

READY AND STRONGER

FOR THE ASEAN INTEGRATION

CARDSMEBANK
ANNUAL REPORT 2015



ABOUT THE COVER

As Southeast Asian countries unite into one single region, CARD Mutually Reinforcing Institutions continues to synergize to bring socioeconomically challenged women, their families and their communities a holistic approach to development. CARD SME Bank focuses on providing financial and social development services to clients from the MSMEs sector.

Each client in the covers of CARD MRI annual reports represent an institution, completing a whole picture. Laid down side by side, the blue, red, and yellow waves merge into a continuous flow and unify the institution, signifying how the economic integration made our institutions stronger and united as a group.

Maria Andal is once a bus vendor who turned into a restaurant owner. She is one of CARD SME Bank's more than 280,000 clients who is now ready to grab the opportunities and face the challenges of the ASEAN Economic Integration.



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.

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.



10 member
countries
of the **ASEAN**
region



BRUNEI
DARUSSALAM



CAMBODIA



INDONESIA



LAO PDR



MALAYSIA



MYANMAR



PHILIPPINES



SINGAPORE



THAILAND



VIETNAM

What is the
ASEAN
integration?



10 SOUTHEAST ASIAN COUNTRIES
ONE SINGLE MARKET

FOR THE FREE FLOW OF



GOODS



SERVICES



CAPITAL

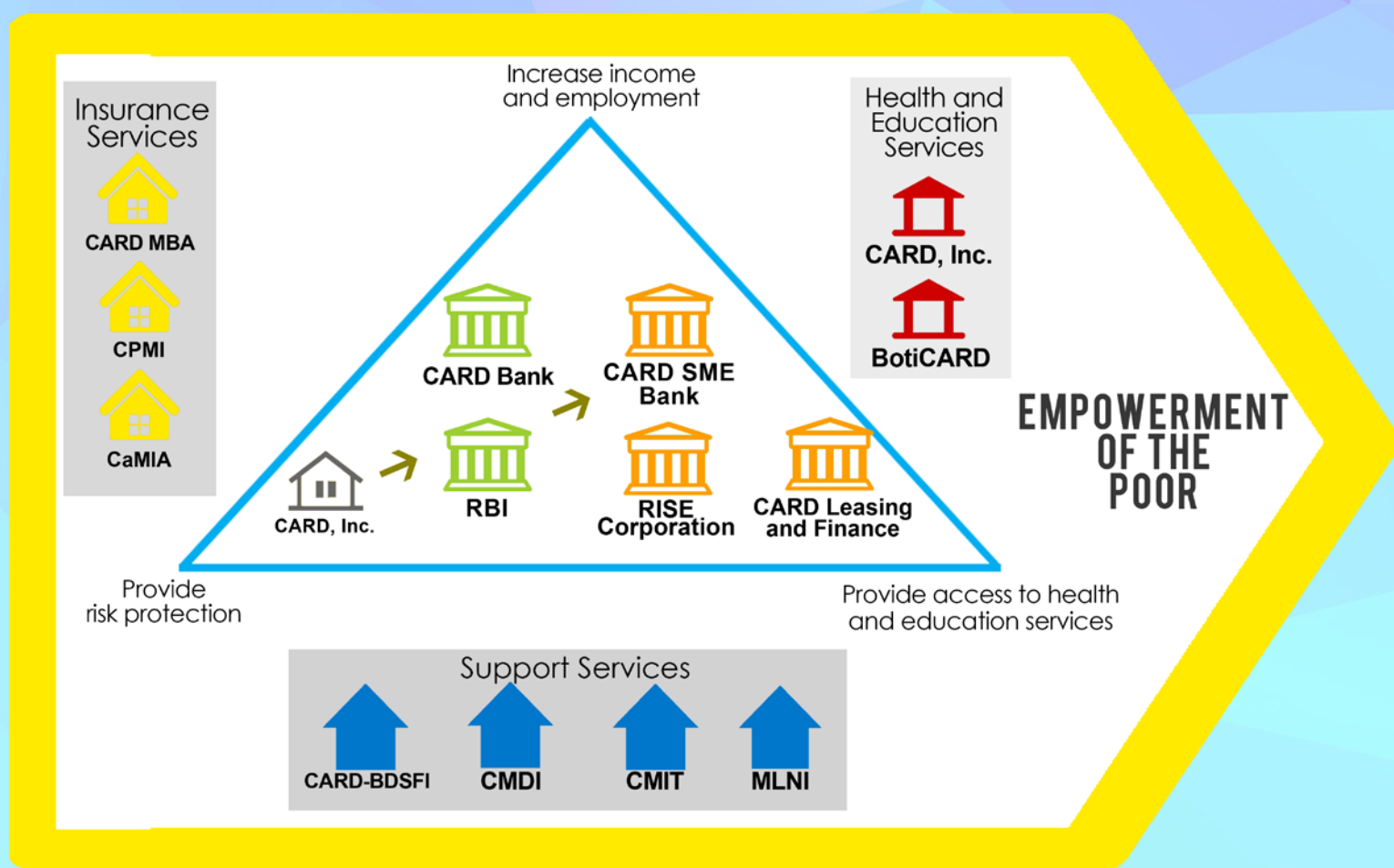


LABOR

FOUNDED ON FOUR BASIC INITIATIVES

CREATING A SINGLE MARKET AND PRODUCTION BASE
INCREASING COMPETITIVENESS
PROMOTING EQUITABLE ECONOMIC DEVELOPMENT
INTEGRATING ASEAN WITH THE GLOBAL ECONOMY





5-8-40 CARD MRI STRATEGIC DIRECTION

Along with the introduction of the ASEAN integration, our stronghold to be versatile and pliant is the 5-8-40 CARD MRI Strategic Direction. We are confident that with the implementation of this 5-year strategic plan, we will be able to empower the poor by increasing income and employment and providing insurance, health and education services to them. Through 5-8-40, we aim to achieve a friendly environment for financial inclusion of a bigger unbanked, uninsured and unserved population.

FOCUS 1	FOCUS 2	FOCUS 3
INCOME AND EMPLOYMENT	HEALTH AND EDUCATION	RISK PROTECTION
We want to help improve income and create employment opportunities.	We want to improve health and reduce the incidence of sickness and death. We aspire to provide opportunities for higher education for deserving Nanays and children of poor families.	We aspire to provide risk protection against loss of life or property caused by sickness, death or catastrophic events.
How?	How?	How?
We are providing financing for micro-, small- and medium-scale businesses, non-financial business, and development services.	We are facilitating access to professional healthcare providers and facilities, universal healthcare, and affordable medicines. We will provide financing opportunities for higher education.	We are providing affordable life and non-life microinsurance.

**F
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BATTLING THE GIANTS

MARY JANE A. PERRERAS

President and CEO



As the ASEAN countries unite into one single region, the creation of a single market of goods, services, capital, and labor is envisioned. The economic community becomes borderless, enabling businesses from other ASEAN countries to enter our market.

CARD SME Bank, however, welcomes the ASEAN Economic Integration with optimism. With international banks coming into the country, best practices can be learned and can be customized for our improvement. The integration will also open new opportunities not only for us, but also for our clients in the MSMEs sector. Our clients can widen their market scope by exporting their products to other ASEAN countries. Indeed, the ASEAN Economic Community will offer bountiful opportunities for us.

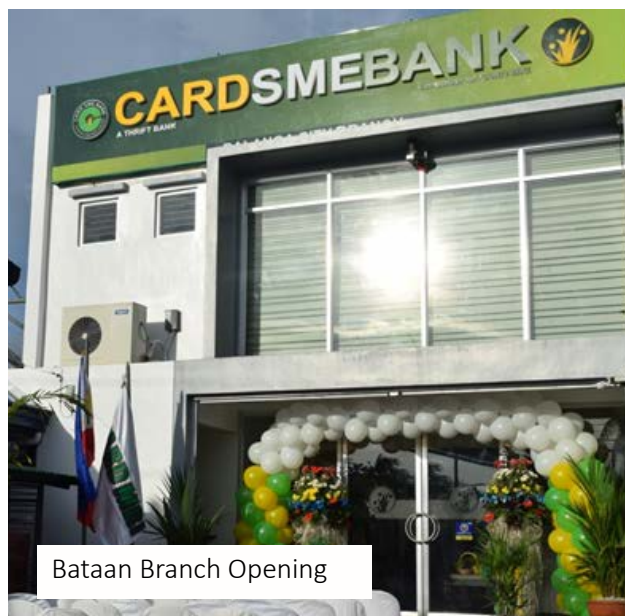
EXPANDING TO NEW HORIZONS

Focusing on MSMEs enables us to help the Philippines grow into a more financially inclusive country. The MSMEs in the Philippines account to 99.6% of the total number of enterprises and employs 65% of the country's workforce. We believe that concentrating on this market will let us bring more impact to our goal of eradicating poverty.

This year, we have provided our services to more than 281,000 MSMEs and we are aiming to increase our clients served to 400,000 by the end of 2016. We went out of our comfort zones and opened branches outside of CALABARZON. We established new branches in Dagupan, Bulacan, Subic, Bataan, and Naga. In 2016, we will concentrate on opening new branches in Northern Luzon, Visayas, and Mindanao.

Armed with vast experiences as a thrift bank, we are now more confident in releasing bigger loan amounts to our clients. Our credit assessment tools are being reviewed on a regular basis, allowing our transactions to become more efficient. With these developments, we are planning to offer wholesale lending to microfinance institutions (MFIs) that need funding. By assisting these MFIs, the impact of our services can be felt by more microentrepreneurs.

We have realigned our organizational structure to fit our plans of reversing our client ratio of 70% microfinance clients and 30% SMEs. Previously, both operations of microfinance and SME lending are separated from each other. We found it more strategic to have one Regional Director oversee both types of operations per region. This way, we can provide continuous guidance to our microfinance clients until their business grow and become SMEs.



Bataan Branch Opening

Recognizing the ever changing needs of our clients, we will continue to innovate more products for them. By next year, we will intensify our savings mobilization by fully implementing our ATM services. We will also make use of social media in marketing our products to reach SMEs whose businesses are also online.

CREATING LINKAGES FOR A COMMON GOAL

Our accomplishments can also be attributed to the support of like-minded institutions that support our goal of providing financial services to MSMEs.

This year, we extended our partnership with the German Savings Bank for another three years. This partnership provides us the opportunity to learn from their banking operations experts in terms of expanding the capabilities of our loan officers, dealing with SMEs coming from microfinance, sales and marketing, risk management, and assessing potential clients.

We also partnered with International Financing Corporation (IFC) to develop an assessment tool for agri-financing. The Philippines is an agricultural country but many of the banks in the Philippines do not offer loans for our farmers due to the risks and vulnerabilities prevalent to the sector. CARD SME Bank's advocacy is to offer help even when it is risky; we look for possible ways to mitigate any forms of risk.

The partnership has resulted to a successful product launch in Lipa City, Batangas. We then offered the loan product to farmers in Naga City in Camarines Norte and in the province of Bulacan. To further intensify our support to the agriculture sector, we will partner with Bayer Crop Science next year to help farmers achieve higher yields and gain financial management skills through trainings. With Bayer Crop Science's network, we also hope to be introduced to more

farmers who need our assistance.

OUR HEART TO SERVE

While opportunities come pouring in, we are also preparing for challenges ahead. Bigger foreign banks entered the country as soon as the ASEAN integration started. These banks either established their own operations or merged with existing local banks to infiltrate our banking industry. With the on-going trend for banks to go into the MSMEs market, we are now facing stiffer competition.

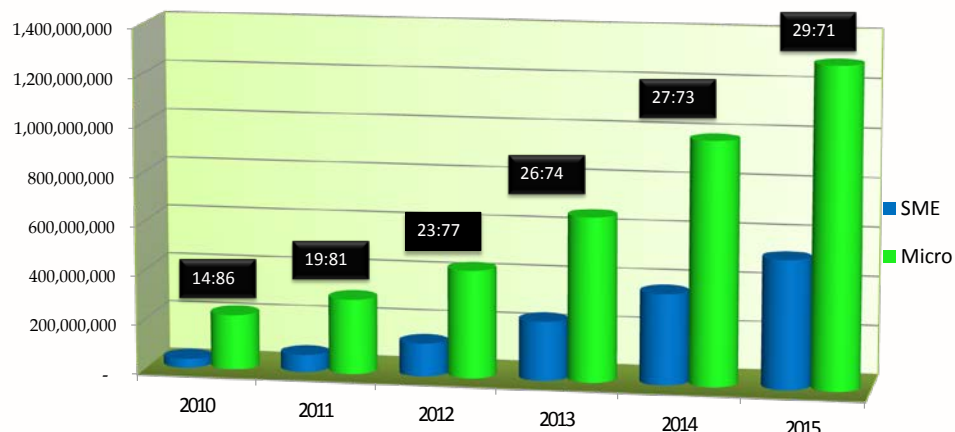
With more resources, our competitors are capable of lowering their rates and fees to a cheaper scale. They have advanced technology that can offer more and better services to clients. As they could offer higher salary and more benefits, they also have the capability to entice our staff into working for them.

Their advantages, however, would not stop us from competing head-on with them. In terms of technology, we are currently developing a core banking system (CBS) that is incomparable to any other existing system in the industry. Aside from the regular data incorporated in the CBS, the system will be integrated with our microfinance and microinsurance operations. This system, we believe, will be an effective tool in improving our services to our clients.

As part of our endeavors to intensify our presence internationally, we also extended our services to OFWs by organizing an entrepreneurship forum in Hong Kong. This is also to support CARD MRI OFW Foundation Hong Kong's mission to promote financial literacy to OFWs so they can be prepared in their reintegration to the Philippines. Upon their return to the country, we will provide these OFWs with access to credit so that they can start their own businesses. We plan on pursuing these efforts not only in Hong Kong but also in other countries where many OFWs work.

Many banks may come and offer more than we could, but what will always remain true is our heart of service. Our intention is always gearing towards the best interest of our clients and staff. As long as we are here, we will always strive to bring change to the lives of the people we serve.

Ratio of SME Loans to Microfinance Loans



The Negosyo Talk Series, Hong Kong



Banana cue in the morning, *balut* at night. This used to be my life as a vendor: I would patiently wait for buses passing by the national highway in Labo, Camarines Norte so I could sell different snacks to traveling passengers. I always thought that with determination and perseverance, life would not always be this way. So, with the help of CARD in my journey towards development, I found the change that I had always been dreaming of.

A TRUSTWORTHY STEWARD

I believe that when you can be trusted with little, you can also be trusted with much. This holds true with my experience with CARD. My first loan was P3,000 from CARD, Inc., which I used as my initial capital to buy lots of bananas. Every time my loan increases, I would add different Filipino snacks to sell like *camote cue*, *bibingka*, and *balut*. Eventually, I gathered enough funds to start an eatery with roofs made of palm and walls made of plywood. My food was known as clean and delicious so even if my place was small, I already gained many customers.

When I learned that the land where my eatery was on sale, I became interested in buying it. That time, I was transferred to CARD Bank, Inc. so I could avail loans amounting to P250,000. I feel grateful that I was entrusted with such a huge amount. The loan helped me in paying the three-hectare land, where my house, my improved restaurant called "Barrio Meals"

and the vulcanizing shop now stand.

CONTINUOUS IMPROVEMENTS

Innovation is one of the key factors in the success of any business. In my case, I always spice up our restaurant's menu by coming up with new dishes for my customers. To also ensure the quality of the meat products that we sell, I put up an animal farm with goats, cows, and pigs from another six-hectare land that I recently purchased.

After observing that most of our customers are traveling through cars and buses, we also opened a vulcanizing shop beside our restaurant. We saw the need for vulcanizing services as a business opportunity as an average of 100 buses stop by our restaurant every day.



Barrio Meals has more than 30 regular employees. During peak seasons, we hire 20 additional part time workers. Each of my regular employees earns a reasonable amount each day and receives PhilHealth and SSS benefits. They also have free accommodation and meals whether they are on duty or not.

With my businesses' growing needs, it helps that CARD is always there to support me. Moving forward as an SME client from being a microfinance client was smoothly done with the assistance of CARD SME Bank. Now, I can get bigger loans that enable me to accomplish my target goals faster. My first loan with CARD SME Bank was P500,000, which is payable in six months. I used this loan as a start-up capital for my animal farm. My next loan of the same amount and term was used for the expansion of my restaurant and for additional capital.

CARD SME Bank also offers other loan products such as car and housing loans. After my two business loans, I availed a car loan for my family's personal trips. The vehicles we own are mostly used for business so we decided to have one that could be used solely for the purpose of personal travel. Because I am greatly satisfied with the reasonable interest rate and flexible loan terms with CARD SME Bank, I am looking forward to availing a housing loan as soon as I finish paying my car loan.

SHINING MY LIGHT TO OTHERS

My success appeared to be questionable to some people. How could a vendor put up such a patronized restaurant? To some degree, their doubt about my success could be considered valid. I myself do not know of any banks that would trust a vendor like me with money and with no collateral; only CARD did. CARD invested in my vision. CARD trusted my potentials.

So, a lot of times I have asked myself, how could I even repay CARD for everything that they have done for me? I could not think of a better way to thank them but by sharing my story of success to other people. On November 21, 2015, I was given a chance to deliver a talk to OFWs in Hong Kong during a Negosyo Talk Series organized by CARD SME Bank and CARD MRI OFW Foundation Hong Kong. I could not contain my emotions while speaking in front of the OFWs. I am aware of the hardships and challenges they are facing so that they could provide a better life for their families. I could still remember how I sell snacks rain or shine, everyday with no fail, so that I can provide for my own family.

My encouragement for the OFWs and for other Filipino women who are striving to change their lives is that if someone like me can be successful, anyone could be successful, too. I have only graduated from elementary but because I believed in myself, I am now harvesting the fruits of my labor.



VENTURING INTO A MAN'S FEAT

Juliet Arevalo

CARD SME Bank Client

I was transferred from CARD, Inc. to CARD SME Bank some time in 2013. My diligence in loan payment paid off and I could receive better financial support for our business. For my first loan, I was granted Php300,000. Without second thought, I invested all of it in our vulcanizing shop.

At first, my fellow members seemed surprised because I was the only one who chose to invest this much in a vulcanizing shop. Most of them started sari-sari stores and food retails, which are common for women. I believed this was the best choice for me because my husband already had the background and

experience which could serve as a strong foundation. With CARD SME Bank's guidance and my husband's training, I have the confidence that I would be successful in my chosen business.

We don't just offer vulcanizing services. We have evolved into a vulcanizing and tires shop because CARD SME Bank has been on our side. Now, we can also provide customers with quality tires, which others don't have. We even have regular customers coming from other towns such as Batangas. We look forward to extending our services even more and going further than that.

Despite the success I have right now, I continue to improve myself. I am currently enrolled in Alternative Learning System (ALS) as a high school student. I also hired a private teacher who coaches me on how to be more fluent in English. By doing this, I know that I'm setting an example to my children on the value of education.

Having an institution as a support system can also help you go a long way. My journey as an entrepreneur was successful because I have a reliable partner. As an SME, I have found my partner in growing my business and that is CARD SME Bank. *Sa pagtitiwala sa isa't isa, ako'y naniniwala na ang aking negosyo, pamilya at empleyado ay may kaakbay sa pag-unlad* (With trust in each other, I believe that my business, family, and employees have a reliable partner as we progress).

CREATING IMPACT

ACCOMPLISHMENTS AS OF DECEMBER 2015



CLIENTS SERVED

281,860



CLIENTS INCLUDING DEPOSITORS

274,474



ACTIVE CLIENTS WITH LOANS

190,874



LOANS OUTSTANDING

P 1,825,258,477



LOANS DISBURSED

P 5,412,345,435



DEPOSITS

P 1,229,898,410



HEAD OFFICE

1



REPAYMENT RATE

99.27%



FINANCIAL SELF-SUFFICIENCY

121.42%



OPERATING SELF-SUFFICIENCY

126.20%



BRANCHES

15



MICRO BANKING OFFICES

87



STAFF

1,025



BRANCH OPENINGS

We went out of our comfort zone and opened branches in the provinces of Pangasinan, Bulacan, Zambales, Bataan, and Camarines Sur. This enabled us to serve more MSME clients in the northern and southern part of Luzon.

THE NEGOSYO TALK SERIES

We conducted two fora under our The Negosyo Talk Series this year. First in Hong Kong wherein our OFW participants learned how to manage their finances once they decide to reintegrate in the Philippines and start a business. We invited two of our clients to give an inspirational talk about their successes.

The second forum was held in CMDI - Bay Campus where participants learned more about the ASEAN Economic Integration and how they would be able to cope with the upcoming changes.



Now, my sari-sari store has been in business for four years. I have also put up an apartment for rent, bought a second-hand van, renovated my home and purchased a vacant lot. I don't think all of this would be possible without CARD SME Bank's accessible financial services. CARD SME Bank can help me cope with the ASEAN Integration and overcome the economic challenges as a business owner.

Jocelyn Dacurawad
CARD SME Bank Client



CARD SME Bank is unique from other thrift banks because they make it easy for us to avail of their products and services. This way, I am confident that I have a reliable bank partner in growing my business especially during the ASEAN Integration.

Avelina Miranda
CARD SME Bank Client



I am very much contented with what our business have achieved locally, with the help of CARD SME Bank. The ASEAN integration offers big opportunities for micro-entrepreneurs like me since it will bring higher demands for our products meaning more profits for us and for my employees. I am grateful to CARD SME Bank for giving us ways to know and achieve more.

Nerissa Laganas
CARD SME Bank Client



OUR BOARD OF DIRECTORS

Dr. Jaime Aristotle B. Alip
Chairman

Mary Jane A. Perreras
Vice Chairperson

Milagros C. Rojas
Treasurer

Flordeliza Sarmiento
Director

Aristeo A. Dequito
Director

Ma. Elena M. Ruiz
Director

Felisa V. Lapitan
Independent Director

Dr. Gilberto M. Llanto
Independent Director

Atty. Wilfredo B. Domo-ong
Independent Director

Edzel A. Ramos
Corporate Secretary

Atty. Edgardo R. Marilim
Legal Counsel

Benito R. Pagaspas
Consultant



OUR MANAGEMENT COMMITTEE

Mary Jane A. Perreras
President and CEO

Aristeo A. Dequito
Deputy CEO

Cynthia B. Baldeo
Executive Vice President and COO

Anna Lorraine J. Maur
Assistant Vice President - Finance

Cherry A. Boncajes
Assistant Vice President - Operations

Manolo M. Martinez
Head - Marketing and Product Development

Jeffrey M. Rondina
Chief Compliance Officer

Dennis O. Dimaculangan
Assistant Vice President - Credit Risk

Allan D. Dimaano
Senior Program Manager

Anita F. Rapera
Senior Regional Director

Noralyn D. Silvestre
Regional Director

Frederick Nicasio M. Torres
Regional Director

Patricia G. Saballo
Regional Director

Jerry V. Montejo
Regional Director

Joy G. Palomique
Regional Director

Mary Ann C. Resplandor
Assistant General Accounting Manager

Juliana M. Salcedo
Senior Area Manager

Leonida M. Gutierrez
Regional Director

Angela A. Poonin
Senior Personnel Manager

Joven N. Robes
Personnel Manager

Anna Therese A. De Leon
Internal Audit Manager

Peter C. Pasia
Legal Officer

Eduardo L. Dimaano Jr.
Information Security Officer

Ross Meinard C. Ramos
Senior Information Technology Officer



DIRECTORY

CARD SME Bank Head Office

#61 Insular Building, Rizal Avenue, San Pablo City, Laguna
049-503-2671 to 72

Calamba City Branch

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

Sto. Tomas City Branch

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

Batangas City Branch

Sitio Kanluran, Kumintang,
Ibaba, Batangas
043-702-1317

Tagaytay City Branch

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

Dasmariñas City Branch

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

Dagupan City Branch

A.B. Fernandez Avenue,
Dagupan City
075-540-2970

Bulacan Branch

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

Sta. Rosa City Branch

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

Lipa City Branch

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

Balayan Branch

Brgy. Calzada-Ermita,
Balayan, Batangas
043-211-6748

Cavite City Branch

Cor. P. Pio St., Burgos Avenue,
Caridad, Cavite City
046-431-2762

Naga City Branch

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

Balanga City Branch

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

Subic Branch

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



AREAS OF COVERAGE

CARD SME Bank Head Office
San Pablo City, Laguna

CALABARZON Region IV-A

Sto Tomas Branch

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

Cavite City Branch

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

Lipa City Branch

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

Balayan Branch

Balayan, Batangas
 Agoncillo, Batangas
 Calaca, Batangas
 Calatagan, Batangas
 San Luis, Batangas
 Lian, Batangas
 Nasugbu, Batangas
 Tuy, Batangas

Batangas City Branch

Batangas City
 Lobo, Batangas
 Bauan, Batangas
 San Pascual, Batangas
 Lemery, Batangas
 Taal, Batangas
 Sta. Teresita, Batangas

Tagaytay City Branch

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

Sta Rosa City Branch

Sta. Rosa City, Laguna
 Cabuyao, Laguna
 Biñan, Laguna
 San Pedro, Laguna

Dasmariñas City

Dasmariñas City, Cavite
 Imus, Cavite
 Carmona, Cavite
 General Trias, Cavite
 Trese Martires, Cavite
 GMA, Cavite

Calamba City Branch

Calamba City, Laguna

BICOL REGION – Region V

Naga City Branch

Naga City

CENTRAL LUZON – Region III

Bulacan Branch

San Jose Del Monte City, Bulacan

Bataan Branch

Balanga City, Bataan

Subic Branch

Subic, Zambales

ILOCOS REGION – Region I

Dagupan City Branch

Dagupan City



OUR PARTNERS

PARTNERSHIPS/COLLABORATION

Allied Bank
Agricultural Guarantee Fund Pool
ANR Cooperative
Banco de Oro
Bank of the Philippine Islands (BPI)
Bank of the Philippine Islands and Mitsui Sumitomo Insurance (BPI/MS)
Bellavita Land Corporation
ChinaBank Savings
German Savings Bank Foundation, Germany
International Finance Corporation
Landbank of the Philippines
Maybank
Metro Commercial & Industrial Services Corporation
Metropolitan Bank & trust Corporation (MBTC)
Philippine Bank of Communications
Planters Development Bank
PS Bank
Rizal Commercial Banking Corporation
Rocking Moon Foundation
Rural Bank of Talisay, Inc.
Savings Bank Foundation for International Cooperation (SBFIC), Germany
Security Bank
SGV & Co.
Small Business Corporation
Social Security System
Sparkasse Essen, Germany
Sparkasse Rothenburg
Sparkassen International Development Trust
Triple A Security Agency Incorporation
Union Bank of the Philippines

REGULATORY BODIES

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

AFFILIATIONS

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



AUDITED FINANCIAL STATEMENTS

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

	December 31	
	2015	2014
ASSETS		
Cash and Other Cash Items (Note 6)	₱9,582,664	₱6,679,030
Due from Bangko Sentral ng Pilipinas (Notes 6 and 13)	106,715,506	81,135,679
Due from Other Banks (Note 6)	236,909,601	112,018,132
Held-to-Maturity Investments (Note 7)	10,967,990	11,077,148
Loans and Receivables (Note 8)	1,814,407,006	1,346,444,270
Property and Equipment (Note 9)	119,937,297	63,588,207
Investment Properties (Note 10)	15,812,550	16,602,232
Intangible Assets (Note 11)	4,840,245	4,772,600
Retirement Asset (Note 18)	45,280,571	33,636,973
Deferred Tax Assets (Note 19)	15,469,585	11,191,703
Other Assets (Note 12)	25,224,117	13,243,366
TOTAL ASSETS	₱2,405,147,132	₱1,700,389,340
LIABILITIES AND EQUITY		
Liabilities		
Deposit Liabilities (Notes 13 and 20)		
Savings	₱1,225,752,973	₱946,446,592
Demand	4,145,437	1,943,417
	1,229,898,410	948,390,009
Bills Payable (Note 14)	487,105,882	260,000,000
Income Tax Payable	27,930,999	18,526,629
Other Liabilities (Note 15)	68,369,273	41,255,248
	1,813,304,564	1,268,171,886
Equity		
Common Stock (Note 17)	408,656,400	296,943,600
Surplus	167,819,526	114,941,606
Remeasurement Gains on Retirement Plan	15,366,642	20,332,248
	591,842,568	432,217,454
TOTAL LIABILITIES AND EQUITY	₱2,405,147,132	₱1,700,389,340

See accompanying Notes to Financial Statements.

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

	Years Ended December 31	
	2015	2014
INTEREST INCOME		
Loans and receivables (Note 8)	₱728,384,986	₱546,771,661
Due from other banks (Note 6)	1,846,590	1,289,378
Held-to-maturity investments (Note 7)	654,752	1,268,790
	730,886,328	549,329,829
INTEREST EXPENSE		
Deposit liabilities (Notes 13 and 20)	23,447,058	21,451,361
Bills payable (Note 14)	7,312,365	1,247,715
Others	129,705	156,760
	30,889,128	22,855,836
NET INTEREST INCOME	699,997,200	526,473,993
OTHER INCOME		
Gain on sale of assets (Note 10)	1,140,727	2,284,799
Miscellaneous	2,490,978	2,290,920
TOTAL OPERATING INCOME	703,628,905	531,049,712
OPERATING EXPENSES		
Compensation and fringe benefits (Notes 18 and 20)	211,061,053	174,402,398
Transportation and travel	42,986,875	32,196,507
Taxes and licenses	41,457,784	34,520,504
Occupancy (Note 21)	23,403,633	17,063,839
Stationery and office supplies	21,980,452	16,208,497
Employee trainings (Note 20)	20,826,670	20,197,087
Provision for credit and impairment losses (Notes 8 and 10)	17,883,881	16,105,130
Depreciation and amortization (Notes 9, 10 and 11)	15,323,000	10,727,405
Meetings and seminars (Note 20)	11,813,684	7,064,745
Information technology (Note 20)	11,589,381	7,121,032
Security, messengerial and janitorial	11,376,626	8,312,008
Representation and entertainment (Note 19)	9,938,765	5,799,346
Program monitoring	6,319,190	1,098,556
Insurance	6,075,423	6,309,991
Power, light and water	4,884,049	4,103,508
Postage, telephone and cable	4,542,992	3,100,328
Professional fees	3,716,874	1,985,187
Repairs and maintenance	3,232,861	3,560,496
Fines, penalties and other charges	3,187,160	1,575,116
Miscellaneous (Note 10)	11,738,863	13,161,969
TOTAL OPERATING EXPENSES	483,339,216	384,613,649
INCOME BEFORE INCOME TAX	220,289,689	146,436,063
PROVISION FOR INCOME TAX (Note 19)	67,511,417	44,284,204
NET INCOME	₱152,778,272	₱102,151,859

See accompanying Notes to Financial Statements.

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

	Years Ended December 31	
	2015	2014
NET INCOME	₱152,778,272	₱102,151,859
OTHER COMPREHENSIVE INCOME (LOSS)		
<i>Other comprehensive gain (loss) not recycled to profit or loss in subsequent periods:</i>		
Remeasurement gains (losses) on retirement plan (Note 18)	(7,093,723)	64,918,484
Income tax effect (Note 19)	2,128,117	(19,475,545)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	(4,965,606)	45,442,939
TOTAL COMPREHENSIVE INCOME	₱147,812,666	₱147,594,798

See accompanying Notes to Financial Statements.

CARD SME BANK, INC., A THRIFT BANK

STATEMENTS OF CHANGES IN EQUITY

	Common Stock (Note 17)	Surplus	Remeasurement Gains (Losses) on Retirement Plan (Note 18)	Total
Balance at January 1, 2015	₱296,943,600	₱114,941,606	₱20,332,248	₱432,217,454
Collection of subscriptions receivable	111,712,800	—	—	111,712,800
Total comprehensive income (loss) for the year	—	152,778,272	(4,965,606)	147,812,666
Cash dividends declared (Note 17)	—	(99,900,352)	—	(99,900,352)
Balance at December 31, 2015	₱408,656,400	₱167,819,526	₱15,366,642	₱591,842,568
Balance at January 1, 2014	₱251,019,938	₱41,823,625	(₱25,110,691)	₱267,732,872
Collection of subscriptions receivable	45,923,662	—	—	45,923,662
Total comprehensive income for the year	—	102,151,859	45,442,939	147,594,798
Cash dividends declared (Note 17)	—	(29,033,878)	—	(29,033,878)
Balance at December 31, 2014	₱296,943,600	₱114,941,606	₱20,332,248	₱432,217,454

See accompanying Notes to Financial Statements.

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

	Years Ended December 31	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱220,289,689	₱146,436,063
Adjustments for:		
Provision for credit and impairment losses (Notes 8 and 10)	17,883,881	16,105,130
Depreciation and amortization (Notes 9 and 10)	15,323,000	10,727,405
Retirement expense (Note 18)	7,289,679	19,004,870
Gain on sale of investment properties (Note 10)	(1,140,727)	(2,284,799)
Amortization of bills payable (Note 15)	375,024	–
Amortization of held to maturity investments and unquoted debt securities (Note 7 and 8)	177,007	238,800
Loss on retirement of assets (Note 9)	16,123	225,561
Changes in operating assets and liabilities:		
Increase in the amounts of:		
Loans and receivables	(485,268,783)	(456,977,954)
Other assets	(11,980,752)	(2,662,140)
Increase in the amounts of:		
Deposit liabilities	281,508,401	119,934,943
Other liabilities	10,616,454	12,389,976
Net cash generated from (used in) operations	55,088,996	(136,862,145)
Income taxes paid	(62,629,164)	(41,311,933)
Contributions to the retirement fund (Note 18)	(26,027,000)	(16,813,182)
Net cash used in operating activities	(33,567,168)	(194,987,260)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property and equipment (Notes 9 and 22)	(53,796,681)	(36,749,553)
Intangible assets (Notes 11 and 22)	(1,326,692)	(4,772,600)
Unquoted debt securities (Note 8)	–	(3,014,795)
Proceeds from sale or maturities of:		
Investment properties (Notes 10 and 22)	620,000	5,448,508
Unquoted debt securities (Note 8)	529,812	3,271,846
Held-to-maturity investments	–	14,820,155
Net cash used in investing activities	(53,973,561)	(20,996,439)
CASH FLOWS FROM FINANCING ACTIVITIES		
Availments of bills payable (Note 14)	486,730,858	285,000,000
Settlement of bills payable (Note 14)	(260,000,000)	(25,000,000)
Collections of subscriptions receivable (Note 17)	111,712,800	45,923,662
Cash dividends paid	(97,527,999)	(28,783,690)
Net cash provided by financing activities	240,915,659	277,139,972

(Forward)

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	Years Ended December 31	
	2015	2014
NET INCREASE IN CASH AND CASH EQUIVALENTS	₱153,374,930	₱61,156,273
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and other cash items	6,679,030	4,610,455
Due from Bangko Sentral ng Pilipinas	81,135,679	50,603,710
Due from other banks	112,018,132	83,462,403
	199,832,841	138,676,568
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and other cash items	9,582,664	6,679,030
Due from Bangko Sentral ng Pilipinas	106,715,506	81,135,679
Due from other banks	236,909,601	112,018,132
	₱353,207,771	₱199,832,841
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest received	₱720,196,192	₱555,943,376
Interest paid	29,791,673	23,050,898

See accompanying Notes to Financial Statements.

CARD SME BANK, INC., A THRIFT BANK**NOTES TO FINANCIAL STATEMENTS****1. Corporate Information**

CARD SME Bank Inc., A Thrift Bank (the Bank) was incorporated in the Philippines on October 4, 1961. The Bank was granted the authority to operate by the Bangko Sentral ng Pilipinas (BSP) on May 10, 1962. Its principal place of business is at 61 Insular Building, Rizal Avenue, San Pablo City, Laguna. The Bank offers a wide range of products and services such as deposit and loan products mainly to the consumer market. As at December 31, 2015 and 2014, the Bank has 15 and 10 branches, respectively.

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

On May 20, 2010, the Monetary Board of Bangko Sentral ng Pilipinas has approved the increased in the authorized capital stock of the bank from ₱20 Million to ₱500 Million and the number of Board of Directors from five (5) to nine (9) members. Likewise on December 9, 2010, the Monetary Board of BSP thru its Resolution No. 1757 has approved the conversion of the operation of the bank from rural bank category to a regular thrift bank.

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

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

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

As a thrift bank, the Bank can (1) provide short term working capital, medium and long-term financing, to business engaged in agricultural services, industry and housing; (2) provide diversified financial and allied services for its chosen market and constituents especially for small and medium enterprises, microfinance and individuals; and (3) carry on activities specified under Section 10 of Republic Act (RA) 7906, otherwise known as '*Thrift Banks Act of 1995*'.

As at December 31, 2015 and 2014, the Bank is 33.8% owned by CARD, Inc.

2. Significant Accounting Policies

Basis of Preparation

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

Statement of Compliance

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

Presentation of Financial Statements

The 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 reporting date (current) and more than 12 months after the reporting date (noncurrent) is presented in Note 16.

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

However, the Bank classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

Income and expenses 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

Except for these new and amended standards and interpretations which were adopted as at January 1, 2015, the accounting policies adopted are consistent with those of the previous financial year.

- Philippine Accounting Standards (PAS) 19, *Defined Benefit Plans: Employee Contributions* (Amendments)
- Annual Improvements to PFRSs 2010-2012 Cycle
 - PFRS 2, *Share-based Payment* - Definition of Vesting Condition
 - PFRS 3, *Business Combinations* - Accounting for Contingent Consideration in a Business Combination
 - PFRS 8, *Operating Segments* - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets
 - PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets* - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization
 - PAS 24, *Related Party Disclosures* - Key Management Personnel

- Annual Improvements to PFRSs 2011-2013 Cycle
 - PFRS 3, *Business Combinations* - Scope Exceptions for Joint Arrangements
 - PFRS 13, *Fair Value Measurement* - Portfolio Exception
 - PAS 40, *Investment Property*

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

Summary of Significant Accounting Policies

Fair Value Measurement

The Bank measures financial instruments at fair value at each reporting date. Fair values of financial instruments measured at amortized cost are disclosed in Note 4.

Fair value is the estimated 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 as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value

measurement as a whole) at the end of each reporting period. The Bank does not have assets and liabilities carried at fair value as at December 31, 2015 and 2014.

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

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks that are highly liquid and readily convertible to known amounts of cash with original maturities of three months or less from dates of placements and which are subject to insignificant risk of changes in value. Due from BSP includes the statutory reserves required by the BSP which the Bank considers the Bank's cash requirements as allowed by the BSP. The components of cash and cash equivalents are shown in the statement of cash flows. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

The Bank recognizes a financial asset or financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. 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. Deposits, amounts due from other banks and loans and receivables are recognized when cash is received by the Bank or advanced to the borrowers.

Initial recognition of financial instruments

All financial instruments are initially measured at fair value. Except for financial assets and financial liabilities at fair value through profit or loss (FVPL), the initial measurement of financial assets and financial liabilities 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. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market, and for HTM investments, the ability and intention to hold the investment until maturity. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. Financial liabilities are classified into financial liabilities at FVPL and other financial liabilities at amortized cost.

As at December 31, 2015 and 2014, the Bank has no AFS investments and financial instruments at FVPL.

'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 unless it qualifies for recognition as some other type of asset. In cases where data are 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.

Embedded derivatives

Embedded derivatives are separated from their host contracts and carried at fair value when the entire hybrid contracts (composed of both the host contract and the embedded derivative) are not accounted for as financial assets at FVPL, when their economic risks and characteristics are not closely related to those of their respective host contracts, and when a separate instrument with the same terms as the embedded derivatives would meet the definition of a derivative. The Bank assesses whether embedded derivatives are required to be separated from the host contract when the Bank first becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows.

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 rate 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 effective interest rate (EIR). The amortization is included in 'Interest income' in the statement of income. 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.

Loans and receivables

This accounting policy relates to the statement of financial position captions 'Loans and receivables', 'Due from BSP', 'Due from other banks' and refundable deposits under 'Other assets'. These are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets at FVPL, designated as AFS investments or HTM investments.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses and unearned interest income. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included under '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.

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

These policies apply to liabilities classified under 'Deposit liabilities', 'Accrued expenses', 'Dividends payable', 'Bills payable', 'Accounts payable' and other appropriate financial liability accounts in the statement of financial position.

Derecognition of Financial Assets and Financial Liabilities

Financial assets

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

- The rights to receive cash flows from the asset have expired;
- The Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- The Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risk and rewards of the asset but has transferred the control over the asset.

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

Income and expenses 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.

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.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if:

- there is a currently enforceable legal right to offset the recognized amounts in the normal course of business, in event of default, and in event of bankruptcy or insolvency; and
- there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The Bank assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Bank and all of the counterparts.

Impairment of Financial Assets

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or 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 assets at amortized cost

For 'Loans and receivables' 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 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, in a subsequent year, 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 'Provision for credit and impairment losses' 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 industry, past-due status 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 on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, payment status, or other factors that are indicative of incurred losses of 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.

Restructured loans

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

Property and Equipment

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

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

Depreciation is computed using the straight-line method over the estimated useful lives (EUL) of the respective assets.

The EULs of the depreciable assets are as follows:

Building and improvements	5 to 15 years
Leasehold improvements	3 to 5 years or the terms of the related lease, whichever is shorter
Furniture, fixtures and equipment	2 to 3 years
Transportation equipment	3 to 5 years

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

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

The carrying values of the property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such

indication exists and where the carrying values exceed the estimated recoverable amount, an impairment loss is recognized under 'Provision for credit and impairment losses' in the statement of income.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of asset given up. Foreclosed properties are classified under 'Investment properties' upon either:

- Entry of judgment in case of judicial foreclosure;
- Execution of sheriff's certificate of sale in case of extra-judicial foreclosure; or
- Notarization of the deed of dacion in case of payment in kind (dacion en pago).

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

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

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

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

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

For transfers from investment property to owner-occupied property, the deemed cost of property for subsequent accounting is its depreciated cost at the date of change in use. If the property occupied by the Bank as an owner-occupied property becomes an investment property, the Bank accounts for such property in accordance with the policy stated under 'Property and equipment' up to the date of change in use.

Intangible Assets

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

The useful lives of intangible assets are assessed as either finite or indefinite.

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

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

Impairment of Property and Equipment, Investment Properties and Software Costs

At each reporting date, the Bank assesses whether there is any indication that its nonfinancial assets are 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 group of assets, in which case the recoverable amount is assessed as part of the cash generating unit (CGU) to which it belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset (or CGU) is considered impaired and is written down to its recoverable amount. In assessing 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 against operations in the year in which it arises.

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

Equity

Common stock

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

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

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

Surplus

Surplus 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.

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

Cash dividends

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

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration, received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Bank has assessed that it is acting as a principal (as opposed to as an agent) in all revenue arrangements.

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

Interest income

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

The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees (such as service fees) or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

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 future recoverable cash flows.

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

Profit from exchange or sale of assets

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

Loan fees, service fees and penalties

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

Costs and Expenses

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

Retirement Benefits

The Bank is covered by a funded noncontributory defined benefit retirement plan.

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling (if any). 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 retirement plan is determined using the projected unit credit method.

Retirement 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 the 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 of actuarial gains and losses, the effect of the asset ceiling, excluding net interest and the return on plan assets (excluding net interest), are recognized immediately in the statement of financial position with a corresponding debit or credit to 'Remeasurement gains (losses) in retirement plan' under other comprehensive income in the period in which they occur. 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.

The Bank's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when, and only when, reimbursement is virtually certain.

Leases

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

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

Where reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment of the 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 benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense under 'Occupancy' account in the statement of income on a straight-line basis over the lease term.

Income Taxes

Current tax

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

Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits from

excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT), if any, and unused net operating loss carryover (NOLCO), if any, to the extent that it is probable that taxable income will be available against which the deductible temporary differences, carry forward of unused excess MCIT over RCIT and unused NOLCO can be utilized. Deferred tax assets or deferred tax liabilities, 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 taxable income will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax 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 related to the same taxable entity and the same taxation authority.

Current tax and deferred tax relating to items recognized directly in equity is also recognized in equity and not in the statement of income.

Provisions

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

Contingent Liabilities and Contingent Assets

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

Events After the Reporting Date

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

Standards Issued but not yet Effective

Standards issued but not yet effective up to date of issuance of the Bank's financial statements are listed below. The listing consists of standards and interpretations issued, which the Bank

reasonably expects to be applicable at a future date. The Bank intends to adopt these standards when they become effective.

No definite adoption date prescribed by the SEC and Financial Reporting Standards Council (FRSC)

- Philippine Interpretation on IFRIC 15, *Agreement for the Construction of Real Estate*

Effective January 1, 2016

- PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Investment in Associates and Joint Ventures* - Investment Entities: Applying the Consolidation Exception (Amendment)
- PAS 27, *Separate Financial Statements* - Equity Method in Separate Financial Statement (Amendments)
- PFRS 11, *Joint Arrangements* - Accounting for Acquisitions of Interests (Amendments)
- PAS 1, *Presentation of Financial Statements* - Disclosure Initiative (Amendments)
- PFRS 14, *Regulatory Deferral Accounts*
- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets* - Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)
- PAS 16, *Property, Plant, and Equipment*, and PAS 41, *Agriculture* - Bearer Plants
- *Annual Improvements to PFRSs (2012-2014 Cycle)*
 - PFRS 5, *Non-current Assets Held for Sale and Discounted Operation* - Changes in Methods of Disposal
 - PFRS 7, *Financial Instruments: Disclosures* - Servicing Contracts
 - PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
 - PAS 19, *Employee Benefits* - Regional Market Issue Regarding Discount Rate
 - PAS 34, *Interim Financial Reporting* - Disclosures of Information 'Elsewhere in the Interim'

Effective January 1, 2018

- PFRS 9, *Financial Instrument*
In July 2014, the International Accounting Standards Board (IASB) issued the final versions of PFRS 9, *Financial Instruments*. The new standard (renamed as PFRS 9) reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement* and all previous version of PFRS 9. The standard introduces new requirements for reclassification 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 providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. Early application of previous versions of PFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. The Bank did not early adopt PFRS 9.

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, including amount of credit losses, but will have no impact on the classification and measurement of the Bank's financial liabilities. The new hedge accounting rules will have no effect on the Bank.

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

In addition, the IASB has issued the following new standards that have not yet been adopted locally by the SEC, FRSC, Board of Accountancy and Professional Regulations Commission. The Bank is currently assessing the impact of these new standards and plans to adopt them on their required effective dates once adopted locally.

- International Financial Reporting Standard (IFRS) 15, *Revenue from Contracts with Customers*

IFRS 15 was issued by IASB 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, 2018 with early adoption permitted.

- IFRS 16, *Leases*

On January 13, 2016, IASB issued its new standard which replaces IAS 17, the current leases standard, and the related Interpretations.

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

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

The new standard is effective for annual periods beginning on or after January 1, 2019. Entities may early adopt IFRS 16 but only if they have also adopted IFRS 15, *Revenue from Contracts with Customers*. When adopting IFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in compliance with PFRS requires the Bank to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities, if any. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and 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

The Bank has entered into commercial property and equipment leases with various entities. The Bank has determined, based on the evaluation of the terms and conditions of the lease agreement (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term and lease term is not for the major part of the asset's economic life), that the lessor retains all the significant risks and rewards of ownership of these properties wherein the latter retain all the significant risks and rewards of ownership of those properties leased out under operating leases.

(b) Classification of HTM investment

The classification 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 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. The Bank has assessed that it has the intention and ability to hold these investments until maturity.

(c) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on 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.

(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) Embedded derivatives

Where a hybrid instruments is not classified as financial asset or liability at FVPL, the Bank evaluates whether the embedded derivatives should be bifurcated and accounted for separately. This includes assessing whether the embedded derivatives has a closer economic relationship to the host contract.

Estimates

(a) Credit losses on loans and receivables

The Bank reviews its loans and receivables at each reporting date to assess whether an allowance for credit losses should be set up. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Past-due

accounts for more than 90 days, and loans wherein the borrower requested moratorium but no subsequent collection is made after the moratorium period ends as at year-end, fall under specific loan loss.

The Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on changes in factors that are indicative of incurred losses, such as deterioration in payment status among others.

As at December 31, 2015 and 2014, the carrying value of loans and receivables and related allowance for credit losses are disclosed in Note 8.

(b) Impairment of nonfinancial assets

The Bank assesses impairment on property and equipment, investment properties and intangible assets whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

Among others, 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 exceed their recoverable amounts. The carrying values of property and equipment, investment properties and intangible assets and the related allowance for impairment are disclosed in Notes 9, 10 and 11.

(c) Impairment of HTM Investments

The Bank determines that HTM investments are impaired based on the same criteria as loans and receivables.

As at December 31, 2015 and 2014, no impairment losses were recognized on HTM investments, which comprised of government securities issued by the Philippine Government. The carrying value of HTM investments is disclosed in Note 7.

(d) Estimated useful lives of property and equipment, investment properties and software costs

The Bank estimates the useful lives of its property and equipment, investment properties and software costs based on the period over which the assets are expected to be available for use. The Bank reviews annually the EULs based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets. A reduction in the EULs of property and equipment and investment properties would increase the recorded depreciation and amortization and decrease the assets. The EULs of property and equipment, investment properties and software costs are disclosed in Note 2.

(e) Present value of defined benefit obligation

The cost of defined benefit plan, as well as the present value of defined benefit obligation, is determined using actuarial valuations. The actuarial valuation involves making assumptions

about discount rates, future salary increases and mortality rates. Due to the complexity of the valuation, the underlying assumptions and long term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as at reporting date, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. Future salary increases are based on expected future inflation rates of the Philippines. The mortality rate is based on publicly available mortality tables for the Philippines and is modified accordingly with estimates of mortality improvements. The present value of the retirement liability and fair value of plan assets are disclosed in Note 18.

(f) Recognition of deferred tax assets

The amount of deferred tax asset 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 strategies.

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.

Details of recognized deferred tax assets are disclosed in Note 19.

4. Fair Value Measurement

As at December 31, 2015 and 2014 except as discussed below, the carrying values of the Bank's financial assets and financial liabilities as reflected in the statements of financial position and related notes approximate their fair values.

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

Fair values of refundable deposits and sales contract receivables approximate their carrying values. These are reported at cost and are not significant in relation to the Bank's asset portfolios.

Noncurrent portion of receivables and unquoted debt securities

Fair values of noncurrent portion of receivables and unquoted debt securities are estimated using the discounted cash flow methodology using interest rates offered for similar loans to borrowers with similar credit ratings and taking into account the remaining maturities.

HTM investments

Fair values of HTM investments are calculated by reference to quoted market prices, which is within the bid-ask price, as at reporting date unless the market is not active. In such case, the price at the last date of activity shall be used. HTM investments of the Bank are categorized as Level 2 due to low volume of trading activity and absence of bid-offer as at reporting date.

Noncurrent portion of deposit liabilities and bills payable

Fair values of noncurrent deposit liabilities are estimated using the discounted cash flow methodology using the Bank's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued, if any.

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

Investment properties

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

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

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, 2015 and 2014 for which fair values are required to be disclosed.

2015					
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets for which fair values are disclosed:					
Financial assets					
HTM investments	₱10,967,990	₱–	₱10,950,253	₱–	₱10,950,253
Loans and receivables					
SME loans	205,730,288	–	–	198,391,511	198,391,511
Unquoted debt securities	20,252,472	–	–	20,059,281	20,059,281
Non-financial asset					
Investment properties	15,812,550	–	–	26,406,126	26,406,126
Financial liabilities					
Bills payable	160,000,000	–	–	156,713,325	156,713,325
Deposit liabilities	792,764	–	–	637,134	637,134
2014					
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets for which fair values are disclosed:					
Financial assets					
HTM investments	₱11,077,148	₱–	₱11,503,138	₱–	₱11,503,138
Loans and receivables					
SME loans	139,468,642	–	–	135,565,698	135,565,698
Unquoted debt securities	20,797,337	–	–	20,502,921	20,502,921
Non-financial asset					
Investment properties	16,602,232	–	–	44,192,550	44,192,550

As at December 31, 2015 and 2014, the Bank has no financial instruments carried at fair value.

There were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements in 2015 and 2014.

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

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

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

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

5. Financial Risk Management Objectives and Policies

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

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

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

The BOD through its Credit Risk Management Committee (CRMC) is responsible for the development and oversight of the Bank's risk management program, identification and evaluation of risk exposures, monitoring the Bank's implementation of risk management policies and procedures, and for reviewing and evaluating the adequacy of risk management framework in relation to the risks faced by the Bank. The CRMC regularly reports to the BOD the results of reviews of actual implementation of risk management policies. Risk management of the Bank is

strengthened in conjunction with Audit Committee (AC) and Internal Audit (IA) functions. IA undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the AC.

Credit risk

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

Management of credit risk

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

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

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

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

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

All past due or impaired accounts are reported on a daily, weekly and monthly bases to the BOD. Consistent monitoring for this group of accounts is established by competent and diligent staff to maximize recovery. Incentives have been established and subjected to review and assessment

periodically. These are given to staff to recover from the accounts and to fully instill credit discipline to borrowers. Restructuring of loan payments are done after full compliance of approved policies and procedures. Writing off bad accounts is approved by the BOD and reported to the BSP in compliance with the Manual of Regulations for Banks.

Maximum exposure to credit risk

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

2015				
	Maximum Exposure to Credit Risk	Fair value of Collateral and Credit Enhancements	Financial Effect of Collateral or Credit Enhancement	Net Exposure to Credit Risk
Loans and receivables:				
Microfinance loans	₱1,589,841,307	₱384,540,322	₱375,579,520	₱1,214,261,787
SME loans	178,392,029	95,661,722	34,552,777	143,839,252
Sales contract receivables	1,829,443	1,892,200	1,284,243	545,200
2014				
	Maximum Exposure to Credit Risk	Fair value of Collateral and Credit Enhancements	Financial Effect of Collateral or Credit Enhancement	Net Exposure to Credit Risk
Loans and receivables:				
Microfinance loans	₱1,196,073,423	₱182,784,552	₱182,784,552	₱1,013,288,871
SME loans	164,882,407	66,461,859	34,247,614	130,634,793
Sales contract receivables	667,193	641,000	26,193	641,000

Credit enhancement for microfinance loans pertains to deposit hold-out from center fund savings equivalent to 15.0% of the loaned amount of the member as at December 31, 2015 and 2014. Credit enhancement for Small and Medium-sized Enterprises (SME) loans consists of chattel and real estate mortgages.

As at December 31, 2015 and 2014, the Bank has no financial assets with rights to offset in accordance with Amendments to PAS 32, *Financial Instruments* - Offsetting Financial Assets and Financial Liabilities. There are also no financial instruments that are subject to an enforceable master netting arrangements or similar agreements which require disclosure in the financial statements in accordance with PFRS.

Additionally, the tables below show the distribution of maximum credit exposure by industry sector of the Bank as at December 31, 2015 and 2014:

2015					
	Due from BSP and other banks	Loans and receivables	HTM investments	Refundable deposits*	Total
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	P—	₱1,194,560,154	P—	P—	₱1,194,560,154
Financial intermediaries	236,909,601	9,273,966	—	—	246,183,567
Agriculture, hunting and forestry	—	204,283,878	—	—	204,283,878
Other community, social and personal service activities	—	203,477,900	—	—	203,477,900
Real estate and construction	—	188,757,680	—	375,406	189,133,086
Government	106,715,506	20,010,570	10,967,990	—	137,694,066
Manufacturing	—	61,240,493	—	—	61,240,493
	343,625,107	1,881,604,641	10,967,990	375,406	2,236,573,144
Allowance for credit losses	—	(66,248,933)	—	—	(66,248,933)
Unearned interest and discount	—	(948,702)	—	—	(948,702)
Total	₱343,625,107	₱1,814,407,006	₱10,967,990	₱375,406	₱2,169,375,509

*Reported under 'Other assets'

2014					
	Due from BSP and other banks	Loans and receivables	HTM investments	Refundable deposits*	Total
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	P—	₱890,156,775	P—	P—	₱890,156,775
Financial intermediaries	112,018,132	9,827,240	—	—	121,845,372
Agriculture, hunting and forestry	—	184,406,914	—	—	184,406,914
Other community, social and personal service activities	—	239,365,760	—	—	239,365,760
Real estate and construction	—	9,565,808	—	372,396	9,938,204
Government	81,135,679	20,010,570	11,077,148	—	112,223,397
Manufacturing	—	49,810,170	—	—	49,810,170
	193,153,811	1,403,143,237	11,077,148	372,396	1,607,746,592
Allowance for credit losses	—	(55,818,114)	—	—	(55,818,114)
Unearned interest and discount	—	(880,853)	—	—	(880,853)
Total	₱193,153,811	₱1,346,444,270	₱11,077,148	₱372,396	₱1,551,047,625

*Reported under 'Other assets'

Credit quality per class of financial assets

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

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

High grade represents receivables and investments which have a high probability of collection. The counterparty has the apparent ability to satisfy its obligation and the securities, such as real

estate mortgage and chattel mortgage, on the receivables are readily enforceable. These also include deposits with reputable institutions from which the deposits may be withdrawn and recovered with certainty.

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

The tables below show the credit quality per class of financial assets (gross of allowance for credit losses and unearned interest income) as at December 31, 2015 and 2014:

	2015					
	Neither Past Due Nor Impaired			Past Due but not Impaired	Individually Impaired	Total
	High Grade	Standard Grade	Unrated*			
Due from BSP	₱106,715,506	₱—	₱—	₱—	₱—	₱106,715,506
Due from other banks	236,909,601	—	—	—	—	236,909,601
HTM investments	10,967,990	—	—	—	—	10,967,990
Loans and receivables:						
Loans and discounts:						
Microfinance	—	1,603,823,893	—	3,007,875	12,565,742	1,619,397,510
SME	95,531,042	86,742,263	—	8,042,670	15,414,313	205,730,288
REM	—	—	—	—	130,679	130,679
Unquoted debt securities	—	20,229,010	—	—	9,078,988	29,307,998
Other receivables:						
Accrued interest receivable	337,963	24,361,110	—	—	—	24,699,073
Sales contract receivable	—	1,643,250	—	—	186,193	1,829,443
Accounts receivable	—	—	420,362	—	89,288	509,650
Other assets – refundable deposits	—	—	375,406	—	—	375,406
	₱450,462,102	₱1,736,799,526	₱795,768	₱11,050,545	₱37,465,203	₱2,236,573,144

*Financial assets that are unrated

	2014					
	Neither Past Due Nor Impaired			Past Due but not Impaired	Individually Impaired	Total
	High Grade	Standard Grade	Unrated*			
Due from BSP	₱81,135,679	₱—	₱—	₱—	₱—	₱81,135,679
Due from other banks	112,018,132	—	—	—	—	112,018,132
HTM investments	11,077,148	—	—	—	—	11,077,148
Loans and receivables:						
Loans and discounts:						
Microfinance	—	1,206,335,159	—	2,372,894	9,855,628	1,218,563,681
SME	48,239,487	70,196,165	—	11,265,275	9,767,715	139,468,642
REM	—	—	—	—	199,179	199,179
Unquoted debt securities	—	20,758,822	—	—	9,078,988	29,837,810
Other receivables:						
Accrued interest receivable	788,462	12,975,619	—	—	—	13,764,081
Sales contract receivable	—	481,000	—	—	186,193	667,193
Accounts receivable	—	—	553,363	—	89,288	642,651
Other assets – refundable deposits	—	—	372,396	—	—	372,396
	₱253,258,908	₱1,310,746,765	₱925,759	₱13,638,169	₱29,176,991	₱1,607,746,592

*Financial assets that are unrated

As at December 31, 2015 and 2014, the Bank's receivables that are past due for more than 90 days are considered impaired.

Aging analysis of past due but not impaired loans and receivables

The following table shows the total aggregate amount of loans and discounts that are contractually past due but not considered as impaired per delinquency bucket as at December 31, 2015 and 2014.

2015				
	Less than 30 Days	31 to 60 Days	61 to 90 Days	Total
SME	₱7,487,485	₱511,147	₱44,038	₱8,042,670
Microfinance	684,681	892,268	1,430,926	3,007,875
	₱8,172,166	₱1,403,415	₱1,474,964	₱11,050,545

2014				
	Less than 30 Days	31 to 60 Days	61 to 90 Days	Total
SME	₱2,443,571	₱2,897,223	₱5,924,481	₱11,265,275
Microfinance	791,911	783,503	797,480	2,372,894
	₱3,235,482	₱3,680,726	₱6,721,961	₱13,638,169

Collateral and other credit enhancements

The amount and type of collateral depends on the type of loan and assessment of the credit risks of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

It is the Bank's policy to dispose repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claims. In general, the Bank does not occupy repossessed properties for business use.

Liquidity Risk

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

The Asset-Liability Management Committee is responsible in formulating the Bank's liquidity risk management policies. Liquidity management is among the most important activities conducted within the Bank. The Bank manages its liquidity risk through analyzing net funding requirements under alternative scenarios, diversification of funding sources and contingency planning.

Liquidity risk is managed by the Bank through holding sufficient liquid assets and appropriate assessment to ensure short-term funding requirements are met and by ensuring the high collection performance at all times.

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

Analysis of financial assets and financial liabilities by remaining maturities

The table below shows the maturity profile of the Bank's financial assets and financial liabilities based on contractual undiscounted cash flows as at December 31, 2015 and 2014:

	2015				Total
	On demand	1 to 6 months	6 to 12 months	Beyond 1 year	
Financial Assets					
Due from BSP	₱106,715,506	₱—	₱—	₱—	₱106,715,506
Due from other banks	156,909,601	80,117,583	—	—	237,027,184
HTM investments	—	10,967,990	—	—	10,967,990
Loans and receivables*:					
Loans and discounts	—	1,562,533,254	355,271,384	151,219,372	2,069,024,010
Unquoted debt securities	2,882,679	188,451	3,096,280	14,061,600	20,229,010
Other receivables:					
Sales contract receivable	—	543,053	525,246	574,951	1,643,250
Accounts receivable	—	420,362	—	—	420,362
Refundable deposit	—	—	—	375,406	375,406
	266,507,786	1,654,770,693	358,892,910	166,231,329	2,446,402,718
Financial Liabilities					
Deposit liabilities:					
Demand	4,145,437	—	—	—	4,145,437
Savings	909,795,929	—	—	—	909,795,929
Special savings	—	252,132,002	67,827,098	849,537	320,808,637
Bills payable	—	172,095,209	174,571,434	153,765,878	500,432,521
Other liabilities					
Accrued expenses	—	26,117,294	—	—	26,117,294
Accounts payable	—	24,963,026	—	—	24,963,026
Dividends payable	—	2,662,689	—	—	2,662,689
	913,941,366	477,970,220	242,398,532	154,615,415	1,788,925,533
Net undiscounted financial assets (liabilities)	(₱647,433,580)	₱1,176,800,473	₱116,494,378	₱11,615,914	₱657,477,185
* Excludes nonperforming loans and receivables.					
	2014				Total
	On demand	1 to 6 months	6 to 12 months	Beyond 1 year	
Financial Assets					
Due from BSP	₱81,135,679	₱—	₱—	₱—	₱81,135,679
Due from other banks	112,018,132	—	—	—	112,018,132
HTM investments	—	441,294	431,774	10,204,080	11,077,148
Loans and receivables*:					
Loans and discounts	—	1,419,000,232	113,894,354	42,929,934	1,575,824,520
Unquoted debt securities	113,835	5,630	17,460,018	3,407,009	20,986,492
Other receivables:					
Sales contract receivable	—	188,001	187,999	105,000	481,000
Accounts receivable	—	553,363	—	—	553,363
Refundable deposit	—	—	—	372,396	372,396
	193,267,646	1,420,188,520	131,974,145	57,018,419	1,802,448,730
Financial Liabilities					
Deposit liabilities:					
Demand	1,943,417	—	—	—	1,943,417
Savings	678,020,045	—	—	—	678,020,045
Special savings	—	209,067,560	61,482,539	—	270,550,099
Bills payable	—	33,962,500	238,301,250	—	272,263,750
Other liabilities					
Accrued expenses	—	22,624,427	—	—	22,624,427
Accounts payable	—	9,043,889	—	—	9,043,889
Dividends payable	—	290,336	—	—	290,336
	679,963,462	274,988,712	299,783,789	—	1,254,735,963
Net undiscounted financial assets (liabilities)	(₱486,695,816)	₱1,145,199,808	(₱167,809,644)	₱57,018,419	₱547,712,767
* Excludes nonperforming loans and receivables.					

As at December 31, 2015 and 2014, the Bank had a total of ₱960.0 million and ₱430.0 million credit lines with local banks, respectively. Out of which, ₱460.0 million and ₱260.0 million had been drawn as at December 31, 2015 and 2014, respectively.

Market Risk

Market risk is the risk of loss to future earnings, fair values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates. The Bank is exposed to market risk, although minimal, due to its placement to government debt securities classified under HTM.

Interest rate risk

The Bank's nominal interest rate for REM loans are set at a fixed rate of 21.0% in 2015 and 2014. Microfinance loans earn nominal interest rates ranging from 2.6% to 28.0% with equivalent effective interest rate ranging from 32.8% to 62.5% and 32.8% to 58.8% per annum in 2015 and 2014, respectively. For SME loans, interest rate charged to a borrower depends on the credit risk rating classification, the deposit level of the client as a percentage of the loan, and the internal basic interest rate.

The effect of interest repricing on loans is immaterial to the Bank therefore sensitivity analysis is no longer presented.

The Bank's savings deposit liabilities include compulsory and voluntary savings that earns 1.5% to 5.0% and 1.5% to 2.0% per annum in 2015 and 2014, respectively. Special savings deposits earn 1.8% to 3.0% and 1.8% to 2.5% per annum in 2015 and 2014, respectively. These special savings deposits are concentrated on 30 days to one year maturity.

The Bank pays fixed interest rates on bills payable from 4.2% to 6.6% in 2015 and from 4.0% to 4.5% payable in 2014.

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

Foreign currency risk

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

6. Cash and Cash Equivalents

The composition of this account follows:

	2015	2014
Cash and other cash items	₱9,582,664	₱6,679,030
Due from BSP	106,715,506	81,135,679
Due from other banks	236,909,601	112,018,132
	₱353,207,771	₱199,832,841

Due from BSP represents the aggregate balance of non-interest bearing peso deposit account with BSP which the Bank maintains in compliance with the BSP requirements to meet regular and liquidity reserves on deposits. As at December 31, 2015 and 2014, the Bank is compliant with the applicable reserve requirements.

Due from other banks consists of:

	2015	2014
Demand deposit	₱78,311,867	₱105,121,631
Savings deposit	78,597,734	6,896,501
Time deposit	80,000,000	—
	₱236,909,601	₱112,018,132

Due from other banks consist of funds deposited in domestic banks which are used as part of the Bank's working capital. These deposits bear annual interest rates ranging from 0.3% to 2.3% and 0.1% to 0.8% for the years ended December 31, 2015 and 2014, respectively.

Time deposits earn interests ranging from 1.5% to 2.2% with maturity ranging from 27 to 40 days in 2015. The Bank had no time deposits in 2014.

Interest income on due from other banks amounted to ₱1.8 million and ₱1.3 million in 2015 and 2014, respectively.

7. Held-to-Maturity Investments

This account represents investment in government securities bearing annual interest rate of 7.0% and effective interest rate of 5.7% in 2015 and 2014, and which will mature in January 2016. Amortization amounted to ₱0.1 million in 2015 and 2014.

Interest income earned on HTM investments amounted to ₱0.7 million and ₱1.3 million in 2015 and 2014, respectively.

8. Loans and Receivables

This account consists of:

	2015	2014
Loans and discounts:		
Microfinance (Note 14)	₱1,619,397,510	₱1,218,563,681
SME	205,730,288	139,468,642
Real estate mortgage	130,679	199,179
	1,825,258,477	1,358,231,502
Unquoted debt securities	29,307,998	29,837,810
	1,854,566,475	1,388,069,312
Unearned interest income	(948,702)	(880,853)
	1,853,617,773	1,387,188,459
Other receivables:		
Accrued interest receivable	24,699,073	13,764,081
Sales contracts receivable	1,829,443	667,193
Accounts receivable (Note 20)	509,650	642,651
	1,880,655,939	1,402,262,384
Allowance for credit losses	(66,248,933)	(55,818,114)
	₱1,814,407,006	₱1,346,444,270

Loans and discounts earn interest at rates ranging from 32.8% to 62.5% and 32.8% to 58.8% in 2015 and 2014, respectively.

Unquoted debt securities includes Micro, Small and Medium Enterprise Notes and Agrarian Reform Bonds with maturity ranging from 1.0 to 2.0 years and interest ranging from 1.3% to 1.8% in 2015 and 2014, respectively. Amortization amounted to ₱67,849 and ₱58,000 in 2015 and 2014, respectively.

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

	2015	2014
Loans and discounts:		
Microfinance	₱688,910,009	₱519,834,268
SME	39,268,866	26,774,471
REM	62,292	59,800
Unquoted debt securities	143,819	103,122
	₱728,384,986	₱546,771,661

No interest income is accreted on individually impaired loans in 2015 and 2014.

The movements in allowance for credit losses follow:

	2015				
	Loans and discounts	Unquoted debt securities	Accounts receivable	Sales contract receivables	Total
Balance at beginning of year	₱46,463,645	₱9,078,988	₱89,288	₱186,193	₱55,818,114
Provisions	18,113,386	—	—	—	18,113,386
Write-offs	(7,682,567)	—	—	—	(7,682,567)
Balance at end of year	₱56,894,464	₱9,078,988	₱89,288	₱186,193	₱66,248,933
Individually impaired	₱28,110,734	₱9,078,988	₱89,288	₱186,193	₱37,465,203
Collectively impaired	28,783,730	—	—	—	28,783,730
	₱56,894,464	₱9,078,988	₱89,288	₱186,193	₱66,248,933
Gross amounts of loans individually determined to be impaired, before deducting any individually assessed impairment losses	₱28,110,734	₱9,078,988	₱89,288	₱186,193	₱37,465,203

	2014				
	Loans and discounts	Unquoted debt securities	Accounts receivable	Sales contract receivables	Total
Balance at beginning of year	₱30,530,457	₱9,078,988	₱489,278	₱—	₱40,098,723
Provisions	21,193,047	—	—	—	21,193,047
Write-offs	(5,073,666)	—	(399,990)	—	(5,473,656)
Transfers	(186,193)	—	—	186,193	—
Balance at end of year	₱46,463,645	₱9,078,988	₱89,288	₱186,193	₱55,818,114
Individually impaired	₱19,822,522	₱9,078,988	₱89,288	₱186,193	₱29,176,991
Collectively impaired	26,641,123	—	—	—	26,641,123
	₱46,463,645	₱9,078,988	₱89,288	₱186,193	₱55,818,114
Gross amounts of loans individually determined to be impaired, before deducting any individually assessed impairment losses	₱19,822,522	₱9,078,988	₱89,288	₱186,193	₱29,176,991

Regulatory Reporting

In accordance with BSP regulations, the Bank considers loans with one day past due as part of its portfolio-at-risk (PAR). As at December 31, 2015 and 2014, the Bank's PAR amounted to ₱39.2 million and ₱33.5 million, respectively. The allowance for credit losses recognized for past due loans amounted to ₱38.9 million and ₱23.9 million as at December 31, 2015 and 2014, respectively.

As of December 31, 2015 and 2014, based on the revised definition of NPLs under Circular No. 772, NPLs of ₱11.1 million for 2015 and ₱13.6 million for 2014 which the Bank reported to the BSP are net of specific allowance amounting to ₱28.1 million and ₱19.8 million, respectively.

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

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

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

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

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 loans and discounts as at December 31, 2015 and 2014:

	2015	2014
Secured portion		
Deposit hold-out (Note 13)	₱375,579,520	₱182,784,552
REM	70,658,091	35,744,015
Chattel mortgage	25,003,631	12,694,651
	471,241,242	231,223,218
Unsecured portion	1,354,017,235	1,127,008,284
	₱1,825,258,477	₱1,358,231,502

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

	2015		2014	
	Amount	%	Amount	%
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	₱1,194,560,154	63.5	₱890,156,775	63.4
Agriculture, hunting and forestry	204,283,878	10.9	184,406,914	13.1
Other community, social and personal service activities	203,477,900	10.8	239,365,760	17.1
Real estate and construction	188,757,680	10.0	9,565,808	0.7
Manufacturing	61,240,493	3.2	49,810,170	3.6
Government	20,010,570	1.1	20,010,570	1.4
Financial intermediaries	9,273,966	0.5	9,827,240	0.7
	₱1,881,604,641	100.0	₱1,403,143,237	100.0

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

9. Property and Equipment

The composition of and movements in this account follow:

	2015						
	Land	Building and Improvements	Leasehold Improvements	Furniture, Fixtures and Equipment	Transportation Equipment	Construction in Progress	Total
Cost							
Balance at beginning of year	₱30,429,054	₱17,569,176	₱14,522,203	₱26,674,460	₱6,983,410	₱-	₱96,178,303
Acquisition	15,901,462	17,166,762	12,728,372	9,050,805	1,231,000	14,184,000	70,262,401
Disposals	-	-	-	(100,216)	(897,336)	-	(997,552)
Balance at end of year	46,330,516	34,735,938	27,250,575	35,625,049	7,317,074	14,184,000	165,443,152
Accumulated Depreciation							
Balance at beginning of year	-	3,512,798	7,328,534	16,475,623	5,273,141	-	32,590,096
Depreciation	-	2,100,121	4,042,539	6,871,062	883,466	-	13,897,188
Disposals	-	-	-	(84,098)	(897,331)	-	(981,429)
Balance at end of year	-	5,612,919	11,371,073	23,262,587	5,259,276	-	45,505,855
Net Book Value	₱46,330,516	₱29,123,019	₱15,879,502	₱12,362,462	₱2,057,798	₱14,184,000	₱119,937,297

	2014						
	Land	Building and Improvements	Leasehold Improvements	Furniture, Fixtures and Equipment	Transportation Equipment	Construction in Progress	Total
Cost							
Balance at beginning of year	₱11,543,449	₱8,272,578	₱11,917,457	₱19,750,490	₱6,983,599	₱1,520,000	₱59,987,573
Acquisition	18,885,605	7,776,598	2,604,746	7,482,604	-	-	36,749,553
Disposals	-	-	-	(558,634)	(189)	-	(558,823)
Transfers	-	1,520,000	-	-	-	(1,520,000)	-
Balance at end of year	30,429,054	17,569,176	14,522,203	26,674,460	6,983,410	-	96,178,303
Accumulated Depreciation							
Balance at beginning of year	-	2,408,445	4,840,772	11,089,079	3,981,966	-	22,320,262
Depreciation	-	1,104,353	2,487,762	5,719,617	1,291,364	-	10,603,096
Disposals	-	-	-	(333,073)	(189)	-	(333,262)
Balance at end of year	-	3,512,798	7,328,534	16,475,623	5,273,141	-	32,590,096
Net Book Value	₱30,429,054	₱14,056,378	₱7,193,669	₱10,198,837	₱1,710,269	₱-	₱63,588,207

Loss on retirement of property and equipment amounted to ₱16,123 and ₱0.2 million in 2015 and 2014, respectively.

The total cost of fully depreciated assets still in use is ₱10.0 million and ₱10.8 million as at December 31, 2015 and 2014, respectively.

There are no restrictions on titles on property and equipment and the Bank does not have any contractual commitments for the acquisition of property and equipment as at December 31, 2015 and 2014.

10. Investment Properties

The composition of and movements in this account follow:

	2015			
	Land	Building	Assets held by SPV	Total
Cost				
Balance at beginning of year	₱17,571,756	₱738,001	₱5,351,413	23,661,170
Disposals	(1,357,479)	(507,000)	—	(1,864,479)
Balance at end of year	16,214,277	231,001	5,351,413	21,796,691
Accumulated Depreciation				
Balance at beginning of year	—	406,300	—	406,300
Depreciation	—	134,915	—	134,915
Disposals	—	(336,708)	—	(336,708)
Balance at end of year	—	204,507	—	204,507
Allowance for Impairment Losses				
Balance at beginning of year	₱4,807,239	₱290,883	₱1,554,516	₱6,652,638
Provision (Reversal)	(1,261,420)	(109,725)	1,141,640	(229,505)
Disposals	(462,341)	(181,158)	—	(643,499)
Balance at end of year	3,083,478	—	2,696,156	5,779,634
Net Book Value	₱13,130,799	₱26,494	₱2,655,257	₱15,812,550

	2014			
	Land	Building	Assets held by SPV	Total
Cost				
Balance at beginning of year	₱17,993,156	₱860,082	₱7,793,447	₱26,646,685
Disposals	(421,400)	(122,081)	(2,442,034)	(2,985,515)
Balance at end of year	17,571,756	738,001	5,351,413	23,661,170
Accumulated Depreciation				
Balance at beginning of year	—	329,358	—	329,358
Depreciation	—	124,309	—	124,309
Disposals	—	(47,367)	—	(47,367)
Balance at end of year	—	406,300	—	406,300
Allowance for Impairment Losses				
Balance at beginning of year	7,881,894	436,550	3,422,111	11,740,555
Provisions (Reversals)	(3,074,655)	(145,667)	(1,867,595)	(5,087,917)
Balance at end of year	4,807,239	290,883	1,554,516	6,652,638
Net Book Value	₱12,764,517	₱40,818	₱3,796,897	₱16,602,232

Direct operating expenses on investment properties during the period included under ‘Taxes and licenses’ amounted to ₱61,979 and ₱69,526 and in 2015 and 2014, respectively and ‘Miscellaneous expense’ amounting to ₱0.5 million in 2015 and 2014. In 2015 and 2014, all of the Bank’s investment properties are non-revenue generating.

Total net gain on sale of investment properties amounted to ₱1.1 million and ₱2.1 million in 2015 and 2014, respectively.

Assets held by a Special Purpose Vehicle

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

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

Major provisions of the SPA follow:

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

11. Intangible Asset

The composition of and movements in this account follow:

	2015	2014
Cost		
Balance at beginning of year	₱4,772,600	₱–
Acquisition	1,358,542	4,772,600
Balance at end of year	6,131,142	4,772,600
Accumulated Amortization		
Balance at beginning of year	–	–
Amortization	1,290,897	–
Balance at end of year	1,290,897	–
Net Book Value	₱4,840,245	₱4,772,600

Intangible assets pertain to the system and licenses purchased by the Bank in relation to the core banking system implemented in 2015. No amortization was recognized in 2014 since the asset is still not available for use.

12. Other Assets

This account consists of:

	2015	2014
Financial assets:		
Refundable deposit	₱375,406	₱372,396
Nonfinancial assets:		
Stationeries and supplies	13,584,036	7,156,994
Prepaid expenses	11,114,675	4,985,976
Miscellaneous	150,000	728,000
	24,848,711	12,870,970
	₱25,224,117	₱13,243,366

13. Deposit Liabilities

The Bank's savings deposit liabilities include pledge savings amounting to ₱1.2 billion and ₱0.9 billion as at December 31, 2015 and 2014, respectively. These represent the aggregate compulsory savings of ₱50.0 per week collected from each microfinance member in 2015 and 2014. Under an assignment agreement, the pledge savings earn annual interest of 1.5% in 2015 and 2014. Pledge savings equivalent to 15.0% of the loan proceeds serves as guarantee fund of outstanding receivables from members (Note 8).

Savings deposits include regular and special savings deposit. Regular savings deposits include "Isave", "Tagumpay", "Maagap" and "Pangarap" savings which earn annual interest ranging from 1.5% to 6.0% and 1.5% to 6.0% per annum in 2015 and 2014, respectively. Special savings deposit includes "Earnmore" savings. This account earns, annual earn interest ranging from 1.8% to 3.0% and 1.8% to 2.5% in 2015 and 2014, respectively.

Details of interest expense on deposit liabilities follow:

	2015	2014
Savings deposit	₱15,659,613	₱12,036,065
Special savings deposit	7,786,275	9,415,296
Demand deposit	1,170	—
	₱23,447,058	₱21,451,361

BSP Circular 830, effective on March 27, 2014, unified the liquidity and statutory reserves requirements to 7.0%, with cash in vault no longer eligible as reserve.

BSP Circular 832, effective on May 2014, increased reserve requirement of thrift banks by an additional 1.0%. Available reserves (which formed part of Due from BSP balance) as at December 31, 2015 and 2014 amounted to ₱106.7 million and ₱81.1 million, respectively.

As at December 31, 2015 and 2014, the Bank is compliant with the applicable reserve requirements.

14. Bills Payable

This account consists of borrowings from:

	2015	2014
Face value		
Balance at beginning of year	₱260,000,000	₱—
Availments	490,000,000	260,000,000
Principal payments	(260,000,000)	—
Balance at end of year	490,000,000	260,000,000

(Forward)

	2015	2014
Unamortized transaction cost		
Balance at beginning of year	₱—	₱—
Availments	3,269,142	—
Amortization	(375,024)	—
Balance at end of year	2,894,118	—
Carrying value	₱487,105,882	₱260,000,000

Local banks

These are promissory notes from various local banks with term of 1.0 year obtained for working capital requirement of the Bank with interest rates ranging from 4.2% to 5.0% and 4.0% to 4.5% in 2015 and 2014, respectively.

International Finance Corporation (IFC)

On December 16, 2015, the Bank entered into a Loan Agreement (Agreement) with IFC for the availment of loan amounting to ₱160.0 million (the Loan). The purpose of the loan is to provide funds to be used by the Bank for financing its lending operations to small and medium-sized enterprises and microfinance entities. The note bears a Philippine fixed base rate of 6.6%, inclusive of 2.7% spread, and has a tenor of seven (7) years.

Borrowings from IFC contain the following embedded derivatives:

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

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

Debt covenants

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

- Negative covenants
Unless IFC otherwise agrees, the Bank shall not take action on the following, among others:
 - Declare or pay any dividend or make any distribution on its share capital (other than dividends or distribution payable in shares of the Bank)
 - Purchase, redeem or otherwise acquire any shares of the Bank or any option over them
 - Incur, create, assume or permit to exist any liability that is covered or ranks prior or senior to the Loan, except those that is in existence of the date of Agreement
 - Create or permit to exist any lien on any property, revenues or other assets, present or future, of the Bank subject to exceptions indicated in the Agreement
 - Enter into any transaction except in the ordinary course of business on ordinary commercial terms and on the basis of arm's-length arrangements

- Enter into or establish any partnership, profit-sharing or royalty agreement or other similar arrangement whereby the Bank's income or profits are, or might be, shared with any other person; or enter into any management contract or similar arrangement whereby its business or operations are managed by any other persons
- Have any subsidiaries subject to exceptions indicated in the Agreement
- Change its charter in any manner which would be inconsistent with the provisions of the agreement or any other transaction document; its financial year; or the nature or scope of its present or contemplated business or operations
- Undertake or permit any merger, spin-off, consolidation or reorganization; or sell, transfer, lease or otherwise dispose of all or a substantial part of its assets, other than assets acquired in the enforcement of security created in favor of the Bank in the ordinary course of its banking business, whether in a single transaction or in a series of transaction
- Prepay or repurchase any long-term debt (other than the Loan) subject to conditions indicated the agreement.

b. Financial covenants

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

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

The period of compliance with the above covenants will commence on March 31, 2016.

Microfinance loans amounting to ₱654.1 million and ₱265.4 million secure the above borrowings as at December 31, 2015 and 2014, respectively (Note 8).

Interest expense on bills payable in 2015 and 2014 amounted to ₱7.3 million and ₱1.2 million, respectively. Amortization of bills payable amounted to ₱0.4 million and nil in 2015 and 2014, respectively.

15. Other Liabilities

This account consists of:

	2015	2014
Financial liabilities:		
Accrued expenses	₱26,117,294	₱22,624,427
Accounts payable (Note 20)	24,963,025	9,043,889
Accrued interest payable	3,313,210	2,215,755
Dividends payable	2,662,689	290,336
	57,056,218	34,174,407
Nonfinancial liabilities:		
Accrued taxes	7,930,963	4,625,867
Others	3,382,092	2,454,974
	11,313,055	7,080,841
	₱68,369,273	₱41,255,248

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

16. Maturity Analysis of Assets and Liabilities

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

	2015			2014		
	Less than Twelve Months	Over Twelve Months	Total	Less than Twelve Months	Over Twelve Months	Total
Financial Assets						
Cash and other cash items	₱9,582,664	₱—	₱9,582,664	₱6,679,030	₱—	₱6,679,030
Due from BSP	106,715,506	—	106,715,506	81,135,679	—	81,135,679
Due from other banks	236,909,601	—	236,909,601	112,018,132	—	112,018,132
HTM investments	10,967,990	—	10,967,990	873,068	10,204,080	11,077,148
Loans and receivables - at gross	1,756,875,152	124,729,489	1,881,604,641	1,358,016,595	45,126,642	1,403,143,237
Refundable deposit	—	375,406	375,406	—	372,396	372,396
	2,121,050,913	125,104,895	2,246,155,808	1,558,722,504	55,703,118	1,614,425,622
Nonfinancial Assets						
Property and equipment - gross	—	165,443,152	165,443,152	—	96,178,303	96,178,303
Investment properties - gross	—	21,796,691	21,796,691	—	23,661,170	23,661,170
Deferred tax asset	—	15,469,585	15,469,585	—	11,191,703	11,191,703
Retirement asset	—	45,280,571	45,280,571	—	33,636,973	33,636,973
Intangible assets	—	6,131,142	6,131,142	—	4,772,600	4,772,600
Other assets	15,362,594	9,486,117	24,848,711	10,049,510	2,821,460	12,870,970
	15,362,594	263,607,258	278,969,852	10,049,510	172,262,209	182,311,719

(Forward)

	2015			2014		
	Less than Twelve Months	Over Twelve Months	Total	Less than Twelve Months	Over Twelve Months	Total
Less: Allowance for credit and impairment losses			(P72,028,566)			(P62,470,752)
Unearned interest			(948,702)			(880,853)
Accumulated depreciation and amortization			(47,001,260)			(32,996,396)
			<u>P2,405,147,132</u>			<u>P1,700,389,340</u>
Financial Liabilities						
Deposit liabilities						
Demand	P4,145,437	P—	P4,145,437	P1,943,417	P—	P1,943,417
Savings	909,795,929	—	909,795,929	946,446,592	—	946,446,592
Time deposit	315,164,280	792,764	315,957,044			
Bills payable	330,000,000	157,105,882	487,105,882	260,000,000	—	260,000,000
Accrued expenses	26,117,294	—	26,117,294	22,624,427	—	22,624,427
Accrued interest payable	3,313,210	—	3,313,210	2,215,755	—	2,215,755
Accounts payable	24,963,025	—	24,963,025	9,043,889	—	9,043,889
Dividends payable	2,662,689	—	2,662,689	290,336	—	290,336
	<u>1,616,161,864</u>	<u>157,898,646</u>	<u>1,774,060,510</u>	<u>1,242,564,416</u>	<u>—</u>	<u>1,242,564,416</u>
Nonfinancial Liabilities						
Income tax payable	27,930,999	—	27,930,999	18,526,629	—	18,526,629
Accrued taxes	7,930,963	—	7,930,963	4,625,867	—	4,625,867
Other liabilities	3,382,092	—	3,382,092	2,454,974	—	2,454,974
	<u>39,244,054</u>	<u>—</u>	<u>39,244,054</u>	<u>25,607,470</u>	<u>—</u>	<u>25,607,470</u>
			<u>P1,813,304,564</u>			<u>P1,268,171,886</u>

17. Equity

Capital Stock

As at December 31, 2015 and 2014, the Bank's capital stock consists of:

	2015		2014	
	Shares	Amount	Shares	Amount
Common stock - P100 par value, 5,000,000 authorized shares				
Issued and outstanding				
Issued shares at beginning of year	1,375,755	P137,575,500	1,266,847	P126,684,700
Issuances of shares of stocks from settlement of subscriptions receivables	1,437,856	143,785,600	108,908	10,890,800
Issued and outstanding at end of the year	2,813,611	281,361,100	1,375,755	137,575,500
Subscribed	2,186,389	218,638,900	3,624,245	362,424,500
Subscription receivable		(91,343,600)		(203,056,400)
		<u>P408,656,400</u>		<u>P296,943,600</u>

The Bank issued 1,437,856 shares and 108,908 shares in 2015 and 2014, respectively.

Dividends

On April 11, 2015, the BOD approved the declaration of cash dividends amounting to P50.0 million or P10.0 per share to stockholders of record as of March 31, 2015. The BSP approved the dividend declaration on June 5, 2015.

On September 12, 2015, the BOD approved the declaration of cash dividends amounting to ₱50.0 million or ₱10.0 per share to stockholders of record as of August 31, 2015. The BSP approved the dividend declaration on November 24, 2015.

On May 10, 2014, the BOD approved the declaration of cash dividends amounting to ₱12.6 million or ₱2.5 per share to stockholders of record as of April 30, 2014. The BSP approved the dividend declaration on July 3, 2014.

On September 13, 2014, the BOD approved the declaration of cash dividends amounting to ₱16.5 million or ₱3.3 per share to stockholders of record as of August 31, 2014. The BSP approved the dividend declaration on November 3, 2014.

Capital Management

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

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

Regulatory Qualifying Capital

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

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

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

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

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

Under BSP Circular No. 360, effective July 1, 2003, the CAR is to be inclusive of a market risk charge. As at December 31, 2015 and 2014, the Bank's CAR is in compliance with the regulatory requirement. BSP Circular No. 560 dated January 31, 2007 which took effect on February 22, 2007, requires the deduction of unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates from capital accounts for purposes of computing CAR.

On October 9, 2014, the BSP issued BSP Circular No. 854 which amends the provisions of the Manual of Regulations for Banks on the minimum capitalization of banks and on the prerequisites for the grant of authority to establish a branch. Based on this circular, thrift banks with up to 10 branches and those with 11 to 50 branches are required to maintain a minimum capitalization of ₱300.0 million and ₱400.0 million, respectively.

The CAR of the Bank as at December 31, 2015 and 2014, as reported to the BSP, is shown in the table below (amounts in thousands):

	2015	2014
Tier 1	₱536,400	₱380,589
Tier 2	18,530	12,439
Total qualifying capital	554,930	₱393,028
Risk-weighted assets	₱2,398,635	₱1,595,469
Tier 1 capital ratio	22.4%	23.9%
Tier 2 capital ratio	0.8%	0.8%
CAR	23.1%	24.6%

As at December 31, 2015 and 2014, the Bank's CAR is in compliance with the regulatory capital requirements.

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

Financial Performance

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

	2015	2014
Return on average equity	29.8%	29.2%
Return on average assets	7.4%	7.1%
Net interest margin	39.6%	42.3%

18. Retirement Benefits

The Bank, CARD MRI Development Institute, Inc. (CMDI), CARD Mutual Benefit Association (MBA), Inc., CARD Bank, Inc., CARD MRI Insurance Agency (CAMIA), Inc., CARD Business Development Service Foundation (BDSF), Inc., CARD MRI Information Technology, Inc. (CMIT), BotiCARD, Inc., CARD EMPC, Responsible Investment for Solidarity and Empowerment, Inc. (RISE), CARD Leasing and Finance Corporation (CLFC), Mga Likha ni Inay, Inc. (MLNI), Rizal Bank, Inc. (RBI) and CARD, Inc. maintain a funded and formal noncontributory defined benefit retirement plan - the CARD MRI Multi-Employer Retirement Plan (MERP) - covering all of their regular employees. 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 (The Philippine Retirement Law). MERP provides lump sum benefits equivalent to 120.0% 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.

Changes in retirement liability (asset) in 2015 are as follows:

	Net benefit cost recognized in the statement of income						Remeasurements in other comprehensive income				Subtotal	Contribution by employer	December 31, 2015
	January 1, 2015	Current service cost	Net interest	Net pension expense*	Benefits paid	Transfer (from) to plan assets	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Changes in the effect of limiting net defined benefit asset to the asset ceiling			
Present value of defined benefit obligation	P80,341,965	P9,475,876	P3,583,252	P13,059,128	(P936,679)	P5,899,696	P-	P2,485,513	(P323,294)	P-	P2,162,219	P-	P100,526,329
Fair value of plan assets	(117,659,594)	-	(5,933,606)	(5,933,606)	936,679	(5,899,696)	2,781,844	-	-	-	2,781,844	(26,027,000)	(151,801,373)
Effect of asset ceiling	3,680,656	-	164,157	164,157	-	-	-	-	-	-	2,149,660	-	5,994,473
Net defined benefit liability (asset)	(P33,636,973)	P9,475,876	(P2,186,197)	P7,289,679	P-	P-	P2,781,844	P2,485,513	(P323,294)	P2,149,660	P7,093,723	(P26,027,000)	(P45,280,571)

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

Changes in retirement liability (asset) in 2014 are as follows:

	Net benefit cost recognized in the statement of income						Remeasurements in other comprehensive income				Subtotal	Contribution by employer	December 31, 2014
	January 1, 2014	Current service cost	Net interest	Net Pension Expense*	Benefits Paid	Transfer (from) to plan assets	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Changes in the effect of limiting net defined benefit asset to the asset ceiling			
Present value of defined benefit obligation	P122,093,218	P17,867,000	P7,789,547	P25,656,547	(P319,498)	P6,016,049	P-	(P20,610,491)	(P52,493,860)	P-	(P73,104,351)	P-	P80,341,965
Fair value of plan Assets	(93,003,395)	-	(6,651,677)	(6,651,677)	319,498	(6,016,049)	4,505,211	-	-	-	4,505,211	(16,813,182)	(117,659,594)
Effect of Asset Ceiling	-	-	-	-	-	-	-	-	-	-	3,680,656	-	3,680,656
Net defined benefit liability (asset)	P29,089,823	P17,867,000	P1,137,870	P19,004,870	P-	P-	P4,505,211	(P20,610,491)	(P52,493,860)	P3,680,656	(P64,918,484)	(P16,813,182)	(P33,636,973)

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

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

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

	2015	2014
Cash and cash equivalents	₱61,798,339	₱46,263,752
Investments		
Government securities	69,388,408	53,970,456
Mutual funds	1,184,051	1,106,000
Receivables	16,030,225	13,036,683
Other assets	3,400,350	3,282,703
Fair value of plan assets	₱151,801,373	₱117,659,594

All plan assets do not have quoted prices in active market except government bonds. Cash and cash equivalents are with reputable financial institutions and related parties and are deemed to be standard grade. Mutual fund investments, receivables and other assets are unrated.

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

The management performs 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.

The latest actuarial valuation study of the retirement plan covered the period December 31, 2015. The principal actuarial assumptions as at December 31, 2015 and 2014 used in determining the retirement obligation for the Bank's retirement plan are shown below:

	2015	2014
Discount rates	4.8%	4.5%
Future salary increases	7.0%	7.0%

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

	2015		2014	
	Increase of 1.0%	Decrease of 1.0%	Increase of 1.0%	Decrease of 1.0%
Discount rate	(₱19,943,813)	₱25,782,702	(₱16,550,931)	₱21,529,488
Salary rate	23,849,034	(19,052,024)	19,844,993	(15,773,410)

The Bank plans to contribute ₱32.8 million to the defined benefit retirement plan in 2016.

As at December 31, 2015 and 2014, the average duration of the defined benefit obligation is 27.8 and 27.5 years, respectively.

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

	2015	2014
Less than 1 year	₱1,282,230	₱—
More than 1 year to 5 years		1,315,940
More than 5 years to 10 years	7,506,119	8,246,945
More than 10 years to 15 years	25,468,622	8,142,445
More than 15 years to 20 years	122,333,107	33,151,453
More than 20 years to 25 years	465,195,230	228,854,388

19. Income Taxes

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

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

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

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

Net operating loss carryover (NOLCO) is allowed as a deduction against the taxable income for RCIT purposes for a three-year period from the year of inception.

Current tax regulations also provide for the ceiling on the amount of entertainment, amusement and representation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense for a service company like the Bank is limited to the actual EAR paid or incurred but not to exceed 1.0% of net revenue. EAR expenses of the Bank amounted to ₱9.9 million and ₱5.8 million in 2015 and 2014, respectively.

Provision for income tax consists of:

	2015	2014
RCIT	₱69,135,403	₱49,004,462
Final tax	525,778	528,708
	69,661,181	49,533,170
Deferred	(2,149,764)	(5,248,966)
	₱67,511,417	₱44,284,204

Deferred tax recognized in other comprehensive income amounted to a benefit of ₱2.1 million and provisions of ₱19.5 million for the years ended December 31, 2015 and 2014, respectively.

Components of deferred tax assets - net are as follows:

	2015	2014
Deferred tax asset on:		
Allowance for credit and impairment losses	₱18,884,874	₱16,017,529
Unamortized past service cost	7,942,328	4,000,471
Accumulated vacation leave	3,467,754	2,829,011
Accumulated depreciation - investment Properties	61,352	121,890
	30,356,308	22,968,901
Deferred tax liability on:		
Retirement asset	13,584,171	10,091,092
Fair value adjustment on investment properties	1,302,552	1,686,106
	14,886,723	11,777,198
	₱15,469,585	₱11,191,703

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

	2015	2014
Statutory income tax	₱66,086,906	₱43,930,819
Income tax effects of:		
Nondeductible operating expenses	1,687,205	622,018
Interest income subject to final tax	(262,694)	(268,633)
Provision for income tax	₱67,511,417	₱44,284,204

20. Related Party Transactions

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

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

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

Transactions with retirement plans

Under PFRS, certain post-employment benefit plans are considered as related parties. MERP is managed by the CARD EMPC. MERP has savings deposit with the Bank amounting to ₱254.4 million and ₱125.1 million in 2015 and 2014, respectively.

Remunerations of Directors and other Key Management Personnel

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

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

	2015	2014
Short-term employee benefits	₱7.0	₱8.1
Post-employment benefits	2.5	2.0
	₱9.5	₱10.1

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

Other related party transactions

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

Loans receivables

As at December 31, 2015 and 2014, the Bank has no loan outstanding that was granted to related parties.

Deposit liabilities, accounts receivable and accounts payable

The table below shows the deposit liabilities, accounts receivable and accounts payable held by the Bank for key management personnel and affiliates as at December 31, 2015 and 2014:

For update	December 31, 2015		
	Amount/Volume	Outstanding Balance	Nature, Terms and Conditions
Key Management Personnel			
Deposit liabilities		₱4,418,800	These are savings accounts with annual interest rates ranging from 1.5% to 5.0%.
Deposits	₱6,562,980		
Withdrawals	(3,324,557)		
Interest expense	23,357		Pertains to interest on deposit liabilities.
Shareholders			
Deposit liabilities		₱141,669,798	These are savings accounts of with annual interest rates ranging from 1.5% to 5.0%.
Deposits	₱397,850,659		
Withdrawals	(345,529,925)		
Accounts receivable		14,435	Share on expenses of transferred staff.
Charges	14,325		
Collections	(1,000)		
Accounts payable		3,918	Pertains to share on various expenses.
Charges	21,136		
Payments	(19,692)		
Interest expense	2,125,046		Pertains to interest on deposit liabilities.
(Forward)			

December 31, 2015			
Category	Amount/Volume	Outstanding Balance	Nature, Terms and Conditions
Other related parties*			
Deposit liabilities		₱333,663,201	These are savings accounts with annual interest rates ranging from 1.5% to 5.0%.
Deposits	₱992,666,986		
Withdrawals	(713,324,210)		
Accounts receivable		280,970	Training fees, seminars and meetings, and share of expenses shouldered by the Bank.
Charges	186,198		
Collections	(9,908)		
Accounts payable		3,287,684	Insurance premiums from members collected on behalf of CARD MBA and payments to CLFC for operating lease agreement.
Charges	2,932,364		
Payments	(2,467,398)		
Interest expense	5,285,243		Pertains to interest on deposit liabilities.
Seminars and trainings expense	13,004,218		Cost incurred from engaging CMDI for training and development of its members and employees (shown as part of 'Employee trainings' and 'Meetings and seminars' in the statement of income).
Information technology	10,033,585		This represents information technology-related support services to the Bank including software maintenance of the Bank's CARD e-System, hardware maintenance, set-up of network and centers and technical support, among others and computer equipment leased from CLFC.
Travelling expense	4,583,170		This pertains to transportation equipment leased from CLFC.

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

December 31, 2014			
Category	Amount/Volume	Outstanding Balance	Nature, Terms and Conditions
Key Management Personnel			
Deposit liabilities		₱1,180,377	These are savings accounts with annual interest rates ranging from 1.5% to 5.0%.
Deposits	₱3,189,709		
Withdrawals	(3,316,332)		
Interest expense	23,357		Pertains to interest on deposit liabilities.
Shareholders			
Deposit liabilities		₱89,349,064	These are savings accounts of annual interest rates ranging from 1.5% to 5.0%.
Deposits	₱569,646,245		
Withdrawals	(533,390,079)		
Accounts receivable		1,110	Share on expenses of transferred staff.
Charges	905,751		
Collections	(904,641)		
Accounts payable		2,474	Pertains to share on various expenses.
Charges	14,705,042		
Payments	(14,707,118)		
Interest expense	1,830,888		Pertains to interest on deposit liabilities.
Other related parties*			
Deposit liabilities		₱54,320,425	These are savings accounts with annual interest rates ranging from 1.5% to 5.0%.
Deposits	₱1,787,337,393		
Withdrawals	1,849,782,785		
Accounts receivable		104,680	Training fees, seminars and meetings, and share of expenses shouldered by the Bank.
Charges	481,500		
Collections	(376,819)		
Accounts payable		2,822,718	Insurance premiums from members collected on behalf of CARD MBA and payments to CLFC for operating lease agreement.
Charges	47,280,087		
Payments	(44,460,271)		
Interest expense	7,752,797		Pertains to interest on deposit liabilities.
Seminars and trainings expense	8,939,377		Cost incurred from engaging CMDI for training and development of its members and employees (shown as part of 'Employee trainings' and 'Meetings and seminars' in the statement of income).

(Forward)

Category	Amount/Volume	December 31, 2014	
		Outstanding Balance	Nature, Terms and Conditions
Information technology	6,531,105		This represents information technology-related support services to the Bank including software maintenance of the Bank's CARD e-System, hardware maintenance, set-up of network and centers and technical support, among others and computer equipment leased from CLFC.
Travelling expense	1,881,100		This pertains to transportation equipment leased from CLFC.

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

Regulatory Reporting

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

In the aggregate, loans to DOSRI generally should not exceed total equity or 15.0% of total loan portfolio, whichever is lower. As at December 31, 2015 and 2014, the Bank is in compliance with the regulatory requirements.

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

As at December 31, 2015 and 2014, there were no loans, other credit accommodations and guarantees classified as DOSRI accounts under the existing regulations as shown in the table below:

	2015	2014
	₱–	₱–
Total outstanding DOSRI accounts		
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	0.0%	0.0%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	0.0%	0.0%
Percent of DOSRI accounts to total loans	0.0%	0.0%
Percent of unsecured DOSRI accounts to total DOSRI accounts	0.0%	0.0%
Percent of past due DOSRI accounts to total DOSRI accounts	0.0%	0.0%
Percent of nonaccruing DOSRI accounts to total DOSRI accounts	0.0%	0.0%

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

21. Lease ContractsAs lessee

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

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

	2015	2014
Within one year	₱12,862,615	₱4,420,254
Beyond one year but not more than five years	48,293,966	35,738,153
	₱61,156,581	₱40,158,407

Rent expense amounted to ₱23.4 million and ₱17.1 million in 2015 and 2014, respectively.

22. Notes to Statements of Cash Flows

Noncash activities of the Bank consist of the following:

	2015	2014
Noncash investing activities:		
Acquisitions of property and equipment on account	₱16,465,720	₱—
Sale of investment property on account	1,404,999	225,561
Acquisitions of intangible asset on account	31,850	—

23. Approval of the Release of Financial Statements

The accompanying financial statements were approved and authorized for issue by the BOD on March 12, 2016.

24. Supplementary Information Required under Revenue Regulations 15-2010

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

The components of 'Taxes and licenses' in 2015 follow:

Gross receipts tax	₱36,760,979
Business permits and licenses	1,889,442
Documentary stamp tax (DST)	1,264,870
Real property tax	109,263
Others	1,433,230
	₱41,457,784

In 2015, withholding taxes remittances and withholding taxes lodged under 'Accrued taxes' account follow:

Remittances:

Withholding taxes on compensation and benefits	₱7,798,339
Expanded withholding tax	5,458,736
Final withholding tax on interest expense	4,519,431
	₱17,776,506

Accrued:

Final withholding tax on interest expense	₱932,582
Withholding taxes on compensation and benefits	403,920
Expanded withholding tax	2,440,238
	₱3,776,740

Tax Assessment and Cases

The Bank has no outstanding tax assessment and legal case filed in court as at December 31, 2015.



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