with the best quality of service.

Bank of the Philippine Islands (BPI)
Philippines

Philippines Land Bank of the Philippines (LBP)
Philippines

Metrobank
Philippines

MANAGEMENT COMMITTEE

Flordeliza L. Sarmiento
President and CEO

Marlyn M. Marudo
Assistant Vice President for Operation

Wilma D. Laurio
Regional Director

Christopher B. Dela Cruz
Program Manager

Analiza D. De Lumban
Finance Manager

Joan A. Cajes
Internal Audit Manager

Myrna M. Guevarra
Personnel Manager

Ronelio A. Estoya
IT-Head OIC

Frederick M. Arellano
Area Manager

Pedro L. Maniebo
Area Manager

Nenia I. Peralta
Area Manager

Redeem A. Pisueña
Area Manager

Rebecca R. Fortez
Area Manager

Oliver G. Quinay
Area Manager

Carl B. Pagayunan
Area Manager

Flordeliza L. Sarmiento
Chairman

Dr. Jaime Aristotle B. Alip
Board member

Pascuala S. Geñoso
Board member

Dolores M. Torres
Board member

Faustino M. Buenaventura
Board member

Observers:
Atty. Edgardo R. Marilim
Legal counsel

Benito Pagaspas
Corporate Secretary

BOARD OF DIRECTORS

RRB opens branch in San Fernando, Pampanga
This year, RRB opened its branch in San Fernando, Pampanga. Flordeliza L. Sarmiento, President and CEO of RRB gave a message to the attendees of the event while Dr. Jaime Aristotle B. Alip, CARD MRI Founder and Managing Director and RRB Board of Director cut the ribbon with Aniceta R. Alip, CARD MRI Research Director.

RRB opens branch in Tanay, Rizal
Another branch of RRB opens on October 13, 2014. Dr. Jaime Aristotle B. Alip, CARD MRI management and staff, and members attended the event.

RRB strengthens the capacity of its staff
Staff from the different branches of RBI attended a capacity-building training held at the head office of RBI in Sta. Cruz, Laguna.

RRB celebrates the success of its clients
RRB held a simple ceremony to recognize its Galing ni Nanay Awardee for 2014, Ms. Leodegaria Gamez of Mabitac, Laguna.

RRB members undergo livelihood trainings

RRB does not only provide financial services, but also implements programs that can build the communities. We conduct livelihood trainings for our clients to widen their business perspective.

FINANCIAL STATEMENTS

RIZAL RURAL BANK (TAYTAY, RIZAL), INC.
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2014	2013
ASSETS		
Cash and other cash items	**₱1,973,592**	₱380,545
Due from Bangko Sentral ng Pilipinas (Notes 6 and 12)	**11,071,066**	4,115,479
Due from other banks (Note 6)	**85,021,956**	39,188,778
Loans and receivables (Note 7)	**484,459,528**	170,230,048
Held-to-maturity investments (Note 8)	**2,006,130**	2,011,151
Property and equipment (Note 9)	**32,242,848**	24,284,161
Investment property (Note 10)	**490,160**	490,160
Deferred tax assets (Note 20)	**1,947,578**	5,409,164
Retirement asset (Note 17)	**3,386,708**	–
Other assets (Note 11)	**7,311,265**	1,749,689
	₱629,910,831	₱247,859,175
LIABILITIES AND EQUITY		
Liabilities		
Deposit liabilities (Notes 12 and 21)		
Regular savings	**₱188,496,441**	₱80,154,264
Special savings	**118,853,798**	104,074,359
	307,350,239	184,228,623
Bills payable (Note 13)	**175,000,000**	–
Deposits for future stock subscription (Note 15)	**47,500,000**	32,500,000
Income tax payable	**6,501,183**	2,556,913
Retirement liability (Note 17)	**–**	15,605,570
Other liabilities (Note 13)	**11,674,914**	4,764,580
	548,026,336	239,655,686
Equity		
Capital stock (Note 15)	**49,000,000**	17,500,000
Retained earnings (deficit)	**28,962,035**	(3,806,951)
Remeasurement gains (losses) on retirement plan	**3,922,460**	(5,489,560)
	81,884,495	8,203,489
	₱629,910,831	₱247,859,175

See accompanying Notes to Financial Statements.

RIZAL RURAL BANK (TAYTAY, RIZAL), INC.
STATEMENTS OF INCOME

	Years Ended December 31	
	2014	2013
INTEREST INCOME		
Loans and receivables (Note 7)	**₱147,380,855**	₱42,415,648
Due from other banks (Note 6)	**524,218**	308,605
Held-to-maturity investments (Note 8)	**133,497**	113,177
	148,038,570	42,837,430
INTEREST EXPENSE		
Deposit liabilities (Notes 12 and 21)	**8,996,089**	2,786,985
Bills payable (Note 13)	**638,972**	–
	9,635,061	2,786,985
NET INTEREST INCOME	**138,403,509**	40,050,445
Gain on foreclosure (Note 10)	**–**	207,621
Miscellaneous	**115,067**	6,479
TOTAL OPERATING INCOME	**138,518,576**	40,264,545
OPERATING EXPENSES		
Compensation and benefits (Notes 16 and 21)	**43,029,699**	15,385,799
Taxes and licenses (Note 20)	**9,453,148**	2,590,351
Transportation and travel	**5,972,885**	1,657,092
Provision for credit and impairment losses (Notes 7 and 11)	**4,671,862**	1,622,100
Stationeries and supplies	**4,127,006**	1,587,444
Rent (Note 18)	**3,366,922**	1,464,391
Training and development	**3,328,063**	511,675
Fuel and lubricants	**2,780,645**	846,961
Depreciation and amortization (Note 9)	**2,743,854**	1,248,646
Security, messengerial, janitorial services	**2,491,622**	866,292
Information technology	**1,904,804**	1,171,552
Insurance	**1,823,056**	273,946
Power, light and water	**1,150,196**	458,088
Repairs and maintenance	**579,193**	147,770
Seminars and meetings	**543,043**	335,069
Professional fees	**385,605**	376,120
Postage, telephone, cables and telegrams	**336,905**	190,780
Representation and entertainment (Note 20)	**207,287**	141,172
Miscellaneous (Note 19)	**1,585,026**	458,511
	90,480,821	31,333,759
INCOME BEFORE INCOME TAX	**48,037,755**	8,930,786
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 20)	**15,268,769**	(415,226)
NET INCOME	**₱32,768,986**	₱9,346,012

See accompanying Notes to Financial Statements.

RIZAL RURAL BANK (TAYTAY, RIZAL), INC.
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2014	2013
NET INCOME	**₱32,768,986**	₱9,346,012
OTHER COMPREHENSIVE INCOME (LOSS)		
Other comprehensive income (loss) not recycled to profit or loss in subsequent periods:		
Remeasurement gains (losses) on retirement plan (Note 17)	**13,445,742**	(7,842,228)
Income tax effect (Note 20)	**(4,033,722)**	2,352,668
	9,412,020	(5,489,560)
TOTAL COMPREHENSIVE INCOME	**₱42,181,006**	₱3,856,452

See accompanying Notes to Financial Statements.

RIZAL RURAL BANK (TAYTAY, RIZAL), INC.

STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 15)	**Retained Earnings (Deficit)**	**Remeasurement Gains (Losses) on Retirement Plan**	**Total**
Balances at January 1, 2014	**₱17,500,000**	**(₱3,806,951)**	**(₱5,489,560)**	**₱8,203,489**
Issuance of shares	**31,500,000**	**–**	**–**	**31,500,000**
Total comprehensive income for the year	**–**	**32,768,986**	**9,412,020**	**42,181,006**
Balances at December 31, 2014	**₱49,000,000**	**₱28,962,035**	**₱3,922,460**	**₱81,884,495**
Balances at January 1, 2013	₱10,625,000	(₱13,152,963)	₱–	(₱2,527,963)
Issuance of shares	6,875,000	–	–	6,875,000
Total comprehensive income (loss) for the year	–	9,346,012	(5,489,560)	3,856,452
Balances at December 31, 2013	₱17,500,000	(₱3,806,951)	(₱5,489,560)	₱8,203,489

See accompanying Notes to Financial Statements.

RIZAL RURAL BANK (TAYTAY, RIZAL), INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱48,037,755**	₱8,930,786
Adjustments for:		
Provision for credit and impairment losses (Notes 7 and 11)	**4,671,862**	1,622,100
Retirement expense (Note 17)	**4,071,087**	3,398,702
Depreciation and amortization (Note 9)	**2,743,854**	1,248,646
Amortization of held-to-maturity investments (Note 8)	**5,021**	308
Gain on foreclosure of investment property	**–**	(207,621)
Gain on sale of property and equipment	**–**	(2,035)
Operating income before changes in operating assets and liabilities:	**59,529,579**	14,990,886
Increase in:		
Loans and receivables	**(318,901,342)**	(153,303,276)
Other assets	**(5,561,576)**	(1,288,559)
Increase in:		
Deposit liabilities	**123,121,616**	158,357,647
Other liabilities	**6,910,334**	2,919,877
Net cash generated from (used in) operations	**(134,901,389)**	21,676,575
Income taxes paid	**(11,896,635)**	(84,357)
Contribution to retirement fund	**(9,617,623)**	(416,895)
Net cash provided by (used in) operating activities	**(156,415,647)**	21,175,323
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment (Notes 9 and 22)	**(10,702,541)**	(22,873,586)
Proceeds from disposal of investment properties (Note 10)	**–**	4,520,035
Proceeds from disposal of property and equipment (Note 9)	**–**	6,161
Net cash used in investing activities	**(10,702,541)**	(18,347,390)
CASH FLOWS FROM FINANCING ACTIVITY		
Proceeds from availment of bills payable	**175,000,000**	–
Proceeds from deposit for future stock subscription (Note 15)	**46,500,000**	32,500,000
Cash provided by financing activities	**221,500,000**	32,500,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	**54,381,812**	35,327,933
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and other cash items	**380,545**	355,664
Due from Bangko Sentral ng Pilipinas	**4,115,479**	633,928
Due from other banks	**39,188,778**	7,367,277
	43,684,802	8,356,869

(Forward)

	Years Ended December 31	
	2014	2013
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and other cash items	**₱1,973,592**	₱380,545
Due from Bangko Sentral ng Pilipinas	**11,071,066**	4,115,479
Due from other banks	**85,021,956**	39,188,778
	₱98,066,614	₱43,684,802
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest received	**₱145,619,661**	₱39,530,554
Interest paid	**8,915,387**	2,271,571

See accompanying Notes to Financial Statements.

RIZAL RURAL BANK (TAYTAY, RIZAL), INC.
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Rizal Rural Bank (Taytay, Rizal), Inc. (the Bank) was incorporated under Philippine laws by virtue of Securities and Exchange Commission (SEC) Certificate of Registration No. ASO94-11394 dated December 15, 1994. The Bank was granted the authority by the Bangko Sentral ng Pilipinas (BSP) to operate on April 29, 1996. It was established primarily to engage in the business of rural banking as defined and authorized under Republic Act No. 3779, As Amended, such as granting loans to small farmers and to deserving rural enterprises, as well as receiving deposits in accordance with the regulations promulgated by the Monetary Board.

The Monetary Board, in its Resolution No. 155 dated January 25, 2013, approved the acquisition by Center for Agriculture and Rural Development (CARD), Inc. (40.00%), CARD Bank Inc. (40.00%) and various individuals (20.00%) of 100.00% of the outstanding shares of the Bank.

In 2013, the Bank changed its principal place of business from G/F RRB Bldg., 227 Rizal Avenue, Barangay San Juan, Taytay, Rizal to P. Guevarra St., Cor. Aguirre St., Brgy. Poblacion 2, Sta. Cruz, Laguna. As at December 31, 2014, the Bank consists of its head office and three branches.

On November 18, 2014, the BSP approved the change in the Bank's corporate name from Rizal Rural Bank (Taytay, Rizal), Inc. to Rizal Bank, Inc. (A Microfinance-Oriented Rural Bank). As at March 14, 2015, the SEC has yet to approve the change in the corporate name of the Bank.

2. Summary of Significant Accounting Policies

<u>Basis of Preparation</u>
The accompanying financial statements have been prepared on a historical cost basis. The financial statements are presented in Philippine peso and all values are rounded to the nearest peso except when otherwise indicated.

<u>Statement of Compliance</u>
The financial statements of the Bank have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

<u>Presentation of Financial Statements</u>
The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery (asset) or settlement (liability) within 12 months after the statement of financial position date (current) and more than 12 months after the reporting date (noncurrent) are disclosed in Note 14.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

Changes in Accounting Policies and Disclosures
The Bank applied, for the first time, the following new and revised accounting standards. Unless otherwise indicated, these new and revised accounting standards have no impact on the financial position or performance of the Bank. Except for these standards and amended PFRS which were adopted as at January 1, 2014, the accounting policies adopted are consistent with those of the previous financial year.

- Investment Entities (Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and Philippine Accounting Standard (PAS) 27, *Separate Financial Statements*)
- PAS 32*, Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (Amendments)
- PAS 36*, Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)
- PAS 39, *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
- Philippine Interpretation of International Financial Reporting Interpretations Committee (IFRIC) 21, *Levies*
- PFRS 13, *Fair Value Measurement (*Annual Improvements to PFRS *(2010-2012 Cycle))*
- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards* (Annual Improvements to PFRS *(2011-2013 Cycle))*

Summary of Significant Accounting Policies

Fair Value Measurement
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.

A fair value measurement of a non-financial 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 statements are categorized within the fair value hierarchy, described in Note 4, based on the lowest level input that is significant to the fair value measurement as a whole.

For assets and liabilities that are recognized in the financial statements 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 every reporting date.

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 convertible to known amounts of cash with original maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value.

Financial Instruments – Initial Recognition and Subsequent Measurement

Date of recognition

Regular way purchases or sales of financial assets that require delivery of the assets within the time frame established by regulation or convention in the marketplace are recognized on settlement date. Deposit liabilities and loan receivables are recognized when cash is received or released to the borrowers, respectively, by the Bank.

Initial recognition of financial instruments

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

As at December 31, 2014 and 2013, the Bank has no financial instruments at FVPL and AFS investments.

Determination of fair value

The fair values of financial assets and liabilities traded in active markets are based on quoted market prices at the close of trading on the reporting date. Where an instrument measured at fair value has a bid and an ask price, the Bank uses the price within that range that is most representative of the fair value.

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. The valuation techniques used aim to make minimum use of market inputs and rely as little as possible on entity-specific inputs and may include reference to other instruments that are judged to be substantially the same.

'Day 1' difference

Where the transaction price in a non-active market is different from the fair value or 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 in 'Miscellaneous' unless it qualifies for recognition as some other type of asset.

In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the 'Day 1' difference amount.

Loans and receivables, amounts due from BSP and other banks
This accounting policy applies to 'Due from BSP', 'Due from other banks' and 'Loans and receivables'. These are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'AFS investments' or 'Financial assets at FVPL'.

After initial measurement, 'Due from BSP', 'Due from other banks', and 'Loans and receivables' are subsequently measured at amortized cost using the effective interest method, less any allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate (EIR). The amortization is included in 'Interest income' in the statement of income. The losses arising from impairment are recognized in 'Provision for credit and impairment losses' in the statement of income.

HTM investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Bank's management has the positive intention and ability to hold to maturity. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income. Gains and losses are recognized in the statement of income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of income under 'Provision for credit and impairment losses'.

If the Bank sells more than an insignificant amount of HTM investments prior to maturity (other than in specific circumstances) the entire category would be tainted and reclassified as AFS investments. Furthermore, the Bank would be precluded from using the HTM investment category for the following two years.

Financial liabilities at amortized cost
This category represents issued financial instruments or their components, which are not designated at FVPL where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The liabilities are classified under 'Deposit liabilities', 'Bills payable' or other financial liabilities under 'Other liabilities' in the statement of financial position.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, 'Deposit liabilities', 'Bills payable' and similar financial liabilities not qualified as and not designated as FVPL, are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

Classification of Financial Instruments between Debt and Equity
A financial instrument is classified as debt if it provides for a contractual obligation to:

a. deliver cash or another financial asset to another entity; or
b. exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Bank; or
c. satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Bank does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

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:

a. the rights to receive cash flows from the asset have expired; or
b. 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
c. 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, rewards and control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged 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.

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

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

Financial asset carried at amortized cost
For 'Loans and receivables', 'Due from BSP', 'Due from other banks' and 'HTM investments', the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If the Bank determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparties' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the statement of income. Financial assets, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, subsequently, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account.

If a future write-off is later recovered, any amounts formerly charged are credited to the 'Miscellaneous' in the statement of income.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as days past-due and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period in which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

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

AFS investments
For AFS investments, the Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of income. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the statement of income.

If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

Property and Equipment

Land is stated at cost less any impairment in value and depreciable properties, including building, furniture, fixtures and equipment, and leasehold improvements, are stated at cost less accumulated depreciation and any accumulated impairment losses. The initial cost of property and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance, are normally charged against profit or loss in the year 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 property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of property and equipment.

Depreciation and amortization

Depreciation is calculated using the straight-line method to write down the cost of the property and equipment to their residual values over their estimated useful lives.

The estimated useful lives are as follows:

Building	10 years
Furniture, fixtures and equipment	3 years
Leasehold and improvements	3 years or the terms of the related leases, whichever is shorter
Transportation equipment	3 years

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

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is reflected in the statement of income.

Investment Property

Investment property is 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 the asset given up. Foreclosed properties are classified under investment properties from foreclosure date.

Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and impairment loss.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged against income in the year in which the costs are incurred.

Depreciation is calculated on a straight-line basis using the EUL of the condominium units, which is lower of remaining useful life at the time of acquisition and 50 years.

Investment property is 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 profit or loss in the year of retirement or disposal.

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

Impairment of Non-financial Assets

Property and equipment, investment property and other assets

At each reporting date, the Bank assesses whether there is any indication that its non-financial 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 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 groups of assets, in which case the recoverable amount is assessed as part of the 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 value in use, 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 to statement of income in the year in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset.

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 expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The Bank assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Bank has concluded that it is acting as a principal in recognizing interest income.

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

Interest income
For all financial assets measured at amortized cost, interest income is recorded at EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument including any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount adjusted for interest received is recorded as ‘Interest income’. Interest income is recognized even if no principal and interest collections were made during the period.

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR used to discount the future recoverable cash flows.

Expense Recognition
Expenses are recognized when it is probable that decrease in the future economic benefits related to decrease in asset or an increase in liability has occurred and that the decrease in economic benefits can be measured reliably. Expenses that may arise in the course of ordinary regular activities of the Bank include among others the operating expenses of the Bank. Expenses are recognized as incurred.

Interest Expense
Interest expense for financial liabilities is recognized in ‘Interest expense’ in the statement income using the EIR of the financial liabilities to which they relate.

Retirement Benefits
The Bank operates a defined benefit retirement plan which requires 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 reporting date reduced by the fair value of plan assets (if any), 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
- 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 expense 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.

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 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.

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

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

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

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

Bank as lessor
Leases where the Bank does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases

are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as income in the period in which they are earned.

Income Taxes

Current tax

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

Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences with exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward 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 of unused excess MCIT over RCIT and unused NOLCO can be utilized.

Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

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.

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.

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 relates to the same taxable entity and the same taxation authority.

Current tax and deferred tax relating to items recognized directly in equity is recognized in OCI, and not in profit or loss.

Equity

Capital stock is measured at par value for all shares issued and outstanding. When the Bank issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax. The subscribed capital stock is reported in equity less the related subscription receivable not currently collectible.

Retained earnings represents the cumulative balance of periodic net income or loss, dividend contributions, prior period adjustments, effect of changes in accounting policy and other capital adjustments.

Deposit for Future Stock Subscription
Deposit for future stock subscription (DFS) represents payments made on subscription of shares which cannot be directly credited to 'Preferred stock' or 'Common stock' pending application for increase in authorized capital stock with SEC. The paid-up subscription can be classified under equity if the nature of the transaction gives rise to a contractual obligation of the Bank to deliver a fixed number of its own shares to the subscriber in exchange of the subscription amount. In addition, DFS shall be classified under equity if all of the following elements are present as at reporting date:

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

DFS that does not meet the foregoing conditions are treated as financial liability.

Provisions
Provisions are recognized when an obligation (legal or constructive) is incurred as a result of a past event and where it is probable that an outflow of assets 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, for example, under an insurance contract, 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 as an 'Interest expense' in the statement of income.

Contingent Liabilities and Contingent Assets
Contingent liabilities are not recognized but are disclosed in the financial statements unless the possibility of an outflow of assets 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 are disclosed in the notes to the financial statements when material.

Future Changes in Accounting Policies
Standards and Interpretations issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. Except as otherwise indicated, the Bank does not expect the adoption of these new and amended PFRS, PAS and Philippine Interpretations to have significant impact on its financial statements. The Bank will assess the impact of these amendments on its financial position or performance when they become effective.

Standards issued but not yet effective

PFRS 9, *Financial Instruments – Classification and Measurement* (2010 version)
PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

PFRS 9 (2010 version) is effective for annual periods beginning on or after January 1, 2015. This mandatory adoption date was moved to January 1, 2018 when the final version of PFRS 9 was adopted by the Philippine Financial Reporting Standards Council (FRSC). Such adoption, however, is still for approval by the Board of Accountancy (BOA).

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the IASB and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Bank.

The following new standards and amendments issued by the IASB were already adopted by the FRSC but are still for approval by BOA:

Standards issued effective January 1, 2015

PAS 19, *Employee Benefits – Defined Benefit Plans: Employee Contributions* (Amendments)
PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. It is not expected that this amendment would be relevant to the Bank since the Bank has no defined benefit plans with contributions from employees or third parties.

Annual Improvements to PFRSs (2010-2012 cycle)
The following Annual Improvements to PFRSs (210-2012 cycle) are not expected to have material impact on the Bank.

PFRS 2, *Share-based Payment – Definition of Vesting*
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

This amendment does not apply to the Bank as it has no share-based payments.

PFRS 3*, Business Combinations – Accounting for Contingent Consideration in a Business Combination*
The amendment is applied prospectively for business combinations for which the acquisition date is on or after the adoption date. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39 (or PFRS 9, if early adopted). The Bank shall consider this amendment for future business combinations.

PFRS 8*, Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (i.e., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The amendments will have no impact on the Bank's financial statements.

PAS 16, *Property, Plant and Equipment, and* PAS 38*, Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Depreciation*
The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

PAS 24, *Related Party Disclosures – Key Management Personnel*
The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual Improvements to PFRSs (2011-2013 cycle)
The Annual Improvements to PFRSs (2011-2013 cycle), which include the following, are not expected to have a material impact on the Bank:

PFRS 3*, Business Combinations – Scope Exceptions for Joint Arrangements*
The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:

- Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

PFRS 13*, Fair Value Measurement – Portfolio Exception*
The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39 or PFRS 9, as applicable.

PAS 40*, Investment Property*
The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is a purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).
The amendment has no significant impact on the Bank's financial position or performance.

Standards effective January 1, 2016

PAS 16, *Property, Plant and Equipment,* and PAS 38, *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)
The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively, with early adoption permitted. These amendments are not expected to have any impact to the Bank since it has not used a revenue-based method to depreciate its non-current assets.

PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture – Bearer Plants* (Amendments)
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20*, Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments

are retrospectively applied, with early adoption permitted. These amendments are not expected to have any impact to the Bank as it does not have any bearer plants.

PAS 27, *Separate Financial Statements – Equity Method in Separate Financial* Statements (Amendments)
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. Early adoption of the amendment is permitted. It is not expected that this amendment would be relevant to the Bank.

PFRS 10, *Consolidated Financial Statements* and PAS 28*, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. It is not expected that this amendment would be relevant to the Bank.

PFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations* (Amendments)
The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively applied with early adoption permitted. These amendments are not expected to have any impact to the Bank.

PFRS 14*, Regulatory Deferral Accounts*
PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. Since the Bank is an existing PFRS preparer, this standard would not apply.

Annual Improvements to PFRSs (2012-2014 cycle)
The Annual Improvements to PFRSs (2012-2014 cycle), which include the following, are not expected to have a material impact on the Bank:

PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*
The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

PFRS 7, *Financial Instruments: Disclosures – Servicing Contracts*
PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statement*
This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

PAS 19*, Employee Benefits – regional market issue regarding discount rate*
This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

PAS 34, *Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report*
The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (i.e. in the management commentary or risk report).

Effective January 1, 2018

PFRS 9, *Financial Instruments* – Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)
PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for non-financial items, provided that the risk component is

separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

PFRS 9, *Financial Instruments* (2014 or final version)
In July 2014, the final version of PFRS 9, *Financial Instruments*, was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

Early application of previous versions of PFRS 9 is permitted if the date of initial application is before January 1, 2015.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Bank's financial assets and impairment methodology for financial assets, but will potentially have no impact on the classification and measurement of the Bank's financial liabilities. The Bank is currently assessing the impact of adopting this standard.

The following new standard issued by the IASB has not yet been adopted by the FRSC:

IFRS 15, *Revenue from Contracts with Customers*
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Bank is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

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) Operating leases – Bank as lessee

In determining whether or not there is an indication of operating lease treatment, the Bank considers retention of ownership title to the leased property, period of lease contract relative to the estimated useful economic life of the leased property and bearer of executory costs, among others.

The Bank has entered into leases on premises and transportation and Information Technology (IT) equipment it uses for its operations. The Bank has determined that all significant risks and rewards of ownership of the properties it leases on operating lease are not transferred to the Bank.

(b) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models.

The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Refer to Note 4 for the fair value measurement of financial assets and liabilities.

(c) Classification of HTM investments

The classification of financial assets to HTM category requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than in certain specific circumstances – for example, selling a more than an insignificant amount close to maturity – it will be required to reclassify the entire portfolio as AFS investments. The investments would therefore be measured at fair value and not at amortized cost. Refer to Note 8 for the carrying value of HTM investments.

(d) Financial assets not quoted in an active market

The Bank classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether the asset is quoted in an active market is the determination on whether the quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's-length basis.

(e) Going concern

The Bank's management has made an assessment of 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. Therefore, the financial statements are continued to be prepared on a going concern basis.

Estimates

(a) *Credit losses on loans and receivables*
The Bank reviews its loans and receivables to assess impairment annually. In determining whether an impairment loss should be recorded in the statement of income, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of customers or national or local economic conditions that correlate with defaults on the loans and receivables. Past-due accounts and loans wherein the borrower requested moratorium but no subsequent collection is made after the moratorium period ends as at year-end, fall under specific loan loss. As at December 31, 2014 and 2013, the carrying values of loans and receivables and related allowance for credit losses 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 20.

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

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

(d) *Impairment of non-financial assets*
The Bank assesses impairment on property and equipment, investment property and other nonfinancial assets whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The factors that the Bank considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Bank recognizes an impairment loss whenever the carrying amounts of non-financial assets exceed their recoverable amounts. As at December 31, 2014 and 2013, no impairment losses were provided on non-financial assets.

(e) *Estimated useful lives of property and equipment and investment property*
The Bank estimates the useful lives of its property and equipment and investment property. This estimate is reviewed periodically to ensure that the periods of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property and equipment and investment property. Refer to accounting policy of property and equipment and investment property in Note 2 for the assets' estimated useful lives.

4. Fair Value Measurement

The Bank uses a hierarchy for determining and disclosing the fair value of its assets and liabilities (see accounting policy on Fair Value Measurement in Note 2).

The fair values of cash and cash equivalents, loans and receivables except for unquoted debt securities classified as loans, deposit liabilities and other liabilities approximate their carrying values in view of the relatively short-term maturities of these instruments. All loan receivables are due within 1 year from the financial reporting date.

The fair value of HTM investments is generally based on quoted market prices. When these are not available, the fair value is determined using interpolated market rates of benchmark securities.

Unquoted debt securities classified as loans, refundable rental deposits and long-term accrued expenses – Fair values are estimated using the discounted cash flow methodology, using current incremental lending rates for similar types of loans or instruments.

Deposit liabilities and bills payable – Carrying value approximates fair value as maturities are relatively short.

Fair Value Hierarchy
The following table summarizes the carrying amounts and the fair values by level of the fair value hierarchy of the Bank's assets and liabilities as at December 31, 2014 and 2013:

	2014				
	Carrying Value	**(Level 1)**	**(Level 2)**	**(Level 3)**	**Total Fair Value**
Assets and liability for which fair values are disclosed:					
Financial assets					
Unquoted debt securities classified as loans	**₱5,179,788**	**₱–**	**₱–**	**₱4,404,514**	**₱4,404,514**
HTM investments	**2,006,130**	**–**	**2,069,757**	**–**	**2,069,757**
Other assets					
Refundable rental deposits	**440,133**	**–**	**–**	**414,357**	**414,357**
Nonfinancial assets					
Investment property	**490,160**	**–**	**–**	**490,160**	**490,160**
Financial liability					
Accrued expenses	**2,882,099**	**–**	**–**	**739,623**	**739,623**

	2013				
	Carrying Value	(Level 1)	(Level 2)	(Level 3)	Total Fair Value
Assets and liability for which fair values are disclosed:					
Financial assets					
Unquoted debt securities classified as loans	₱1,264,012	–	₱–	₱1,106,935	₱1,106,935
HTM investments	2,011,151	–	2,131,985	–	2,131,985
Other assets					
Refundable rental deposits	396,367	–	–	364,942	364,942
Nonfinancial assets					
Investment property	490,160	–	–	490,160	490,160
Financial liability					
Accrued expenses	269,842	–	–	43,812	43,812

Description of the level of inputs used for fair valuation follows:

- 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 liabilities
- 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

Instruments in Level 3 include those for which there is currently no active market.

There have been no changes in determining the fair value of financial instruments in 2014 and 2013. There were no transfers of financial instruments between Levels 1, 2 and 3 in 2014 and 2013.

As of December 31, 2014 and 2013, 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.

The most recent appraisal report used for fair value measurement of investment property is dated March 2014 with an appraised value of ₱0.49 million.

The fair value of the Bank's investment property has been determined based on the valuation made by an independent appraiser on the basis of recent sales of similar properties in the same areas as the investment property and taking into account the economic conditions prevailing at the time the valuation was made.

The valuation of investment property follows the market approach which includes significant unobservable inputs such as size, location, shape and time element. The market approach is a comparable method wherein the value of the property is based on sales and listings of comparable property by reducing reasonable comparative sales and listings to a common denominator. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparable. The properties used as basis of comparison are situated within the immediate vicinity of the subject property.

5. **Financial Risk Management Objectives and Policies**

In the course of the business cycle, the Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Market risk
- Liquidity risk

The Bank has instituted the Financial Risk Management Committee, composed of the President as Chairman and two directors, which is responsible for the comprehensive development of financial risk strategies, principles, frameworks, policies and limits purposely to eliminate or at least reduce the risk the Bank faces in banking activities and thus optimize returns on the capital or equity.

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 identifying and assessing the risk, taking actions to mitigate the risks through defined roles and responsibilities, close monitoring of the scenarios, and adjustment of the systems and policies necessary to effectively minimize risk level.

The BOD through its Risk Oversight Committee (ROC) is responsible for monitoring the Bank's implementation of risk management policies and procedures, and for reviewing the adequacy of risk management framework in relation to the risks faced by the Bank. The ROC 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. In addition, an Asset Liability Committee (ALCO) with members from Bank Executive and Management Committee regularly analyzes the operating and financial risk management.

<u>Credit Risk</u>
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
The Bank faces potential credit risks every time it extends funds to borrowers, commits funds to counterparties or invests funds to issuers (e.g., investment securities issued by either sovereign or corporate entities).

The Bank manages credit risks by instilling credit discipline both among the staff and the borrowers. Close-monitoring and assessment of account throughout the borrowing period is being done. Moreover, on-time and quality service delivery increase motivation of the borrowers to fulfill their financial obligation. Instilling good credit discipline and commitment are always considered through regular orientation and training. The value of savings is also being discussed and part of the bank's credit with education initiatives. Consequently, their savings balances serves as guarantee to their loans. This also increased their borrowing capacity. Each business unit has a designated Unit Manager who reports on all credit related matters to Area Manager and

Regional Director. Each business unit is responsible for the quality and performance of its credit portfolio and monitoring and controlling risks associated with it. Regular audits of business units and credit processes are undertaken by IA. In addition, Executive and Management Committee members of the Bank regularly conduct monitoring based on their respective target per month. This strategy further ensures that business unit's implementation is within the credit policy and regulation of the Bank. Regular capacity building program through provisions of banking-related trainings such as but not limited to credit risk management, managing business, and delinquency management are regularly run. Availability of operations manual as reference, assist personnel in handling daily transaction. The manual is customized for microfinance clients and is being updated as often as new policies and procedures are finalized and approved by the BOD, based on client and staff satisfaction surveys, staff and management program review and planning meetings and workshops. A codified signing authority is in place for every level of loan processing and approval.

All past due are reported on daily, weekly and monthly bases. Consistent monitoring for this group of accounts is established by competent and diligent staff to maximize recovery. Writing off bad accounts are approved by the BOD and reported to the BSP in compliance with the rules and regulations for banks.

The ROC closely monitors the over-all credit operations. Identified existing and potential risks are acted upon appropriately and are reported during monthly meetings of the BOD.

The carrying value of the Bank's loans and receivables reflects its maximum exposure to credit risk. The Bank assessed that it has no significant credit risk exposures relating to off-balance sheet items.

Maximum exposure to credit risk
An analysis of the maximum exposure to credit risk after taking into account any collateral held or other credit enhancements is shown below as at December 31, 2014 and 2013:

	2014		
	Maximum credit exposure	**Net exposure**	**Financial effect of collateral or credit enhancement**
Receivable from customers			
Microfinance loans	**₱396,765,588**	**₱310,952,531**	**₱85,813,057**
Other loans	**75,850,830**	**59,141,694**	**16,709,136**
	₱472,616,418	**₱370,094,225**	**₱102,522,193**

	2013		
	Maximum credit exposure	Net exposure	Financial effect of collateral or credit enhancement
Receivable from customers			
Microfinance loans	₱153,103,171	₱129,811,781	₱23,291,390
Other loans	10,804,910	9,084,133	1,720,777
	₱163,908,081	₱138,895,914	₱25,012,167

As at December 31, 2014 and 2013, the Bank does not hold any collateral or other credit enhancements to cover the credit risks associated with its due from BSP and other banks, other receivables, HTM investments and other financial assets. Hence, the carrying values of those financial assets best represent the maximum exposure to credit risk.

Credit enhancement for receivable from customers pertains to deposit hold-out from pledge savings equivalent to 15.00% of the original amount of the loan to the member as at December 31, 2014 and 2013 and includes real estate mortgage as of December 31, 2013.

The Bank has no financial instruments with rights of set-off in accordance to PAS 32 as at December 31, 2014 and 2013. 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 amendments to PFRS 7.

Additionally, the tables below show the distribution of maximum credit exposure by industry sector of the Bank as at December 31, 2014 and 2013:

	2014				
	Loans and Receivables	**Due from BSP and Other Banks**	**HTM Investments**	**Other Assets***	**Total**
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	**₱186,190,359**	**₱–**	**₱–**	**₱–**	**₱186,190,359**
Agriculture, hunting and forestry	**108,715,602**	–	–	–	**108,715,602**
Financial institutions	–	**85,021,956**	–	–	**85,021,956**
Real estate activities	**42,335,123**	–	–	–	**42,335,123**
Manufacturing	**41,438,769**	–	–	–	**41,438,769**
Fishing	**21,715,929**	–	–	–	**21,715,929**
Information and communication	**19,290,279**	–	–	–	**19,290,279**
Government	**5,179,788**	**11,071,066**	**2,006,130**	–	**18,256,984**
Accomodation and food service activities	**16,081,452**	–	–	–	**16,081,452**
Education	**14,187,487**	–	–	–	**14,187,487**
Transportation and storage	**10,801,355**	–	–	–	**10,801,355**
Other community, social and personal service activities	**6,663,321**	–	–	**440,133**	**7,103,454**
Administrative and support service activities	**4,999,645**	–	–	–	**4,999,645**
Water supply, sewerage, waste management and remediation activities	**4,622,088**	–	–	–	**4,622,088**
Construction	**2,051,632**	–	–	–	**2,051,632**
Human health and social work activities	**1,650,583**	–	–	–	**1,650,583**
Professional, scientific and technical services	**884,031**	–	–	–	**884,031**
Arts, entertainment and recreation	**809,845**	–	–	–	**809,845**
Electricity, gas and water supply	**605,802**	–	–	–	**605,802**
Mining and quarrying	**52,400**	–	–	–	**52,400**
Other services activities	**2,960,778**	–	–	–	**2,960,778**
	491,236,268	**96,093,022**	**2,006,130**	**440,133**	**589,775,553**
Less allowance for credit losses	**6,776,740**	–	–	–	**6,776,740**
Total	**₱484,459,528**	**₱96,093,022**	**₱2,006,130**	**₱440,133**	**₱582,998,813**

**Pertains to refundable rental deposits*

	2013				
	Loans and Receivables	Due from BSP and Other Banks	HTM Investments	Other Assets*	Total
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	₱120,460,615	₱–	₱–	₱–	₱120,460,615
Financial institutions	–	39,188,778	–	–	39,188,778
Agriculture, hunting and forestry	19,038,205	–	–	–	19,038,205
Other community, social and personal service activities	16,502,814	–	–	396,367	16,899,181
Government	1,264,012	4,115,479	2,011,151	–	7,390,642
Construction	5,296,272	–	–	–	5,296,272
Fishing	5,219,107	–	–	–	5,219,107
Manufacturing	4,140,808	–	–	–	4,140,808
Electricity, gas and water supply	₱531,555	₱–	₱–	₱–	₱531,555
Mining and quarrying	75,883	–	–	–	75,883
Health and social work	26,873	–	–	–	26,873
	172,556,144	43,304,257	2,011,151	396,367	218,267,919
Less allowance for credit losses	2,326,096	–	–	–	2,326,096
Total	₱170,230,048	₱43,304,257	₱2,011,151	₱396,367	₱215,941,823

**Pertains to refundable rental deposits*

Credit quality per class of financial assets
The description of the financial assets grading used by the Bank is as follows:

- *High grade* – These are financial assets which have a high probability of collection or are invested or deposited with reputable financial institutions. The counterparty has the apparent ability to satisfy its obligation and the securities on the receivables are readily enforceable.

- *Standard grade* – These are financial assets where collections are probable due to the reputation and the financial ability of the counterparty to pay but with experience of default.

The tables below show the credit quality per class of financial assets (gross of allowance for credit and impairment losses) as at December 31, 2014 and 2013:

	2014				
	High grade	**Standard grade**	**Past due but not impaired**	**Impaired**	**Total**
Due from BSP	**₱11,071,066**	**₱–**	**₱–**	**₱–**	**₱11,071,066**
Due from other banks	**85,021,956**	**–**	**–**	**–**	**85,021,956**
Receivable from customers:					
Microfinance loans	**–**	**400,753,582**	**250,953**	**1,834,524**	**402,839,059**
Other loans	**–**	**76,338,585**	**61,821**	**153,693**	**76,554,099**
Other receivables:					
Accrued interest receivable	**–**	**6,141,983**	**–**	**–**	**6,141,983**
Accounts receivable	**–**	**521,339**	**–**	**–**	**521,339**
Unquoted debt securities classified as loans	**–**	**5,179,788**	**–**	**–**	**5,179,788**
HTM investments	**2,006,130**	**–**	**–**	**–**	**2,006,130**
Other assets:					
Refundable rental deposits	**–**	**440,133**	**–**	**–**	**440,133**
	₱98,099,152	**₱489,375,410**	**₱312,774**	**₱1,988,217**	**₱589,775,553**

	2013				
	High grade	Standard grade	Past due but not impaired	Impaired	Total
Due from BSP	₱4,115,479	₱–	₱–	₱–	₱4,115,479
Due from other banks	39,188,778	–	–	–	39,188,778
Receivable from customers					
Microfinance loans	–	154,763,433	230,219	282,277	155,275,929
Other loans	–	10,650,244	2,052	305,952	10,958,248
Other receivables:					
Accrued interest receivable	–	3,723,074	–	–	3,723,074
Accounts receivable	–	1,334,881	–	–	1,334,881
Unquoted debt securities classified as loans	–	1,264,012	–	–	1,264,012
HTM investments	2,011,151	–	–	–	2,011,151
Other assets:					
Refundable rental deposits	–	396,367	–	–	396,367
	₱45,315,408	₱172,132,011	₱232,271	₱588,229	₱218,267,919

As at December 31, 2014 and 2013, the Bank's receivables that are past due for more than 90 days are considered impaired.

Aging analysis of past due but not impaired loans and receivables
The following table shows the total aggregate amount of loans and receivables that are contractually past due but not considered as impaired per delinquency bucket as at December 31, 2014 and 2013.

	2014			
	Less than 30 Days	**31 to 60 Days**	**61 to 90 Days**	**Total**
Microfinance loans	**₱25,298**	**₱46,667**	**₱178,988**	**₱250,953**
Other loans	**10,249**	**23,571**	**28,001**	**61,821**
	₱35,547	**₱70,238**	**₱206,989**	**₱312,774**

	2013			
	Less than 30 Days	31 to 60 Days	61 to 90 Days	Total
Microfinance loans	₱199,366	₱112,071	₱56,593	₱368,030
Other loans	–	1,003	1,049	2,052
	₱199,366	₱113,074	₱57,642	₱370,082

Carrying amount per class of loans and receivables which terms have been renegotiated
Restructured receivables have principal terms and conditions that have been modified in accordance with an agreement setting forth a new plan of payment or a schedule of payment on a periodic basis. When the receivable account becomes past due and is being restructured or extended, the approval of the BOD is required before loan booking and is always governed by the BSP rules on restructuring. No loans were restructured as at December 31, 2014 and 2013.

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 are therefore not subject to any interest rate risk.

Interest rate risk
The Bank's receivables earn fixed interest rates ranging from 18.00% to 32.00% with equivalent EIR ranging from 32.80% to 58.80% in 2014 and 2013. The shortest term of loan is one month while the longest term is one year.

The Bank's savings deposit liabilities include compulsory and voluntary savings that earn 1.50% and 2.00% per annum in 2014 and 2013, respectively. Special savings deposits have interest rates of 2.00% to 4.50% in 2014 and 2.50% to 4.50% in 2013.

In order to manage its net interest margin, the Bank places its excess funds in high yield investments and other short-term special savings deposits.

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 Bank's ALCO is responsible for 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. The Bank utilizes a diverse range of sources of funds, although short-term deposits made with the Bank's network of domestic branches comprise the majority of such funding. Core deposits composed mainly of microfinance savings.

Liquidity risk is managed by the Bank through holding sufficient liquid assets and appropriate assessment to ensure short-term funding requirements are met and by ensuring the high collection performance at all times. Deposits with banks are made on a short-term basis with almost all being available on demand or within one month.

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.

The tables below summarize the maturity profile of the financial instruments of the Bank based on contractual undiscounted cash flows:

	2014					
	On demand	**Due within 1 month**	**1 to 3 months**	**3 to 12 months**	**Beyond 1 year**	**Total**
Financial Assets						
Cash and other cash items	₱1,973,592	₱–	₱–	₱–	₱–	₱1,973,592
Due from BSP	11,071,066	–	–	–	–	11,071,066
Due from other banks	29,911,633	–	55,110,324			85,021,957
Loans and receivable – gross	2,339,407	131,058,571	278,835,100	143,029,037	4,493,873	559,755,988
HTM investments	–	–	56,624	99,333	2,170,627	2,326,584
Other assets:						
Refundable rental deposits	–	–	4,500	36,600	399,033	440,133
Total Financial Assets	45,295,698	131,058,571	334,006,548	143,164,970	7,063,533	660,589,320
Financial Liabilities						
Deposit liabilities	188,496,440	41,636,524	6,617,787	70,599,488	–	307,350,239
Other liabilities	1,846,141	–	–	–	–	1,846,141
Bills payable	–	–	46,227,159	134,971,779	–	181,198,938
Accrued interest	–	201,128	35,982	1,015,825	–	1,252,935
Accrued expenses	672,000	2,322,516	300,000	598,969	2,882,099	6,775,584
Total Financial Liabilities	191,014,581	44,160,168	53,180,928	207,186,061	2,882,099	498,423,837
Net	(₱145,718,883)	₱86,898,403	₱280,825,620	(₱64,021,091)	₱4,181,434	₱162,165,483

	2013					
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	Total
Financial Assets						
Cash and other cash items	₱380,545	₱–	₱–	₱–	₱–	₱380,545
Due from BSP	4,115,479	–	–	–	–	4,115,479
Due from other banks	19,160,991	20,027,787	–	–	–	39,188,778
Loans and receivable – gross	5,784,835	5,125,001	46,480,596	135,228,412	1,264,012	193,882,856
HTM investments	–	–	–	59,958	2,227,788	2,287,746
Other assets						
Refundable rental deposits	–	–	–	47,667	348,700	396,367
Total Financial Assets	29,441,850	25,152,788	46,480,596	135,336,037	3,840,500	240,251,771
Financial Liabilities						
Deposit liabilities	80,154,264	22,423,615	12,014,478	72,102,661	–	186,695,018
Other liabilities	3,676,389	–	–	–	269,842	3,946,231
Total Financial Liabilities	83,830,653	22,423,615	12,014,478	72,102,661	269,842	190,641,249
Net	(₱54,388,803)	₱2,729,173	₱34,466,118	₱63,233,376	₱3,570,658	₱49,610,522

6. Due from BSP and Other Banks

The 'Due from BSP' account represents the aggregate balance of non-interest-bearing peso deposit accounts with the BSP which the Bank maintains primarily to meet reserve requirements and to serve as a clearing account for interbank claims. For the year ended December 31, 2014, the Bank was able to meet the reserve requirements set by the BSP.

Due from other banks represent funds deposited with domestic banks which are used by the Bank as part of its working funds. The deposits earn interest at annual rates ranging from 0.25% to 1.75% in 2014 and 2013.

Interest income on 'Due from other banks' amounted to ₱0.52 million and ₱0.31 million in 2014 and 2013, respectively.

7. Loans and Receivables

This account consists of:

	2014	2013
Receivable from customers		
Microfinance loans	**₱402,839,059**	₱155,275,929
Other loans	**76,554,099**	10,958,248
	479,393,158	166,234,177
Accrued interest receivable	**6,141,983**	3,723,074
Unquoted debt securities classified as loans (UDSCL)	**5,179,788**	1,264,012
Accounts receivable (Note 21)	**521,339**	1,334,881
	491,236,268	172,556,144
Less allowance for credit losses	**6,776,740**	2,326,096
	₱484,459,528	₱170,230,048

The significant portion of receivable from customers is extended to borrowers engaged in various micro-businesses.

Interest income on loans and receivables amounted to ₱147.29 million and ₱42.40 million in 2014 and 2013, respectively.

BSP Reporting

In accordance with BSP regulations, the Bank considers a loan as part of portfolio-at-risk (PAR) when an installment payment is past due for one day. As at December 31, 2014 and 2013, the Bank's PAR amounted to ₱2.28 million and ₱0.83 million, respectively.

Generally, NPLs refer to loans whose principal and/or interest unpaid after due date or after they have become past due in accordance with existing BSP rules and regulations. This shall apply to loans payable in lump sum and loans 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.

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.

The following table shows the secured and unsecured portions of receivable from customers as at December 31, 2014 and 2013 (at gross amount):

	2014	2013
Secured portion		
Deposit hold-out	**₱102,522,193**	₱155,275,929
Real estate	**–**	211,568
Unsecured portion	**376,870,965**	10,746,680
	₱479,393,158	₱166,234,177

Collateral of loans includes deposit hold-out at 15.00% of loan disbursed.

As at December 31, 2014 and 2013, information on the concentration of loans and receivables as to industry follows (at gross amount):

	2014		2013	
	Amount	**%**	Amount	%
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	**₱183,835,065**	**38.35%**	₱117,658,422	70.78%
Agriculture, hunting and forestry	**107,340,358**	**22.39%**	18,595,332	11.19%
Real estate activities	**41,799,587**	**8.72%**	–	0.00%
Manufacturing	**40,914,572**	**8.53%**	4,044,483	2.43%
Fishing	**21,441,224**	**4.47%**	5,097,698	3.07%
Information and communication	**19,046,258**	**3.97%**	–	0.00%
Accommodation and food service activities	**15,878,023**	**3.31%**	–	0.00%
Education	**14,008,016**	**2.92%**	–	0.00%
Transportation and storage	**10,664,719**	**2.23%**	–	0.00%
Community, social and personal service activities	**6,138,802**	**1.28%**	15,045,617	9.05%
Administrative and support service activities	**4,863,577**	**1.02%**	–	0.00%
Water supply, sewerage, waste management and remediation activities	**4,563,619**	**0.95%**	–	0.00%
Construction	**2,025,679**	**0.42%**	5,173,069	3.11%

(Forward)

	2014		2013	
	Amount	**%**	Amount	%
Human health and social work activities	**₱1,629,703**	**0.34%**	₱26,248	0.02%
Professional, scientific and technical services	**871,155**	**0.18%**	–	0.00%
Arts, entertainment and recreation	**799,600**	**0.17%**	–	0.00%
Electricity, gas and water supply	**598,139**	**0.13%**	519,190	0.31%
Mining and quarrying	**51,737**	**0.01%**	74,118	0.04%
Other services activities	**2,923,325**	**0.61%**	–	0.00%
	₱479,393,158	**100.00%**	₱166,234,177	100.00%

The movements in allowance for credit losses on receivable from customers follow:

	2014	2013
Balance at beginning of year	**₱2,326,096**	₱909,055
Provision for credit losses	**4,671,862**	1,587,318
Write-off	**(310,328)**	(170,277)
Other credits	**89,110**	–
Balance at end of year	**₱6,776,740**	₱2,326,096
Collective impairment	**₱4,770,922**	₱1,654,137
Individual impairment	**2,005,818**	671,959
	₱6,776,740	₱2,326,096
Gross amounts of loans individually determined to be impaired, before deducting any individually assessed impairment losses	**₱1,988,217**	₱588,229

Unquoted debt securities

As of December 31, 2014 and 2013, unquoted debt securities consist of the following:

	2014	2013
Small Business Corporation (SMBC)	**₱5,000,000**	₱1,000,000
Agrarian Reform 10-year bond	**179,788**	264,012
	₱5,179,788	₱1,264,012

Investments in SMBC pertain to non-negotiable Micro, Small and Medium Enterprise Notes with annual interest rate ranging from 1.67% to 2.57% in 2014 and 1.67% in 2013, subject to annual repricing.

Interest income on UDSCL amounted to ₱0.10 million in 2014 and ₱0.01 million in 2013.

8. Held-to-maturity Investments

This account pertains to investments in treasury bonds issued in 2011 with a 6.00% annual coupon interest rate and EIR of 5.46% to 6.00%. The investments will mature in March 2016. Amortization of premium on these investments amounted to ₱5,021 in 2014 and ₱308 in 2013. The Bank recognized interest income on its HTM investments amounting to ₱0.13 million and ₱0.11 million in 2014 and 2013, respectively.

9. **Property and Equipment**

The composition of and movements in this account follow:

	2014						
	Land	**Building**	**Furniture, Fixtures and Equipment**	**Information Technology Equipment**	**Transportation Equipment**	**Leasehold Improvements**	**Total**
Cost							
Balance at beginning of year	**₱12,957,419**	**₱6,300,000**	**₱3,742,988**	**₱515,262**	**₱382,498**	**₱3,238,010**	**₱27,136,177**
Additions	**388,323**	**4,526,042**	**4,078,752**	**1,464,296**	**329,223**	**–**	**10,786,636**
Disposals	**–**	**–**	**(510,170)**	**(211,922)**	**(114,162)**	**–**	**(836,254)**
Balance at end of year	**13,345,742**	**10,826,042**	**7,311,570**	**1,767,636**	**597,559**	**3,238,010**	**37,086,559**
Accumulated Depreciation and Amortization							
Balance at beginning of year	**–**	**105,000**	**731,563**	**330,870**	**175,696**	**1,508,887**	**2,852,016**
Depreciation and amortization	**–**	**667,717**	**1,217,814**	**265,836**	**221,961**	**370,526**	**2,743,854**
Disposals	**–**	**–**	**(426,075)**	**(211,922)**	**(114,162)**	**–**	**(752,159)**
Balance at end of year	**–**	**772,717**	**1,523,302**	**384,784**	**283,495**	**1,879,413**	**4,843,711**
Net Book Value	**₱13,345,742**	**₱10,053,325**	**₱5,788,268**	**₱1,382,852**	**₱314,064**	**₱1,358,597**	**₱32,242,848**

	2013						
	Land	Building	Furniture, Fixtures and Equipment	Information Technology Equipment	Transportation Equipment	Leasehold Improvements	Total
Cost							
Balance at beginning of year	₱–	₱–	₱635,239	₱518,302	₱171,679	₱1,478,010	₱2,803,230
Additions	12,957,419	6,300,000	3,140,148	5,200	210,819	1,760,000	24,373,586
Disposals	–	–	(32,399)	(8,240)	–	–	(40,639)
Balance at end of year	12,957,419	6,300,000	3,742,988	515,262	382,498	3,238,010	27,136,177
Accumulated Depreciation and Amortization							
Balance at beginning of year	–	–	505,694	208,770	107,251	818,168	1,639,883
Depreciation and amortization	–	105,000	258,262	126,220	68,445	690,719	1,248,646
Disposals	–	–	(32,393)	(4,120)	–	–	(36,513)
Balance at end of year	–	105,000	731,563	330,870	175,696	1,508,887	2,852,016
Net Book Value	₱12,957,419	₱6,195,000	₱3,011,425	₱184,392	₱206,802	₱1,729,123	₱24,284,161

10. Investment Property

Investment Property includes property foreclosed in 2013 amounting to ₱0.49 million as of December 31, 2014 and 2013. The Bank recognized gain on foreclosure amounting to ₱0.21 million in 2013.

In 2013, the Company received proceeds from the sale of investment properties amounting to ₱4.52 million. The Deed of Sale was executed in 2012 as a condition on the subsequent acquisition of CARD, Inc., CARD Bank, Inc. and individual investors of the majority shares of the Bank.

11. Other Assets

This account consists of:

	2014	2013
Financial assets		
Refundable rental deposits	**₱440,133**	₱396,367
Nonfinancial assets		
Stationery and supplies on hand	**5,732,539**	998,075
Prepaid rent	**549,067**	214,533
Prepaid expenses	**589,526**	140,714
	6,871,132	1,353,322
	₱7,311,265	₱1,749,689

Prepaid expenses include advance lease payments of office and IT equipment from CARD Leasing and Finance Corporation (CLFC), as well as IT services from CARD MRI Information Technology, Inc. (see Note 21). Prepaid rent pertains to advances paid on lease of offices.

No impairment loss was recognized on other assets in 2014. In 2013, the Bank wrote off refundable rental deposits fully provided with allowance amounting to ₱0.39 million. ₱0.03 million of the impairment was recognized under 'Provision for credit and impairment losses' in the statement of income in 2013.

12. Deposit Liabilities

The Bank's deposit liabilities include regular savings amounting to ₱188.50 million and ₱80.15 million as at December 31, 2014 and 2013, respectively. These represent the ₱50.00 per week aggregate compulsory savings collected from each member/nonmember/borrower plus any voluntary deposit. Under an assignment agreement, the "pledge" savings balances serve as security for loans granted by the Bank to its members. The "pledge" savings earn annual interest of 2.00%. A member/borrower is required to maintain a pledge savings balance equivalent to 15.00% of the original loan amount (Note 7). Other regular savings accounts are "Kayang-kaya" and "Pangarap" savings deposit accounts which cater to nonmembers and company employees, and carry interest rates of 1.50% and 5.00%, respectively.

Special savings deposits have interest rates of 2.00% to 4.25% in 2014 and 2.50% to 4.50% in 2013. Interest expense on deposit liabilities are as follows:

	2014	2013
Special savings deposit	**₱6,176,031**	₱1,899,159
Regular savings deposits	**2,820,058**	887,826
Balance at end of year	**₱8,996,089**	₱2,786,985

Under existing BSP regulations, deposit liabilities of the Bank are subject to liquidity reserves equivalent to 0.00% and statutory reserves equivalent to 4.00% for demand deposits and 2.00% for savings deposits. In March 2014, BSP issued Circular 830 effective April 11, 2014 which increased the reserve requirements to 5.00% for demand and 3.00% for savings, with cash in vault no longer eligible as reserve.

13. Bills Payable and Other Liabilities

<u>Bills Payable</u>
Bills payable represents borrowings from financing institutions which are subject to certain terms and conditions and bears annual interest rates ranging from 4.85% to 5.00% in 2014. Maturity period for the outstanding bills payable is within one year in 2014.

<u>Bills Payable</u>
Bills payable represents borrowings from financing institutions which are subject to certain terms and conditions and bears annual interest rates ranging from 4.85% to 5.00% in 2014. Maturity period for outstanding bills payable ranges from six months to one year in 2014.

The amendments to PFRS 7, require the Bank to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding table.

December 31, 2014						
				Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Financial instruments	Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]	[e]	
Financial liabilities						
Bills payable	**₱175,000,000**	**₱–**	**₱175,000,000**	**₱209,895,572**	**₱–**	**₱–**

The amounts disclosed in column (d) include those rights to set-off amounts that are only enforceable and exercisable in the event of default, insolvency or bankruptcy. This includes amounts related to financial collateral both received and pledged, whether cash or non-cash collateral, excluding the extent of over-collateralization.

Other Liabilities
This account consists of the following:

	2014	2013
Financial liabilities:		
Accrued expenses	**₱6,777,184**	₱1,265,630
Accounts payable (Notes 18 and 21)	**1,846,140**	2,147,340
Accrued interest payable (Note 21)	**1,252,935**	533,261
	9,876,259	3,946,231
Nonfinancial liabilities:		
Withholding taxes payable	**1,798,655**	818,349
	₱11,674,914	₱4,764,580

Accounts payable include payments due to contractors for the construction of the Bank's head office amounting to ₱1.10 million in 2013, lessors, employees and related parties.

Accrued expenses include accumulated vacation leaves amounting to ₱2.88 million and ₱0.27 million as of December 31, 2014 and 2013, respectively.

14. 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 one year from statement of condition dates:

	2014			2013		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Assets						
Cash and other cash items	**₱1,973,592**	**₱–**	**₱1,973,592**	₱380,545	₱–	₱380,545
Due from BSP	**11,071,066**	**–**	**11,071,066**	4,115,479	–	4,115,479
Due from other banks	**85,021,956**	**–**	**85,021,956**	39,188,778	–	39,188,778
Loans and receivables	**486,056,480**	**5,179,788**	**491,236,268**	171,292,132	1,264,012	172,556,144
HTM investments	**–**	**2,006,130**	**2,006,130**	–	2,011,151	2,011,151
Other assets	**61,600**	**378,533**	**440,133**	47,667	348,700	396,367
Nonfinancial Assets						
Property and equipment	**–**	**37,086,559**	**37,086,559**	–	27,136,177	27,136,177
Investment properties	**–**	**490,160**	**490,160**	–	490,160	490,160
Retirement Asset	**–**	**3,386,708**	**3,386,708**	–	–	–
Deferred tax assets	**–**	**1,947,578**	**1,947,578**	–	5,409,164	5,409,164
Other assets	**6,367,365**	**503,767**	**6,871,132**	1,353,322	–	1,353,322
Total Assets	**₱590,552,059**	**₱50,979,223**	**641,531,282**	₱216,377,923	₱36,659,364	253,037,287
Less: Allowance for credit and impairment losses			**(6,776,740)**			(2,326,096)
Accumulated depreciation and amortization			**(4,843,711)**			(2,852,016)
			₱629,910,831			₱247,859,175
Financial Liabilities						
Deposit liabilities	**₱307,350,239**	**₱–**	**₱307,350,239**	₱184,228,623	₱–	₱184,228,623
Bills payable	**175,000,000**	**–**	**175,000,000**	–	–	–
Other liabilities	**6,994,160**	**2,882,099**	**9,876,259**	3,676,389	269,842	3,946,231
Nonfinancial Liabilities						
Income tax payable	**6,501,183**	**–**	**6,501,183**	2,556,913	–	2,556,913
Deposit for future stock subscription	**47,500,000**	**–**	**47,500,000**	32,500,000	–	32,500,000
Retirement liability	**–**	**–**	**–**	–	15,605,570	15,605,570
Other liabilities	**1,798,655**	**–**	**1,798,655**	818,349	–	818,349
Total Liabilities	**₱545,144,237**	**₱2,882,099**	**₱548,026,336**	₱223,780,274	₱15,875,412	₱239,655,686

15. **Equity**

Capital Stock
The Bank's authorized capital stock amounted to ₱50.00 million, consisting of 490,000 common and 10,000 preferred shares, both with par value of ₱100 per share.

As at December 31, 2014 and 2013, the Bank's capital stock consists of:

	2014		2013	
	Shares	**Amount**	Shares	Amount
Common stock				
Issued and outstanding	**490,000**	**₱49,000,000**	7,500	₱750,000
Subscribed	–	–	167,500	16,750,000
	490,000	**₱49,000,000**	175,000	₱17,500,000

Deposit for Future Stock Subscription
In 2013, the BOD approved the increase in the Bank's authorized capital stock from ₱50.00 million consisting of 490,000 common stocks and 10,000 preferred stocks to ₱250.00 million consisting of 2.00 million common stocks and 0.25 million preferred stocks, with par values of ₱100.00 and ₱200.00, respectively. The BSP approved the Bank's application for increase in authorized capital stock on November 18, 2014. The Bank applied for the increase in authorized capital stock with the SEC in 2015.

The Bank received deposits for future stock subscription amounting to ₱47.50 million and ₱32.50 million in 2014 and 2013, respectively. ₱31.50 million of the subscriptions in 2013 were fully issued with shares in 2014.

Through Monetary Board Resolution no. 155 dated 25 January 2013, approval of the acquisition by CARD Inc. (40.00%), CARD Bank Inc. (40.00%) and various individuals (20.00%) of the 100% outstanding common shares of the Bank were granted. As part of the new stockholders commitment to rehabilitate and expand the bank operation, application for increase in capitalization from ₱50.00 million to ₱250.00 million was submitted to the BSP by amending the Bank's Articles of Incorporation. Moreover, as part of the commitment, the investors infused additional capitalization to meet 25.00% requirements on subscription and paid up to capitalization increase in December 2013. In 2014, to sustain its capitalization requirements as a result of expanding bank operation, the remaining unpaid subscription from original authorized capital stock has been paid.

Deposit for future stock subscription was classified under liabilities in 2014 and 2013 in accordance with the requirement of SEC Financial Reporting Bulletin No. 006 (see Note 2).

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 on the capital management objectives, policies and processes from previous years.

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's unimpaired capital (regulatory net worth) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRS in some aspects.

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. The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio to total equity excludes:

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

Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board of the BSP.

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments. As at December 31, 2014 and 2013, the Bank was in compliance with the risk-based capital adequacy ratio (CAR).

Under BSP Circular No. 360, effective July 1, 2003, the CAR is to be inclusive of a market risk charge. As at December 31, 2014 and 2013, the Bank's CAR is in compliance with the regulatory requirement. The CAR of the Bank as at December 31, 2014 and 2013, as reported to the BSP, is shown in the table below (amounts in millions):

	2014	2013
Tier 1 capital	**₱118.80**	₱50.20
Tier 2 capital	**4.77**	1.65
Gross qualifying capital	**123.57**	51.85
Less required deductions	**–**	–
Total qualifying capital	**₱123.57**	₱51.85
Risk weighted assets	**₱571.78**	₱239.18
Tier 1 capital ratio	**20.77%**	20.99%
Tier 2 capital ratio	**0.83%**	0.69%
Total CAR	**21.61%**	21.68%

On March 4, 2011, the BSP issued BSP Circular No. 715 which amends the provisions of the Manual of Regulations for Banks on the minimum capitalization of banks and on the prerequisites for the grant of authority to establish a branch. Under the circular, for a thrift bank with head office located in areas other than Metro Manila and cities of Cebu and Davao, the required minimum capitalization (a) upon establishment of a new bank, (b) upon conversion of an existing bank from a lower to a higher category and vice versa, and (c) upon relocation of its head office in an area of higher classification, shall be ₱250.00 million to nil.

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings including current year profit less accrued dividends, net long positions in own shares and goodwill. The other component of regulatory capital is Tier 2 capital, which includes revaluation reserves. Certain adjustments are made to PFRS-based results and reserves, as prescribed by the BSP.

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.

BSP Circular No. 560 dated January 31, 2007 which took effect on February 22, 2007, requires the deduction of unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates from capital accounts for purposes of computing CAR.

The Monetary Board recently approved BSP Circular No. 688, Revised Risk-Based Capital Adequacy Framework for stand-alone thrift banks, rural banks and cooperative banks which took effect on January 1, 2012, to replace BSP Circular No. 280 dated March 29, 2001, as amended, which is primarily based on Basel 1.

The adoption of this revised risk-based capital adequacy framework for stand-alone TBs, RBs and Coop Banks represents BSP's commitment to align existing prudential regulations with international standards consistent with the BSP's goal of promoting the soundness and stability of individual banks and of the banking system as a whole.

On October 9, 2014, BSP issued the Circular No. 854, which states that rural banks with head offices in areas outside the National Capital Region and with up to ten branches are required to comply with the minimum capital requirement of ₱30.00 million. As at December 31, 2014, the Bank is in compliance with the capitalization requirement.

Financial Performance

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

	2014	2013
Return on average equity	**72.75%**	329.34%
Return on average assets	**7.47%**	6.60%
Net interest margin	**35.36%**	32.81%

Covered banks and quasi-banks are enjoined to consider the forthcoming regulatory changes in capital planning exercises and conduct preliminary assessments of the likely impact of the changes.

16. Compensation and Benefits

This account consists of:

	2014	2013
Salaries and wages	**₱19,897,971**	₱6,588,936
Employee benefits	**16,941,456**	4,766,703
Retirement (Note 17)	**4,071,087**	3,398,702
Other short term benefits	**2,119,185**	631,458
	₱43,029,699	₱15,385,799

Other short term benefits pertain to the Bank's share in contribution to employee's SSS, and health benefit plans.

17. Retirement Plan

The Bank, CARD MRI Development Institute, Inc. (CMDI), CARD Mutual Benefit Association (MBA), Inc., CARD SME Bank, Inc. (formerly Rural Bank of Sto. Tomas, Inc.), CARD MRI Insurance Agency (CAMIA), Inc., CARD Business Development Service Foundation (BDSF), CMIT, CARD Leasing, BotiCARD, Inc., CARD, Inc., CARD Employees Multi-Purpose Cooperative (EMPC), and Responsible Investments for Solidarity and Empowerment (RISE) maintain a funded and formal noncontributory defined benefit retirement plan – the CARD MRI Multi-Employer Retirement Plan (MERP) – covering all of their regular employees. MERP has a projected unit cost format and is financed solely by the Bank and its related parties. MERP complies with the requirement of Republic Act No. 7641 (Retirement Law). MERP provided lump sum benefits equivalent to 120.00% of final salary for every year of credited service, a fraction of at least six (6) months being considered as one whole year upon retirement, death, total and permanent disability, or early retirement after completion of at least one year of service with the participating companies. The Bank only joined the multi-employer plan in 2013.

Changes in retirement liability (asset) in 2014 and 2013 are as follow:

	2014													
		Net benefit cost in statements of income				Remeasurements in other comprehensive income								
	January 1, 2014	**Current service cost**	**Net interest**	**Subtotal**	**Transfers to the Plan, net of benefits paid**	**Return on plan assets (excluding amount included in net interest)**	**Actuarial changes arising from experience adjustments**	**Actuarial changes arising from changes in demographic assumptions**	**Actuarial changes arising from changes in financial assumptions**	**Effect of the asset ceiling**	**Subtotal**	**Contribution by employer**	**Balance**	**December 31, 2014**
Present value of defined benefit obligation	**₱24,305,040**	**₱3,596,184**	**₱1,550,662**	**₱5,146,846**	**₱6,706,275**	**₱–**	**₱17,768,279**	**(₱6,574,956)**	**(₱22,277,722)**	**₱–**	**(₱11,084,399)**	**₱–**	**₱25,073,762**	**₱25,073,762**
Fair value of plan assets	**8,699,470**	**–**	**1,075,759**	**1,075,759**	**6,706,275**	**2,544,749**	**–**	**–**	**–**	**(183,406)**	**2,361,343**	**9,617,623**	**28,643,876**	**28,460,470**
Net defined benefit liability (asset)	**₱15,605,570**	**₱3,596,184**	**₱474,903**	**₱4,071,087**	**₱–**	**(₱2,544,749)**	**₱17,768,279**	**(₱6,574,956)**	**(₱22,277,722)**	**(₱183,406)**	**(₱13,445,742)**	**₱9,617,623**	**(₱3,570,114)**	**(₱3,386,708)**

	2013													
		Net benefit cost in statements of income				Remeasurements in other comprehensive income								
	January 1, 2014	Current service cost	Net interest	Subtotal	Transfers to the Plan, net of benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Effect of the asset ceiling	Subtotal	Contribution by employer	Balance	December 31, 2014
Present value of defined benefit obligation	₱4,781,535	₱3,371,928	₱292,152	₱3,664,080	₱8,269,768	₱–	₱9,297,724	₱–	(₱1,708,067)	₱–	₱7,589,657	₱–	₱24,305,040	₱24,305,040
Fair value of plan assets	–	–	265,378	265,378	8,269,768	(252,571)	–	–	–	–	(252,571)	416,895	8,699,470	8,699,470
Net defined benefit liability (asset)	₱4,781,535	₱3,371,928	₱26,774	₱3,398,702	₱–	₱252,571	₱9,297,724	₱–	(₱1,708,067)	₱–	₱7,842,228	(₱416,895)	₱15,605,570	₱15,605,570

Net benefit cost is recognized under “Compensation and benefits” in the statements of income.

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions. The fair values of plan assets by each class as at December 31, 2014 and 2013 are as follow:

	2014	2013
Cash and cash equivalents	**₱11,262,772**	₱4,715,982
Debt instruments – government bonds	**13,138,946**	3,170,087
Loans	**3,173,741**	537,627
Mutual fund	**269,252**	120,053
Equity securities	**–**	54,807
Other assets	**799,165**	100,914
Fair value of plan assets	**₱28,643,876**	₱8,699,470

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

The plan assets have diverse investments and do not have any concentration risk.

The cost of defined benefit 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:

	2014	2013
Discount rate		
January 1	**6.38%**	6.20%
December 31	**4.46%**	6.38%
Future salary increases	**7.00%**	12.00%

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

	2014		2013	
	Increase (decrease) in basis points	**Increase (decrease) in present value of obligation**	Increase (decrease) in basis points	Increase (decrease) in present value of obligation
Discount rates	**+100**	**(₱5,051,187)**	+250	(₱11,011029)
	-100	**6,578,526**	-100	7,013,547
Future salary increases	**+100**	**6,058,901**	+200	14,308,491
	-100	**(4,808,817)**	-100	(4,961,919)

The Bank expects to contribute ₱5.08 million to the defined benefit retirement plan in 2015.

The average duration of the defined benefit obligation at the end of the reporting period is 27.10 years.

The management performed an Asset-Liability Matching Study annually. 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.

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

	2014	2013
Less than 1 year	**₱–**	₱–
More than 1 year to 5 years	**–**	–
More than 5 years to 10 years	**5,170,841**	5,091,373
More than 10 years to 15 years	**–**	–
More than 15 years to 20 years	**11,086,089**	1,410,032
More than 20 years to 25 years	**55,045,592**	67,065,632
More than 25 years	**672,899,056**	1,437,649,071

18. **Leases**

As Lessee

Office spaces
The Bank leases the premises occupied by some of its branches in which lease payments are subjected to escalation clauses at 10.00% to 15.00% starting either on the 3rd or 5th year of lease. The lease contracts are for the periods ranging from one to five years and are renewable upon mutual agreement between the Bank and the lessors.

Rent expense amounted to ₱3.37 million and ₱1.46 million in 2014 and 2013, respectively.

Future minimum rental lease payments on operating leases of the Bank are as follows:

	2014	2013
Within one year	**₱5,569,106**	₱756,359
Beyond one year but not beyond five years	**10,787,106**	2,722,358
	₱16,356,212	₱3,478,717

Transportation and IT equipment
The Bank leases the transportation and IT equipment from CLFC. The lease contracts have a term of 18 months.

Lease for transportation equipment recorded under 'Transportation and travel' in 2014 and 2013 amounted to ₱1.36 million and ₱0.35 million, respectively. Lease for IT equipment booked under 'IT expense' amounted to ₱0.27 million in 2014 and ₱0.04 million in 2013.

Future minimum rental lease payments on the operating leases of the Bank are as follows:

	2014	2013
Within one year	**₱1,492,847**	₱1,155,383
Beyond one year but not beyond five years	**361,870**	1,132,917
	₱1,854,717	₱2,288,300

19. Miscellaneous Expenses

This account consists of:

	2014	2013
Program and monitoring	**₱722,893**	₱–
Advertising and publicity	**161,416**	–
Other expenses	**700,717**	458,511
	₱1,585,026	₱458,511

Other expenses include various expenses such as bank charges, office supplies, stamps, awards to top performing branches and expenditures related to the opening of the new branch.

20. Income Taxes

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

Income taxes also include RCIT, as discussed below and final taxes paid at the rate of 20.00%, which is a final withholding tax on gross interest income from government securities and other deposit substitutes.

Republic Act No. 9337, *An Act Amending National Internal Revenue Code*, provides that starting January 1, 2009, the RCIT rate shall be 30.00%, and deductible interest expense shall be reduced by 33.00% of interest income subjected to final tax. Current tax regulations also provide for MCIT of 2.00% on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Bank's income tax liability and taxable income, respectively, over a three-year period from the year of inception. Further, current tax regulations set a limit for entertainment, amusement and recreation (EAR) expenses that can be deducted for income tax purposes. EAR expenses are limited to 1.00% of net revenue for sellers of services. The Bank recorded EAR expenses amounted to ₱0.21 million and ₱0.14 million in 2014 and 2013, respectively.

Provision for income tax consists of:

	2014	2013
Current:		
RCIT	**₱15,716,410**	₱2,582,428
Final tax	**124,495**	84,357
	15,840,905	2,666,785
Deferred	**(572,136)**	(3,082,011)
	₱15,268,769	(₱415,226)

The Bank has NOLCO of ₱1.40 million incurred 2012 which the Bank utilized against its taxable income in 2014, and excess of MCIT over RCIT incurred in 2011 amounting to ₱25,515 which was used against tax liability in 2013.

As at December 31, 2014 and 2013, net deferred tax assets are as follows:

	2014	2013
Deferred tax assets		
Allowance for credit and impairment losses	**₱2,033,022**	₱697,829
Accumulated vacation leave credits	**864,630**	80,952
Unamortized past service cost	**128,224**	–
Accrued rent under PAS 17	–	10,998
Pension liabilities	–	4,681,671
	3,025,876	5,471,450
Deferred tax liabilities		
Pension asset	**1,016,012**	–
Gain on foreclosure of investment property	**62,286**	62,286
	1,078,298	62,286
	₱1,947,578	₱5,409,164

Deferred tax recognized in other comprehensive income amounted to ₱4.03 million and ₱2.35 million for the years ended December 31, 2014 and 2013, respectively.

The Bank has unrecognized DTA on NOLCO amounting to ₱0.80 million and ₱1.22 million as of December 31, 2014 and 2013, respectively.

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

	2014	2013
Statutory income tax	**₱14,411,331**	₱2,679,236
Income tax effects of:		
Nondeductible expenses	**1,349,144**	44,457
Interest income subject to final tax	**(72,820)**	(42,178)
Change in unrecognized deferred tax asset	**(418,886)**	(3,096,741)
Provision for (benefit from) income tax	**₱15,268,769**	(₱415,226)

21. 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. Entities are considered to be related if they are subjected under common control or common significant influence. 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
- other related parties within the CARD-MRI Group

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 managed by the CARD Employees Multipurpose Cooperative (EMPC). The plan assets are invested in special savings deposits and special savings accounts and government bonds. As at December 31, 2014 and 2013, the retirement funds do not hold or trade the Bank's shares of stock.

Remunerations of 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 senior management to constitute key management personnel for purposes of PAS 24.

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

	2014	2013
Short-term employee benefits	**₱578,122**	₱536,957
Post-employment benefits	**209,543**	166,315
	₱787,665	₱703,272

The Bank also provides banking services to directors and other key management personnel and persons connected to them. These transactions are presented in the tables that follow.

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 related parties within the CARD MRI, also qualify as related party transactions.

Loans receivables

As at December 31, 2014 and 2013, the Bank has no outstanding loan that was granted to related parties.

Deposit liabilities, accounts receivable and accounts payable

Deposit liabilities, accounts receivable and accounts payable held by the Bank for key management personnel, shareholder and other related parties as at December 31, 2014 and 2013 follow:

		December 31, 2014	
Category	**Amount / Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Key management personnel			
Deposit liabilities		**₱259,187**	Consists of regular savings deposit account which bears an annual interest rate of 1.50% and special savings deposit earning interest at annual rates of 2.00% to 3.00%.
Deposits	**₱15,442,931**		
Withdrawals	**15,198,761**		
Shareholders			
Deposit liabilities		**331,652**	Consist of regular savings deposit which bears interest at an annual rate of 1.50% and special savings deposit earning interest at annual rates of 2.75%.
Deposits	**12,294,181**		
Withdrawals	**24,812,858**		
Accounts receivable		**255,655**	Share on expenses of transferred staff.
Billings	**1,277,869**		
Collection	**2,169,209**		

(Forward)

		December 31, 2014	
Category	**Amount / Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Accounts payable		**₱376**	Pertains to share on various expenses.
Billings	**₱1,287,115**		
Payment	**1,332,753**		
Affiliates			
Deposit liabilities		**114,982,231**	These are checking, savings and special savings deposit accounts with annual interest rate ranging from 1.50% to 4.50%.
Deposits	**380,860,668**		
Withdrawal	**271,933,778**		
Accounts payable		**554,625**	Rent, supplies, training fees, seminars and meetings, and share of expenses.
Billings	**26,681,170**		
Collection	**26,128,702**		
Accounts receivable		**11,247**	Pertains to collection of loan redemption fund and provident and life insurance contributions on behalf of CARD MBA.
Billings	**11,247**		
Collection	**43,180**		

		December 31, 2013	
Category	**Amount / Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Key management personnel			
Deposit liabilities		₱15,017	Consists of regular savings deposit account at an annual interest rate from 1.50% to 2.50%.
Deposits	₱15,017		
Withdrawals	53,277		
Shareholders			
Deposit liabilities		12,850,329	Special savings deposit with interest rates of 4.00%.
Deposits	12,850,329		
Withdrawals	–		
Accounts receivable		1,146,994	Share on expenses of transferred staff .
Billings	1,261,312		
Collection	114,318		
Accounts payable		46,014	Pertains to share on various expenses.
Billings	8,222,885		
Payment	8,176,871		
Deposit for future subscription		14,000,000	Received from shareholders as deposit for future subscription.
Collection as deposit for future subscription	14,000,000		
Affiliates			
Deposit liabilities		6,055,341	These are checking, savings and special savings deposit accounts with annual interest rate ranging from 1.50% to 4.50%.
Deposits	6,055,341		
Withdrawal	–		
Accounts receivable		43,180	Training fees, seminars and meetings, and share of expenses.
Billings	314,254		
Collections	271,074		
Accounts payable		2,157	These are billings for issuance of supplies and operating lease transactions and loan redemption fund (LRF) for loans of members.
Billings	17,119,328		
Payments	12,821,755		

Regulatory Reporting

As required by BSP, the Bank discloses loan transactions with investees and with certain directors, officers, stockholders and related interests (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.

In the aggregate, loans to DOSRI generally should not exceed total equity or 15.00% of total loan portfolio, whichever is lower. As at December 31, 2014 and 2013, the Bank is in compliance with the regulatory requirements.

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

	2014	2013
Total outstanding DOSRI accounts	**₱–**	₱–
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**0.00%**	0.00%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	**0.00%**	0.00%
Percent of DOSRI accounts to total loans	**0.00%**	0.00%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%
Percent of past due DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%
Percent of nonaccruing DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%

22. Notes to Statements of Cash Flows

The following is the summary of noncash activities in 2014 and 2013:

	2014	2013
Noncash operating activities:		
Foreclosure of loan receivable	**₱–**	₱282,539
Noncash investing activities:		
Acquisitions of property and equipment on credit	**–**	1,500,000
Noncash financing activities:		
Application of deposit for future subscription to issued shares	**31,500,000**	6,875,000

23. Approval for the Release of Financial Statements

The BOD of the Bank has reviewed and approved the release of the accompanying financial statements on March 14, 2015.

24. Supplementary Information Required under RR 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 and licenses paid or accrued during the year. The components of 'Taxes and licenses' recognized in the statement of income for the year ended December 31, 2014, follow:

Gross receipt tax (GRT)	₱7,630,809
Documentary stamp taxes	1,469,751
Business permits and licenses	311,264
Real property tax	41,324
	₱9,453,148

GRT in 2014 consists of taxes on:

Interest income on loans	₱7,576,714
Other income	54,095
	₱7,630,809

Withholding taxes in 2014 are categorized into:

Paid:	
Final withholding tax on interest expense	₱542,926
Withholding taxes on compensation and benefits	1,489,462
Expanded withholding tax	240,815
	2,273,203
Accrued:	
Gross receipts tax	1,195,635
Withholding taxes on compensation and benefits	196,682
Final withholding tax on interest expense	182,630
Documentary stamp tax	168,363
Expanded withholding tax	55,345
	₱1,798,655
	₱4,071,858

Tax Assessments and Cases

As at December 31, 2014, the Company has no outstanding final assessment notice from the BIR or cases in court or bodies outside the BIR.

Rizal Rural Bank (Taytay, Rizal), Inc.
A microfinance-oriented Rural Bank
A member of CARD MRI

Address: P. Guevarra St., Corner Aguirre St.,
Brgy. Poblacion II, Sta. Cruz, Laguna
Telefax: (049) 523-1047
Email: rrb@cardbankph.com
Website: www.cardmri.com/rrb

CARD MRI
CARD Mutually Reinforcing Institutions