

# CARD SME BANK ANNUAL REPORT 2021



**DIGITALLY EMPOWERING COMMUNITIES  
TOWARDS ECONOMIC RECOVERY**



# CONTENTS

- 04** About the Cover
- 05** Vision and Mission
- 06** Message from the CARD MRI Founder and Chairman Emeritus/  
CARD SME Bank Chairman
- 08** Message from the CARD MRI Managing Director/  
Vice Chairperson for Administration

## **Accomplishments**

- 10** President and CEO's Report
- 12** Center Story
- 14** 2021 in Numbers
- 16** Financial Highlights
- 18** This is Our 2021

## **People behind CARD SME Bank**

- 20** Board of Directors
- 21** Management Committee
- 23** Our Areas of Coverage
- 26** Our Digital Presence
- 27** Our Partners
- 29** Bank's Brand

## **30 Corporate Governance**

- 36** Corporate Governance
- 57** Independent Checks and Balances
- 61** Money Laundering and Terrorist Financing Prevention Program
- 64** Data Privacy Statement
- 69** Senior Management Profiles
- 82** Policies on Related Party Transactions
- 83** Risk Management Framework
- 89** Corporate Social Responsibility
- 91** Products and Services

## **93 Audited Financial Statements**



# ABOUT THE COVER



The strength of CARD Mutually Reinforcing Institutions (CARD MRI) is more evident in the face of adversity. For thirty-five years, the group of social development institutions has been fighting its way in the wilderness of what may be the most poignant obstacle of many—poverty.

As we continue our journey of helping more marginalized communities get past the poverty line and maneuver the effects of a health crisis such as the COVID-19 pandemic, we do not plan of leaving anyone behind. We aim to pull the ropes as one.

Our covers seek to provide a glimpse of how our communities, both families and digital facilities, join forces to pull up and rise from the effects of the pandemic. From the head of the household, down to the next generation, our communities have a role to take in recovering from this obstacle.

With our front cover, the digital hand plays a vital role in reaching out to families and supporting them through technology-driven initiatives.

With our back cover, we want to show the true faces of people whom we honor and empower through our devotion and commitment to fighting poverty.

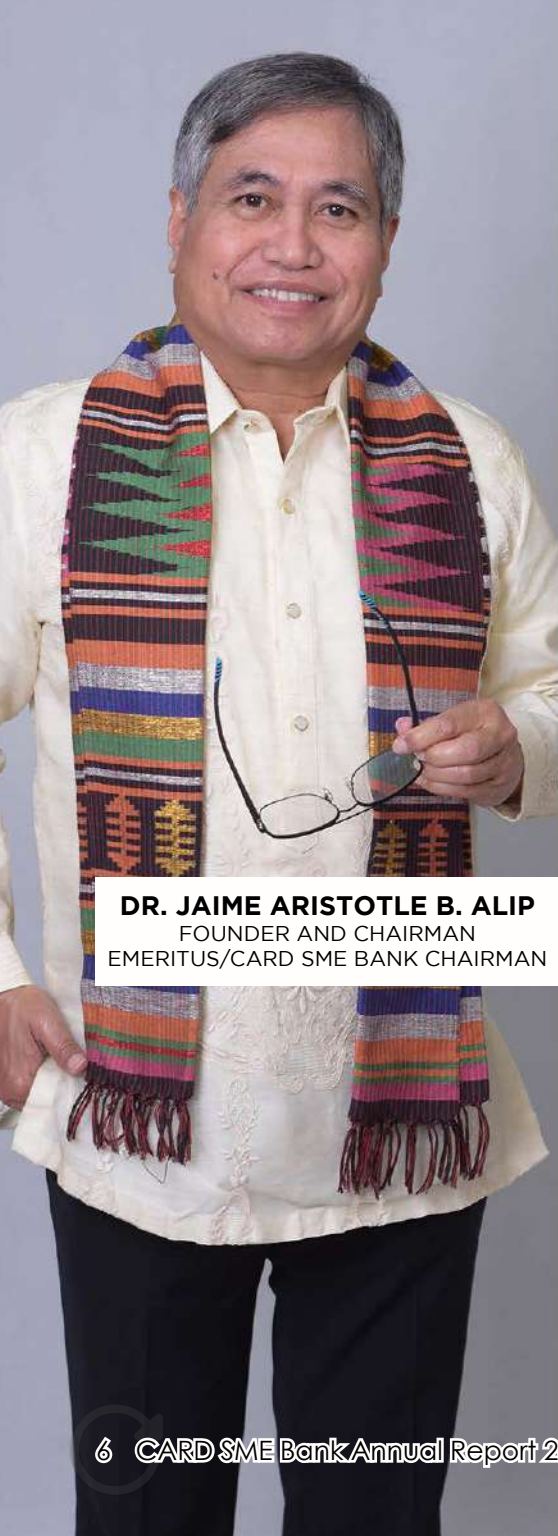


# VISION

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

# MISSION

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



**DR. JAIME ARISTOTLE B. ALIP**  
FOUNDER AND CHAIRMAN  
EMERITUS/CARD SME BANK CHAIRMAN

## BETTER EQUIPPED FOR THE TIMES AHEAD

**MESSAGE FROM THE CARD MRI  
FOUNDER AND CHAIRMAN EMERITUS/  
CARD SME BANK CHAIRMAN**

In CARD SME Bank's 10 years of serving our 1.1 million clients, we have gone through countless challenges and obstacles. Facing these various challenges, CARD SME Bank learned that these are just opportunities in disguise, opportunities that are waiting to be seized. These are windows to experience and to learn from on how to be the ideal partner of micro, small, and medium enterprises (MSMEs) in their quest for a better life for their family and their community. This 2021, the challenge intensified. How do we serve these people as we move forward through the COVID-19 pandemic and the new normal we now live with? Our challenge just took up a new form, something we have never faced before.

In facing this obstacle, CARD SME Bank had to relearn, re-strategize, and reinvent itself to be the partner of MSMEs that could give them the peace of mind in a time of uncertainty. Through digital initiatives as well as financial and non-financial products, we made sure that we not only continue providing our top-class services, but also reach and help those not yet assisted by our institution.



In 2020, we made several digital steps that we implemented. In 2021, these steps are still utilized and is still in the process of constant improvement. Believing that 2020 was a sign to continue with our digitization, CARD SME Bank took a leap of faith and pushed for a digital transformation of the institution, with the convenience and safety of the clients in mind.

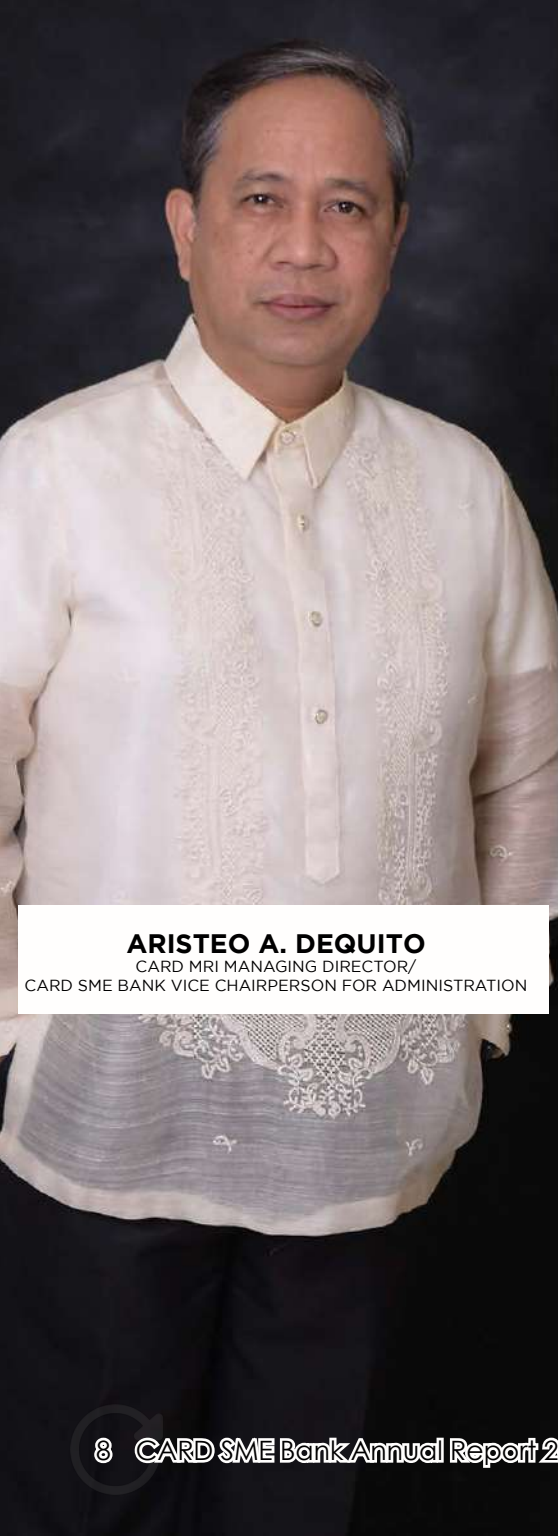
For one, our mobile banking application, konek2CARD, has been improved constantly to provide our clients with smooth banking transactions. Besides that, the launching of the Loan Origination System (LOS) and Mobile Onboarding (MOB) System have greatly increased the speed of how our operations team transact with our clients, making the business convenient and safe.

CARD SME Bank would not be what we are now without the offering of our top-notch loan products and services. In 2021, our SIKAP 2 served our clients in times of dire need. With it, businesses were able to continue providing the communities' necessities because of the extra capital they get from SIKAP 2. Besides aiding MSMEs, CARD SME Bank also looks towards the improvement of the lives of those affected by the COVID-19 pandemic through Alternative Delivery Channels (ADCs) such

as CARD Sulit Padala remittance service and through non-financial services, in microinsurance, health, and education.

Since the pandemic started, CARD SME Bank looked for all the possible solutions to deliver the aid that our people need. During times of uncertainty, people had to have someone whom they can rely on when it comes to their businesses. As an institution that dedicates its heart to the service of businesses, we had to make sure that the assurance we give is reliable. That is why we have been relentless in finding the best ways to help them, for we believe that MSMEs are major players in helping the economy bounce back.

With our achievements and accomplishments for 2021, we are confident that we are now seeing the light at the end of this pandemic tunnel. Having been able to adapt to the unpredictable limitations brought by the situation, we can say that CARD SME Bank is ready to face the challenges of 2022. We are better equipped for the future, and with these experiences, CARD SME Bank assures its clients that they have a partner that will be with them through thick and thin.



**ARISTEO A. DEQUITO**

CARD MRI MANAGING DIRECTOR/  
CARD SME BANK VICE CHAIRPERSON FOR ADMINISTRATION

CARD SME BANK VICE CHAIRPERSON FOR ADMINISTRATION

# A RETURN TO FORM

## MESSAGE FROM THE CARD MRI MANAGING DIRECTOR/CARD SME BANK VICE CHAIRPERSON FOR ADMINISTRATION

The year 2021 for CARD SME Bank was a time of revitalization. It was during this year that we were able to fully recuperate from the many setbacks we experienced when the pandemic began. By intensifying our digital transformation efforts, we were able to adapt so that we could continue to provide our integrated microfinance and social development services to our existing clients, as well as expand our presence and coverage to more marginalized communities throughout the Philippines.

Our steadfast dedication to serve is clearly reflected by our many accomplishments this year, and CARD SME Bank is now proud to share a few of its highlights while serving its clients and communities during this pandemic.

### **Growing Stronger**

The CARD MRI Banking Group had a substantial momentum this year with its expansion efforts, thanks to the digital initiatives that we continuously deploy for our clients. For its part, CARD SME Bank successfully transitioned 11 CARD, Inc. (A Microfinance NGO) units with 9,599 clients and 24 staff, and opened 89 CARD Sultit



Padala outlets nationwide. Now equipped to experience a more formalized banking service, these former CARD, Inc. clients are absorbed into CARD SME Bank's goal of financial inclusion through its digital financial and non-financial services.

## **Digital Empowerment**

When we saw how advantageous our digital initiatives were when we were still adapting our operations during the heights of the pandemic, we made sure to further amplify our integration of digital technology throughout our services this year. Through our extensive use of digital initiatives, our institutions were able to operate more efficiently while providing continuous service to our clients and communities.

This 2021, CARD SME Bank rolled-out the CARD SME Digital Cash Machine Phase 2. Further, the implementation of our Core Banking System (CBS) for CARD SME Bank was also intensified this year. This also means that it has fully implemented initiatives such as Loan Origination System, Members Onboarding, and our My Instant Loan Assistant or MILA chatbot platform in all its branches.

Moreover, our mobile banking application, konek2CARD, became an asset for us in this pandemic since it facilitated safe and convenient banking transactions for our clients. This year, CARD SME Bank, together with CARD Bank and CARD MRI RIZAL BANK Inc. successfully led a campaign to reach one million registered konek2card users. In terms of registration, CARD SME Bank had a total of 469,993 new registered users. Of course, this particular initiative would

not be as effective as it was if not for our konek2CARD agents who also facilitated konek2CARD transactions in their communities. Thus, this campaign also ramped up the on-boarding of konek2CARD agents. Having reached the one million milestone during the 1st quarter of 2021, we are now gearing to further push this campaign to reach 3.5 million konek2CARD users by June 2022.

With this, our continuous effort to build up more digitally empowered communities has resulted in 11 more konek2CARD digital communities for the first quarter of 2021. This now adds to a total of 17 digital communities under our banks' area of coverage that can now freely access the internet and our konek2CARD services. Through this initiative, we have brought our financial services closer to our clients.

## **True to Course**

Thanks to our lessons from the first year of the pandemic and our substantial push for digital transformation, we were able to recover and return to form. We shall continue to absorb and assess all our experiences as we work under this pandemic so that we can properly align our strategies and approaches for the benefit of our clients and communities. While the uncertainties of the pandemic remain, we now have a better grasp of the situation, and as always, we are prepared to adapt and strengthen ourselves if need be. Once again, CARD SME Bank looks forward to the horizon of another year, and we assure everyone that we shall remain true to our vision of a poverty-free Philippines.

# RISING THROUGH ADVERSITIES WITH DIGITAL REVOLUTION



**CYNTHIA B. BALDEO**  
PRESIDENT AND CEO

The COVID-19 pandemic is definitely one of the biggest challenges we had to face in our history as an institution. The year 2020 was an uncertain year for all of us at CARD SME Bank as our services were restricted, our movements were limited, and our clients and staff were all affected. It was a dark and challenging time for everyone, but we conquered it through our united actions that are anchored to our mission of poverty eradication. The year 2021 allowed us to heal, gear up, and maneuver our narrative to a different direction.

## **Armed and ready for everything**

One of the things that we are grateful for is that CARD SME Bank, together with the whole CARD MRI, has taken necessary steps to ensure the digitization of our day-to-day

transactions in order to bring effective and efficient products and services to our clients even before the pandemic. We came prepared even before the battle has started, thus allowing us to stay on top of the grave situation COVID-19 has brought us. This pandemic made us recognize our need to improve our digital resources more than ever to serve our clients to the maximum.

As we embark on this journey of strengthening our digital tools and platforms, we started our efforts in fully migrating our 36 branches to our Core Banking System (CBS). This would allow our clients to transact with ease and convenience every time. We also transitioned 11 units with 9,599 clients and 24 staff from CARD, Inc.

The konek2CARD mobile banking application played the most pivotal role in ensuring our clients were well-taken care of during the lockdowns. It became our clients' major platform to perform their daily banking needs without having to risk their own safety and even their families'. Through our continuous campaigns, we were able to enrol a total of 512,616 konek2CARD users as of December 31, 2021.

We also launched our Loan Origination System (LOS) which makes all registrations and transactions digitized through a tablet that our Accounts Officers (AOs) bring to center meetings. LOS has revolutionized the way we operate on the grassroots level as it allowed real-time transactions, giving clients faster access to what they need. Another digitization project we introduced is the Member Onboarding (MOB) system where we encode our clients' information to ensure that everyone is included in this digital community we are building.

My Instant Loan Assistant (MILA) has also become available to our clients this year. MILA is our chatbot which facilitates hassle-free online assistance and support about our products and services to our clients and has helped our clients choose the right services for their needs. All our digital innovations have translated to PhP11,914,119,086 worth of loans disbursed.

We also acknowledge the significance of continuous strengthening of our core in being prepared to serve our clients. We have successfully trained 3,495 staff in 98 different training conducted by CARD-MRI Development Institute (CMDI). This training includes different CARD MRI essential training and branch focus training. Another 456 staff were trained in six different training programs which were facilitated by SME Business Development Group and CMDI. Finally, seven staff finished their BS Entrepreneurship degrees and three graduated with BS Accountancy degrees from CMDI.

## **Adapting to the new dynamics**

They say change is the only constant in the world, which was proven true when the pandemic changed life as we know it. We are nothing but thankful that our clients wholeheartedly embraced the changes we have implemented. They have been very excited to use konek2CARD, MOB, and LOS and are pro-active in giving us feedbacks to further improve them.

This constant communication and participative approach led us to alter our products and services to what our clients need during the pandemic which led to the introduction of our newest product: SIKAP 2. Our clients consider SIKAP 2 as a ray of hope when everything else failed during this hard time as it allowed them to start afresh even if they have existing loans. We also made sure that through SIKAP 2, there will be no delay in their business operations as cash flow is readily available and most importantly, affordable. They truly cherish the trust CARD SME bank has given them when no one else would.

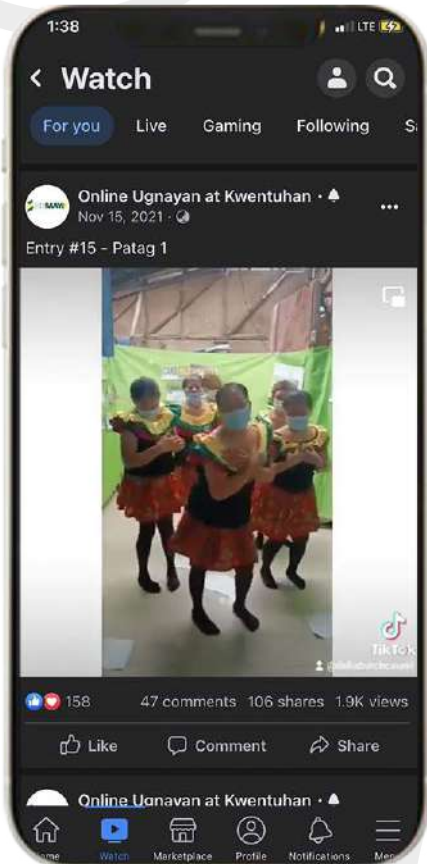
Some of our clients have used their loans to shift their businesses to the ones that the current market needs, making their businesses relevant to more people in their communities. This kind of service, aided by digital initiatives and practices, is our modest contribution to the economic recovery we are doing as a nation. This is the kind of service that we promote among our millions of clients— a service that spreads, a service that is responsive, which stretches so far that we reach all the Filipinos wherever they are.


# TASTE OF VICTORY

Beyond providing financial services, CARD SME Bank brings individuals together to give them a meaningful connection and find additional support. More than its mandate of providing formal banking services to the Filipinos, the thrift bank is constantly breaking the many barriers to the growth and development of its clients. One of these is by forming CARD centers. These foster good relationships among the many communities it built across the country.

This is best exemplified by the community of Patag 1 Center from CARD SME Bank Cagayan de Oro Branch. As a CARD community for 14 years, they developed a sense of responsibility towards one another, taking good care of each other, and treating their center members as a family.

Patag 1 Center started with only 11 center members. With the help of their Account Officer, little by little, their center grew until it reached 50 solid center members. Life is quite challenging for them, but during those years with CARD SME Bank on their side, life became easier for them. The





Bank taught them to be wiser about their finances, disciplined in their business, and compassionate towards their fellow clients and their community.

As a community, they joined the CARD MRI talent contest on Online Ugnayan at Kwentuhan Facebook page entitled, “Sikat Ang Center Ko” where they showcased their talents, inspired by their journey as a CARD community.

Patag 1 not only won the hearts of the many online viewers through their charming cha-cha dance steps but by their growth as an individual and as a community while CARD SME Bank is by their side. This taste of victory fueled them to further support the advocacy of CARD MRI in eradicating poverty by nurturing the core values they inherited from CARD: competence, family spirit, integrity, simplicity, humility, excellence, and stewardship.

They are beyond grateful that CARD SME Bank continued to thrive during the pandemic. The Bank remained steadfast and made sure that its helping hands are always open to help them bounce back from the impact of the pandemic. With CARD SME Bank, their businesses continually operated. Proper enlightenment on how important savings is, helped them to survive the crisis. They overcame all trials because of the tips they received from the Bank.

After many years of journeying with CARD SME Bank, they are now clothed with confidence that no matter what circumstances they face, they will not be easily broken as long as they are there for one another.

# 2021

## IN NUMBERS



Branches

**36**



Active Clients

**1,100,538**



Loans outstanding

**₱ 6,308,914,955**



Loans Disbursed

**₱ 13,136,878,957**



Savings

**₱ 6,682,870,949**



**94.59%** Repayment rate

**103.71%** Operational Self-Sufficiency

**102.15%** Financial Self-Sufficiency

# FINANCIAL HIGHLIGHTS

	2021	2020
Minimum Required Data	Current Year	Previous Year
<b>Profitability</b>		
Total Net Interest Income	2,162,024,586	1,428,728,058
Total Non-Interest Income	28,512,303	25,431,671
Total Non-Interest Expenses	2,034,601,857	1,406,609,091
Pre-Provision Profit	35,357,721	32,735,436
Allowance for Credit Losses	386,447,400	267,919,267
Net Income	120,577,311	14,815,202
<b>Selected Balance Sheet Data</b>		
Liquid Assets	1,804,909,355	1,701,538,780
Gross Loans	6,204,448,683	6,216,007,185
Total Assets	8,726,021,615	8,553,038,583
Total Deposit	6,682,871,587	5,648,343,172
Total Equity	1,714,905,822	1,540,755,711
<b>Selected Ratios</b>		
Return on Average Equity	6.64%	2.66%
Return on Average Assets	1.25%	0.49%
Capital Adequacy Ratio (CAR)	21.68%	19.93%
<b>Others</b>		
Cash Dividend Declared	93,374,800	45,000,000
<b>Head Count</b>		
Officer	201	174
Staff	2,429	2,580
<b>Minimum Liquidity Ratio</b>	<b>52.91%</b>	<b>42.13%</b>

Capital Structure and Capital Adequacy		
Tier 1 Capital	2021	2020
Paid up common stock	1,432,614,900.00	1,155,622,800.00
Retained earnings	153,558,818.31	357,419,818.81
Undivided profits	85,996,523.00	26,489,700.74
<b>Total Core Tier 1 Capital</b>	<b>1,672,170,241.31</b>	<b>1,539,532,319.55</b>
Tier 2 Capital		
General loan loss provision	47,609,164.09	48,096,841.96
Total Core Tier 2 Capital	47,609,164.09	48,096,841.96
Gross Qualifying Capital	1,719,779,405.40	1,587,629,161.51
Deductions from Tier 1 and Tier 2 capital;	(89,483,893.08)	(75,427,985.16)
<b>TOTAL QUALIFYING CAPITAL</b>	<b>1,630,295,512.32</b>	<b>1,512,201,176.35</b>
Capital Requirements for credit risk;	4,638,600,025.82	4,735,903,149.52
Capital Requirements for market risk;		
Capital Requirements for operational risk	2,882,221,805.44	2,851,244,446.57
Total and Tier 1 Capital Adequacy Ratio	<b>21.68%</b>	<b>19.93%</b>



# THIS IS OUR 2021







## BOARD OF DIRECTORS

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

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

**Ms. Cynthia B. Baldeo**  
Director/ President and CEO

**Dr. Gilberto M. Llanto**  
Director

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

**Ms. Maria Agnes J. Angeles**  
Independent Director

**Mr. Aristeo A. Dequito**  
Vice Chairperson for Administration

**Ms. Elma B. Valenzuela**  
Director

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

**Ms. Abundia Manabes**  
Independent Director

**Ms. Irene D. Arroyo**  
Independent Director



# MANAGEMENT COMMITTEE



**Ms. Cynthia B. Baldeo**  
President/CEO

**Mr. Julius Adrian R. Alip**  
Executive Vice President

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

**Ms. Florence Castillo**  
Assistant Vice President for Operations

**Ms. Leonida Gutierrez**  
Assistant Vice President for Operations

**Ms. Joy Palomique**  
Assistant Vice President for  
SME Operations

**Mr. Allan Dimaano**  
Chief Information Officer

**Mr. Dennis Dimaculangan**  
AVP for Mobile Financial Services  
(Remittance and konek2CARD)

**Ms. Mildred Matienzo**  
Deputy Director for Accounting

**Ms. Juliana Salcedo**  
Regional Director

**Ms. Amalia Ditchoso**  
Regional Director

**Ms. Marites Angara**  
Regional Director

**Ms. Gerilyn Bautista**  
Regional Director

**Ms. Rosella Sansano**  
Regional Director

**Ms. Belinda Salazar**  
Regional Director

**Mr. Eugenio Gabbac**  
Regional Director

**Ms. Jeanny Babe Balandra**  
Regional Director

**Ms. Bibiana Alimpolos**  
Regional Director

**Ms. Jelyn Maranan**  
Regional Director

**Ms. Nerissa Brandez**  
Regional Director

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

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

**Mr. Rodel Bombase**  
Assistant Vice President for Operations

**Ms. Patricia Saballo**  
Assistant Vice President for Operations

**Mr. Jerry Montejo**  
Chief Risk Officer

**Mr. Benedict Ame**  
Chief Compliance Officer

**Ms. Jennifer Masa**  
Deputy Director for Compliance

**Ms. Lourdes Marasigan**  
Credit Risk Management Unit Head

**Ms. Shielo Reyes**  
Regional Director

**Ms. Mary Rose Venerayan**  
Regional Director

**Ms. Eva Mandalihan**  
Regional Director

**Ms. Maribeth Quilit**  
Regional Director

**Ms. Noralyn Silvestre**  
Regional Director

**Mr. Jayson Solosa**  
Regional Director

**Ms. Rachele Colis**  
Regional Director

**Ms. Floresie Genabe**  
Regional Director

**Mr. Ian Madrona**  
Regional Director

**Ms. Madonna Bautista**  
Regional Director

**Ms. Loida Iutado**  
Regional Director

**Ms. Rossana Cacha**  
Senior Policy Officer

# OUR AREAS OF COVERAGE

## Bank Branches

### Luzon

San Pablo City

Sto Tomas City

Lipa City

Balayan

Tagaytay City

Sta. Rosa City

Calamba City

Lemery

Rosario

Balayan

Batangas City

Nasugbu

Bacoor City

San Pedro City

Cavite City

Dasmariñas City

Trece Martires City

Caloocan City

Puerto Princesa City

Naga City

San Jose Del Monte City

Balanga City

Subic

Dagupan City

Vigan City

Manaoag

General Mariano Alvarez (GMA)

### Visayas

Lapu-Lapu City

Talisay City

Toledo City

### Mindanao

General Santos City

Zamboanga City

Cagayan de Oro City

Panabo City

Pagadian City

Lagao

## Branch-Lite Units

Luzon		
Talisay	San Pascual	Bagac
Laurel	Mabini	Morong
Malvar	Taysan	Samal
Mataas na Kahoy	Lian	Hermosa
Balete	Imus City	Pilar
Cuenca	Molino	Limay
San Jose	Biñan	Olangapo
Calaca	Noveleta	Castillejos
Calatagan	Kawit	San Narciso
Lian	Rosario	San Marcelino
Nasugbu	Naic	San Felipe
Tuy	Indang	San Antonio
Silang	Maragondon	Sta. Barbara
Mendez	General Trias	Calasiao
Alfonso	Tanza	Binmaley
Cabuyao	Malabon City	Mangaldan
Taal	Navotas City	San Fabian
Agoncillo	Valenzuela City	Caoayan
San Luis	Quezon City	Bantay
Alitagtag	Iriga	San Juan
San Nicolas	Sipocot	Sinit
Carmona	Pamplona	Magsingal
Malvar	Marilao	Sto. Domingo
Ibaan	Meycauayan	Badoc
Padre Garcia	Norzagaray	Sta. Catalina
Calaca	Sta. Maria	Pinili
Calatagan	Novaliches	Sison
Lian	Caloocan City	San Jacinto
Tuy	Del Monte	Pozorrubio
Lobo	Orion	San Manuel
Bauan	Orani	Binalonan
	Mariveles	
	Dinalupihan	

## Visayas

Cordova

Mandaue City

Talamban

Lilo-an

Sta. Rosa

Consolacion

Minglanilla

Cebu City

Pinamungajan

Balamban

Asturias

Busay

Mabolo

## Mindanao

Polomolok

El Salvador

Laguindingan

Tagoloan

Jasaan

Carmen

Sto. Tomas

Kapalong

Asuncion

Braulio E. Dujali

Dumalinao

Malungon

Alabel

Malapatan

Mercedes

Sangali

Curuan

Ayala

Vitali

Gusa

Bulua

Tablon

Dujali

Aurora

Lakewood

Ramon Magsaysay

Molave

Maranding

Kapatagan

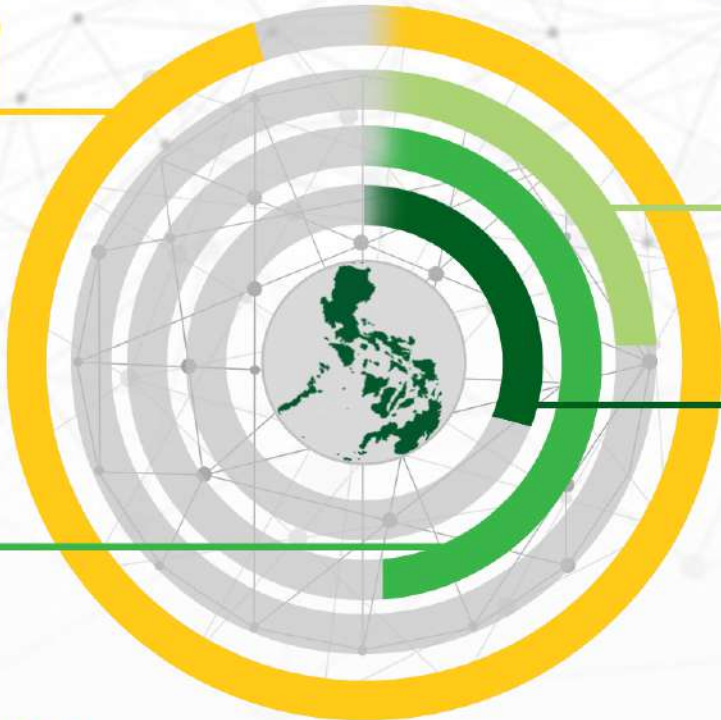
# OUR DIGITAL PRESENCE

**92%**

OF 36 BANK BRANCHES HAS DIGITAL CASH MACHINE

**22%**

OF 607 BANK BRANCHES AND UNIT OFFICES HAS CARD SULIT PADALA



**47%**

OF 1,100,538 CLIENTS ARE REGISTERED TO **konek2CARD**

**31%**

OF 36 BANK BRANCHES HAS AUTOMATED TELLER MACHINE





## **OUR PARTNERS**

## Partnerships/Collaborations

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

## Regulatory Bodies

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

## Affiliations

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



# BANK'S BRAND

## Our Company

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

## Our Promise

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

## Our Logo



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

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

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

## Our Tagline

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



# **CORPORATE GOVERNANCE**



## MISSION, VISION, AND OBJECTIVES

### VISION

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

### MISSION

CARD SME Bank is committed to:

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

## INSTITUTIONAL OBJECTIVES

- To provide banking services especially designed for landless rural workers by bringing bank services to community sites and accommodating the least financial transactions within their affordability.
- To continuously assist the matured clients of CARD micro-entrepreneurs whose financial needs are beyond microfinance product lines through provision of bigger capital with longer and flexible repayment terms, savings, as well as other products and services that will help sustain and expand their ongoing businesses.
- To identify, recruit, and support new-to-CARD SMEs that are not currently being adequately served by other financial institutions.
- To provide collateralized and non-collateralized loans to non-bankable but viable projects; and
- To ensure that the bank contributed to the CARD MRI's target of Twenty (20) million poorest Filipinos provided with financial services by the year 2030. (10-20-80 Strategy)

## CORE VALUES AND PRINCIPLES

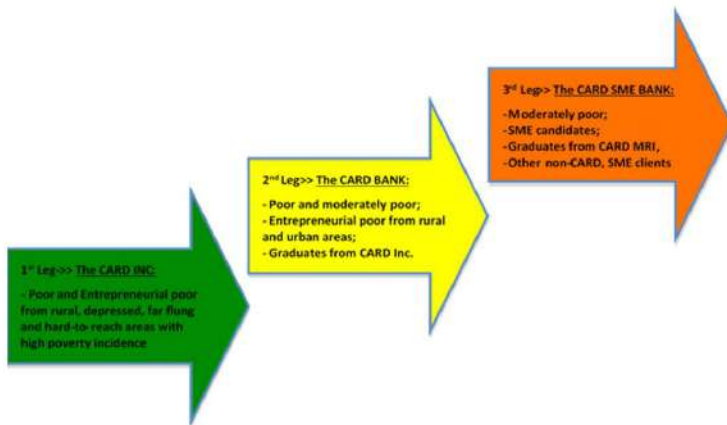
- **COMPETENCE.** Upholding that the staff is the primary asset and driving force of the institution, CARD SME Bank values the continuing development of their competence and capability through instilling the value of integrity, honesty, transparency, discipline, hard work and excellence leading to the empowerment of its staff and clients in an atmosphere of mutual respect.
- **FAMILY SPIRIT.** CARD SME Bank, guided by its genuine love for the poor, builds and nurture an atmosphere of family spirit through mutual trust, demonstrating commitment and dedication and sharing of learning experiences among staff and clients.
- **INTEGRITY.** CARD SME Bank values high transparency, ethics, morality, truthfulness, and sincerity in all its undertakings, programs and activities. The Bank honors commitments to clients, partners, and stakeholders by way of providing faithfully what was agreed upon or promised. Everyone is responsible and accountable for the performance of its institution, officers, and individual staff.



- **SIMPLICITY.** As CARD SME Bank dedicates its life for the ultimate empowerment of the poor, CARD SME Bank opts to always live a simple life in words and in deeds.
- **HUMILITY.** CARD SME Bank recognizes the value of “kababaang loob” towards achieving the CARD MRI’s overarching goal of poverty eradication with a heart. As such, all staff are enjoined and encouraged to celebrate the accomplishment and successes of CARD SME Bank at heart and not boast them publicly. All staff remain to have strong faith, determined, and committed to work passionately and warmly towards achieving the CARD MRI vision.
- **EXCELLENCE.** CARD SME Bank’s pioneering effort is rooted in excellence drawn from the Board and staff’s confidence to create, innovate, inspire, and continuously challenge the existing paradigm to ultimately empower the poor.
- **STEWARDSHIP.** The Board and staff of CARD SME Bank live as stewards of its vision and builds on its strengths, distinctive, and uniqueness of its being through a framework of good governance.

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

The CARD SME Bank’s target market remains closely intertwined with CARD Inc., CARD Bank, and CARD MRI Rizal Bank being all members of CARD MRI. Hence, the target market of the entire CARD MRI can be described in a ladderized and three-legged approach as follows:



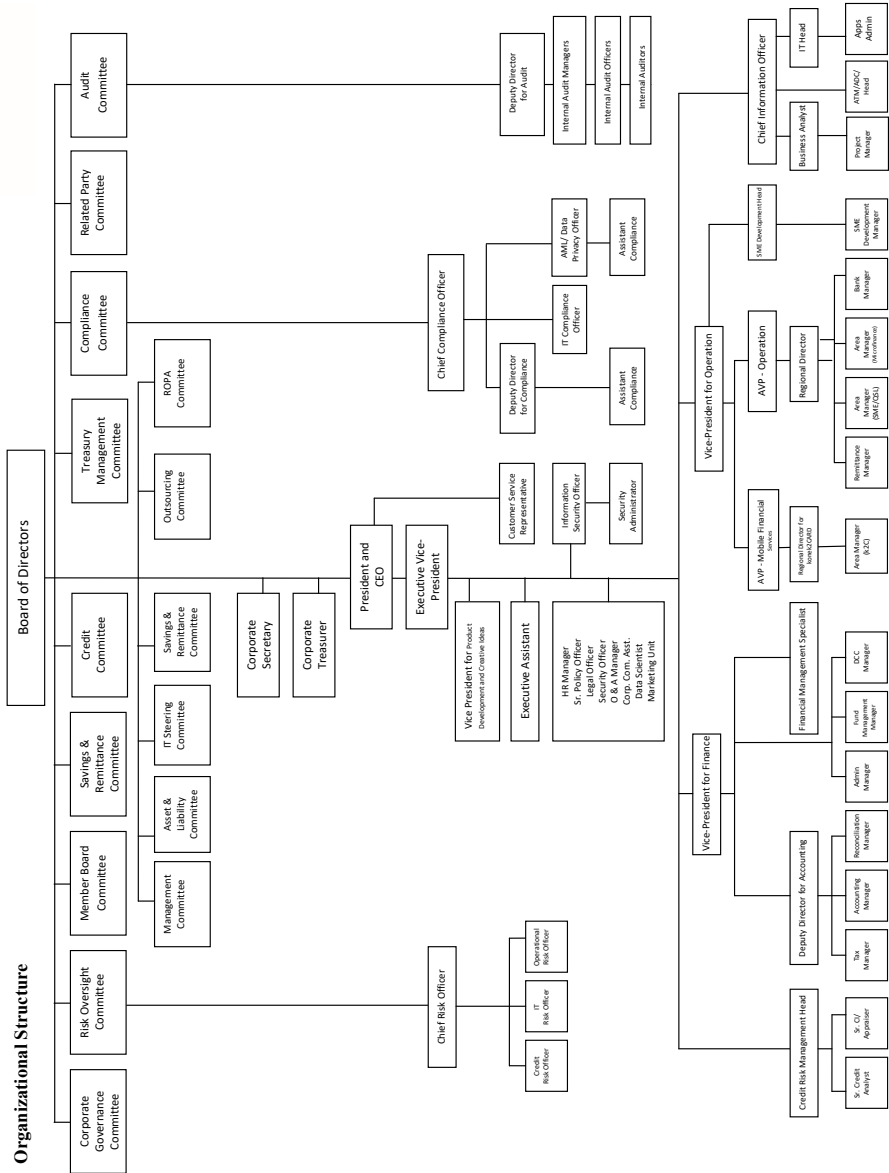
As one of the members of CARD MRI group, CARD SME Bank's target market is also synchronized and deeply thought about to ensure that all the member-institutions reinforced each other in the attainment of the mission and vision of ultimately empowering the poor by upholding the core values of competence,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

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

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



# Organizational Structure





## **CORPORATE GOVERNANCE**

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

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

### **BOARD OF DIRECTORS**

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

The Board is responsible for approving and overseeing the implementation of the bank's strategic objectives, risk strategy, corporate governance, and corporate values. It is also responsible in overseeing the performance of senior management in so far as managing

the day-to-day affairs of the bank. It establishes a code of conduct and ethical standards in the bank and institutionalizes a system that will allow reporting of concerns or violations to an appropriate body. The board conducts itself with utmost honesty and integrity in the discharge of its duties, functions, and responsibilities.

## **COMPOSITION**

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

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

### **Directors**

The Board of Directors must be at least twenty-five (25) years of age at the time of his election or appointment. They must be a college graduate or have at least five (5) years of experience in related business. The Board should have at least attended a special seminar on corporate governance for Board of Directors conducted or accredited by the Bangko Sentral ng Pilipinas. They must be fit and proper for the position of a director of the bank considering their integrity/probity, physical/mental fitness, competence, relevant education/financial literacy/training, diligence, and knowledge/experience.

### **Independent Directors**

The independent directors must and have not been an officer or employee of the Bank, its subsidiaries or affiliates or related interest during the past three (3) years counted from the date of the board's election. They are not a director or officer of the related companies of the institution's majority stockholders. They are not stockholders with shares of stock sufficient to elect one seat in the Board of Directors of the institution, or any of its related companies or of its majority corporate stockholders. They should not have a relative within the fourth degree of consanguinity or affinity, legitimate or common-law of any director, officer or a stockholder holding shares of stock sufficient to elect one seat in the board of the bank or any of its related companies. They are not acting as a nominee or representative of any director or substantial shareholder of the bank, any of its related companies or any of its substantial shareholders. They are not retained as professional adviser, consultant, agent, or counsel of the institution, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm. The independent director is also independent of management and free from any business or other relationship, and has not engaged and does not engage in any transaction with the

institution or with any of its related companies or with other persons or through firm of which, he is a partner or a company of which he is a director or substantial shareholder, other than transaction which are conducted at arm's length and could no materially interfere with or influence the exercise of his judgment. An independent director may serve as such continuously for three (3) years, after which he/she may be assessed for a possible extension of terms up to a maximum cumulative term of nine (9) years. After which, the independent director shall be perpetually barred from serving as independent director of the bank but may continue to serve as regular director.

### **Member – Board of Director**

CARD SME Bank strongly believes that clients' voice contributes greatly to the success of all its endeavors. Thus, to ensure that clients are represented in the policy making body of the Bank, two (2) seats in the Board of Directors are allotted for the members.

A duly qualified and selected member may serve as Board of Director for a maximum of three (3) years, which can be extended for a maximum of another two (2) years subject to member's performance, and approval of the Board of Directors and Stockholders.

## **CHAIRMAN OF THE BOARD OF DIRECTORS**

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

- take the Chair at general meetings and board meetings;
- ensure that the meeting agenda focuses on strategic matters including discussion on risk appetites, and key governance concerns;
- ensure a sound decision making process;
- encourage and promote critical discussion;
- ensure that dissenting views can be expressed and discussed within the decision-making process; ensure that members of the Board of Directors receives accurate, timely, and relevant information;
- ensure the conduct of proper orientation for first time directors and provide training opportunities for all directors; and
- ensure conduct of performance evaluation of the Board of Directors at least once a year.



There are eleven (11) Board of Directors elected dated May 8, 2021; four (4) of whom are Independent Directors.

Name of Director	Type of Directorship	No. of Years as Director	Percentage of Shares	BOD Meeting Attendance	
				Jan. - Dec. 2021	
Dr. Jaime Aristotle B. Alip	Non-Executive	14 Years	3.445%	13/13	100%
Mr. Aristeo A. Dequito	Non-Executive	5 Years	1.228%	13/13	100%
Ms. Mary Jane A. Perreras	Non-Executive	11 years	1.125%	13/13	100%
Ms. Cynthia B. Baldeo*	Executive	8 Months	1.116%	7/8	88%
Ms. Elma B. Valenzuela	Non-Executive	3 Year and 7 Months	4.587%	13/13	100%
Dr. Gilberto M. Llanto	Non-Executive	10 Years	0.126%	13/13	100%
Atty. Wilfredo B. Domo-ong	Non-Executive	10 Years	0.126%	13/13	100%
Ms. Chona A. Felesedario	Independent	2 Year and 10 Months	0.000%	13/13	100%
Ms. Irene D. Arroyo	Independent	8 Months	0.000%	8/8	100%
Mr. Gregorio B. Anonas III**	Independent	5 Months	0.000%	4/5	80%
Ms. Abundia C. Manabes	Independent	8 Months	0.000%	8/8	100%
Ms. Maria Agnes J. Angeles***	Independent	2 Months	0.000%	2/2	100%

\*Appointed as President/CEO and elected as Board of Director effective April 30, 2021

\*\*Board of Director from May to September 2021

\*\*\* Elected as Board of Director effective November 2021 replacing Mr. Anonas III

## BOARD QUALIFICATIONS

NAME	AGE & NATIONALITY	DATE ELECTED	SHARES HELD	QUALIFICATIONS
<b>1. Dr. Jaime Aristotle B. Alip</b> Chairman of the Board	64, Filipino	May 8, 2021	516,727 (Direct)	With more than 30 years of experience and expertise in the field of microfinance, banking, microinsurance and related fields  Educational Attainment: BS Agriculture Major in Agricultural Economics, MS in Professional Studies, PhD in Organization Development, OPM Program in Harvard Business School

	<b>Other Current Directorship and Officership:</b>			<b>BSP and other Trainings Attended:</b> Corporate Governance for Board of Directors, Risk Management Seminar, Briefing on Updated AML Rules and Regulations, Exposure in MABS Program, Exposure in SME in BRAC Bank, Grameen Bank, ASA, Seminar in SME Banking, IT Governance Seminar																										
	<table border="1"> <thead> <tr> <th data-bbox="254 135 468 266">Institution</th> <th data-bbox="468 135 683 266">Position</th> </tr> </thead> <tbody> <tr> <td data-bbox="254 266 468 304">CARD Bank, Inc.</td> <td data-bbox="468 266 683 304">Chairman/Director</td> </tr> <tr> <td data-bbox="254 304 468 358">CMDI</td> <td data-bbox="468 304 683 358">Chairman/Trustee/ Dean of Tagum Campus</td> </tr> <tr> <td data-bbox="254 358 468 397">ICMIF</td> <td data-bbox="468 358 683 397">Director</td> </tr> <tr> <td data-bbox="254 397 468 435">ICMIF Foundation</td> <td data-bbox="468 397 683 435">Chairman/Trustee</td> </tr> <tr> <td data-bbox="254 435 468 474">IGNITE Foundation</td> <td data-bbox="468 435 683 474">Trustee</td> </tr> <tr> <td data-bbox="254 474 468 528">CARD, Inc. (A Microfinance NGO)</td> <td data-bbox="468 474 683 528">Chairman Emeritus</td> </tr> <tr> <td data-bbox="254 528 468 589">RIMANSI Organization for Asia and Pacific</td> <td data-bbox="468 528 683 589">Chairman Emeritus</td> </tr> <tr> <td data-bbox="254 589 468 628">Rizal College of Laguna</td> <td data-bbox="468 589 683 628">Director</td> </tr> <tr> <td data-bbox="254 628 468 682">CARAGA Renewable Energy Corp.</td> <td data-bbox="468 628 683 682">Director</td> </tr> <tr> <td data-bbox="254 682 468 766">MICROFINANCE INFORMATION DATA SHARING, INC. (MIDAS)</td> <td data-bbox="468 682 683 766">Chairman</td> </tr> <tr> <td data-bbox="254 766 468 805">The Hunger Project</td> <td data-bbox="468 766 683 805">Director</td> </tr> <tr> <td data-bbox="254 805 468 843">CARD MRI RBI</td> <td data-bbox="468 805 683 843">Board Adviser</td> </tr> </tbody> </table>		Institution	Position	CARD Bank, Inc.	Chairman/Director	CMDI	Chairman/Trustee/ Dean of Tagum Campus	ICMIF	Director	ICMIF Foundation	Chairman/Trustee	IGNITE Foundation	Trustee	CARD, Inc. (A Microfinance NGO)	Chairman Emeritus	RIMANSI Organization for Asia and Pacific	Chairman Emeritus	Rizal College of Laguna	Director	CARAGA Renewable Energy Corp.	Director	MICROFINANCE INFORMATION DATA SHARING, INC. (MIDAS)	Chairman	The Hunger Project	Director	CARD MRI RBI	Board Adviser		
Institution	Position																													
CARD Bank, Inc.	Chairman/Director																													
CMDI	Chairman/Trustee/ Dean of Tagum Campus																													
ICMIF	Director																													
ICMIF Foundation	Chairman/Trustee																													
IGNITE Foundation	Trustee																													
CARD, Inc. (A Microfinance NGO)	Chairman Emeritus																													
RIMANSI Organization for Asia and Pacific	Chairman Emeritus																													
Rizal College of Laguna	Director																													
CARAGA Renewable Energy Corp.	Director																													
MICROFINANCE INFORMATION DATA SHARING, INC. (MIDAS)	Chairman																													
The Hunger Project	Director																													
CARD MRI RBI	Board Adviser																													
<b>2. Mr. Aristeo A. Dequito</b> Vice Chair for Administration	54, Filipino	May 8, 2021	184,229 (Direct)	<b>BSP and other trainings attended:</b> Corporate Governance and Sound Credit Risk Management System, IT Governance Seminar, Anti-Money Laundering/ Combating the Financing of Terrorism, SME Lending Policy Seminar, International Seminar on Financial Inclusion, Value Chain Conference, Basic Rural Banking, and Microfinance Training and Transformation Workshop																										
	<b>Other Current Directorship and Officership:</b>																													
	<table border="1"> <thead> <tr> <th data-bbox="254 1028 468 1067">Institution</th> <th data-bbox="468 1028 683 1067">Position</th> </tr> </thead> <tbody> <tr> <td data-bbox="254 1067 468 1105">CARD MRI RBI</td> <td data-bbox="468 1067 683 1105">Chairman</td> </tr> <tr> <td data-bbox="254 1105 468 1144">CARD-BDSFI</td> <td data-bbox="468 1105 683 1144">Chairman</td> </tr> <tr> <td data-bbox="254 1144 468 1198">CARD, INC., A MICROFINANCE NGO</td> <td data-bbox="468 1144 683 1198">Trustee</td> </tr> <tr> <td data-bbox="254 1198 468 1236">CARD-BDSFI</td> <td data-bbox="468 1198 683 1236">Chairman/Director</td> </tr> <tr> <td data-bbox="254 1236 468 1275">CMIT</td> <td data-bbox="468 1236 683 1275">Director</td> </tr> <tr> <td data-bbox="254 1275 468 1313">Mga Likha ni Inay</td> <td data-bbox="468 1275 683 1313">Director</td> </tr> </tbody> </table>		Institution	Position	CARD MRI RBI	Chairman	CARD-BDSFI	Chairman	CARD, INC., A MICROFINANCE NGO	Trustee	CARD-BDSFI	Chairman/Director	CMIT	Director	Mga Likha ni Inay	Director														
Institution	Position																													
CARD MRI RBI	Chairman																													
CARD-BDSFI	Chairman																													
CARD, INC., A MICROFINANCE NGO	Trustee																													
CARD-BDSFI	Chairman/Director																													
CMIT	Director																													
Mga Likha ni Inay	Director																													



<p><b>3. Ms. Mary Jane Pererras</b> Vice Chair for External Affairs</p>	54, Filipino	May 8, 2021	184,229 (Direct)	<p>With more than 19 years of experience in investment and asset management, and nine (9) years in microfinance and retail banking, and other related fields.</p> <p><b>Educational Attainment:</b> BS Medical Technology in University of Sto. Tomas, and Executive MBA in Asian Institute of Management</p> <p><b>BSP and other trainings attended:</b> IT Governance Principle Course, Risk Management, Corporate Governance Seminar, Anti-Money Laundering/Combating the Financing of Terrorism Training, Asset Securitization, Money Market, and Trade Finance Training</p>		
	<p><b>Other Current Directorship and Officership:</b></p> <table border="1"> <thead> <tr> <th>Institution</th> <th>Position</th> </tr> </thead> <tbody> <tr> <td>Chamber of Thrift Bank</td> <td>Board of Trustee</td> </tr> </tbody> </table>				Institution	Position
Institution	Position					
Chamber of Thrift Bank	Board of Trustee					
<p><b>4. Ms. Cynthia B. Baldeo</b> Director/ President and CEO</p>	57, Filipino	May 8, 2021	167,473 (Direct)	<p>With more than 30 years of experience in microfinance, 21 years of which is in banking and finance.</p> <p><b>Educational Attainment:</b> He earned her degree in Bachelor of Science in Agriculture at Laguna State Polytechnic College in 1988. She finished her Master in Business Administration in 2004 at Trinity College of Quezon City, Executive Master in Business Administration in 2010 at Asian Institute of Management and Senior Executive Leadership Program in Harvard Business School in 2021.</p> <p><b>BSP and other trainings attended:</b> Corporate Governance, Risk Management Seminar, IT Governance Seminar, Anti-Money Laundering/Combating the Financing of Terrorism,</p>		
	<p><b>Other Current Directorship and Officership:</b></p> <table border="1"> <thead> <tr> <th>Institution</th> <th>Position</th> </tr> </thead> <tbody> <tr> <td>CARD MRI INSURANCE AGENCY, INC. (CAMIA)</td> <td>Director</td> </tr> </tbody> </table>				Institution	Position
Institution	Position					
CARD MRI INSURANCE AGENCY, INC. (CAMIA)	Director					

				RAINING IN RELATED PARTY TRANSACTIONS, LOAN ADMINISTRATION AND MANAGEMENT OF MABS APPROACH, Basic Rural Banking, SME CREDIT RISK MANAGEMENT LOAN ORIGINATION, BSP SUPERVISORY ASSESSMENT FRAMEWORK, WOMENS WORLD BANKING AND CITIGROUP FINANCIAL RISK MANAGEMENT TRAINING						
5. Ms. Elma B. Valenzuela Director	54, Filipino	May 8, 2021	688,119 (Direct)	With more than 30 years of experience in microfinance and 5 years of which is banking and finance.  <b>Educational Attainment:</b> Bachelor of Science in Agriculture from Gregorio Araneta University Foundation, master's in business administration from Trinity College of Quezon City, Executive MBA from Asian Institute of Management, and Advance Management Program at Harvard Business School  <b>BSP and other trainings attended:</b> Enhanced Corporate Governance, IT Governance Seminar, Anti-Money Laundering/Combating the Financing of Terrorism, Basic Banking regulations and Related Party Transactions Training, Risk Management Training, and Microfinance Training Program,						
	<b>Other Current Directorship and Officership:</b>									
	<table border="1"> <thead> <tr> <th>Institution</th> <th>Position</th> </tr> </thead> <tbody> <tr> <td>CARD MRI Rizal Bank, Inc.</td> <td>Director/President and CEO</td> </tr> <tr> <td>CARD, Inc. (A Microfinance NGO)</td> <td>Board of Trustee</td> </tr> </tbody> </table>		Institution		Position	CARD MRI Rizal Bank, Inc.	Director/President and CEO	CARD, Inc. (A Microfinance NGO)	Board of Trustee	
	Institution	Position								
CARD MRI Rizal Bank, Inc.	Director/President and CEO									
CARD, Inc. (A Microfinance NGO)	Board of Trustee									
<b>Other Current Directorship and Officership:</b>										
<table border="1"> <thead> <tr> <th>Institution</th> <th>Position</th> </tr> </thead> <tbody> <tr> <td>N/A</td> <td></td> </tr> </tbody> </table>		Institution	Position	N/A						
Institution	Position									
N/A										



6. Dr. Gilberto M. Llanto Director	71, Filipino	May 8, 2021	18,932 (Direct)	<p>A professional economist who has held various executive positions and research at the National Tax Research Center of the DoF, BSP, DAR and NEDA. An expert in banking, finance, and international trade. He has been a consultant on financial markets, microfinance, public finance, and public economics to international organizations.</p> <p><b>Educational Attainment:</b> A. B. Philosophy, M.S. Economic Program, M.A. Economics, and Ph.D. Economics.</p> <p><b>BSP and other trainings attended:</b> Governance for Board of Directors, Briefing on BSP Cir.706 Updated AML Rules and Regulations, and Agricultural Banking.</p>						
	<p><b>Other Current Directorship and Officership:</b></p> <table border="1"> <thead> <tr> <th>Institution</th> <th>Position</th> </tr> </thead> <tbody> <tr> <td>CARD Bank, Inc., A Microfinance Oriented Rural Bank</td> <td>Director</td> </tr> <tr> <td>CARD MRI Development Institute (CMDI)</td> <td>Trustee</td> </tr> <tr> <td>Philippine Institute for Development Studies</td> <td>Trustee</td> </tr> </tbody> </table>				Institution	Position	CARD Bank, Inc., A Microfinance Oriented Rural Bank	Director	CARD MRI Development Institute (CMDI)	Trustee
Institution	Position									
CARD Bank, Inc., A Microfinance Oriented Rural Bank	Director									
CARD MRI Development Institute (CMDI)	Trustee									
Philippine Institute for Development Studies	Trustee									
7. Atty. Wilfredo B. Domo-ong Director	80, Filipino	May 8, 2021	18,932 (Direct)	<p>Worked with BSP for almost 30 years, he started as Examiner who then became a Director of SES II Department of the Bangko Sentral ng Pilinas.</p> <p><b>Educational Attainment:</b> Bachelor of Science in Commerce and Law Graduated at the Manuel L. Quezon University</p> <p><b>BSP and other trainings attended:</b> Corporate Governance Seminar and Supervisory Training, IT Governance Seminar, Anti-Money Laundering/ Combating the Financing of Terrorism and Several Mandatory Continuing Education Given by BSP, WEBINAR SERIES ON ML/TF TYPOLOGIES and SUPERVISORY ASSESSMENT FRAMEWORK</p>						
	<p><b>Other Current Directorship and Officership:</b></p> <table border="1"> <thead> <tr> <th>Institution</th> <th>Position</th> </tr> </thead> <tbody> <tr> <td>N/A</td> <td>N/A</td> </tr> </tbody> </table> <p><b>Other Current Directorship and Officership:</b></p> <table border="1"> <thead> <tr> <th>Institution</th> <th>Position</th> </tr> </thead> <tbody> <tr> <td>N/A</td> <td>N/A</td> </tr> </tbody> </table>				Institution	Position	N/A	N/A	Institution	Position
Institution	Position									
N/A	N/A									
Institution	Position									
N/A	N/A									

8. Ms. Chona A. Felesedario Independent Board	52, Filipino	May 8, 2021	1 (Direct)	<p>An entrepreneur and active officer in different association in their locality.</p> <p><b>Educational Attainment:</b> Bachelor of Science in Elementary Education undergraduate.</p> <p><b>BSP and other Trainings Attended:</b> Basic Course on Governance for Board of Directors and Senior Management, Governance on Communities Default Task and Customer Care Training.</p>				
	<b>Other Current Directorship and Officership:</b>							
	<table border="1"><thead><tr><th>Institution</th><th>Position</th></tr></thead><tbody><tr><td>N/A</td><td>N/A</td></tr></tbody></table>	Institution	Position	N/A	N/A			
Institution	Position							
N/A	N/A							
9. Ms. Irene D. Arroyo Independent Board	66, Filipino	May 8, 2021	1 (Direct)	<p>A banker for more than 40 years. She worked with BSP for 17 years under the Treasury, Supervisory Policy and Regulations Department. Prior to joining PDIC examination department, she worked with Landbank, BDO, East West and Dao Heng Bank handling Treasury, Dealing, Liquidity and Risk Management. She also headed BAIPHIL for 5 years.</p> <p><b>Educational Attainment:</b> Bachelor of Science on Commerce major in Economics at University of Sto. Tomas and Master in Business Administration at Ateneo Graduate School.</p> <p><b>BSP and other Trainings Attended:</b> FX Rules and Regulation and Derivatives Seminar, AML and Corporate Governance Seminar, Investment Portfolio Management Training, Enterprise Risk Management and Conduct of Stress Test, Basel II Global Review and IFRS Based Financial Statement Seminar.</p>				
	<b>Other Current Directorship and Officership:</b>							
	<table border="1"><thead><tr><th>Institution</th><th>Position</th></tr></thead><tbody><tr><td>N/A</td><td>N/A</td></tr></tbody></table>	Institution	Position	N/A	N/A			
Institution	Position							
N/A	N/A							



<p><b>10. Ms. Maria Agnes J. Angeles</b> Independent Board</p>	<p>66, Filipino</p>	<p>May 8, 2021</p>	<p>1 (Direct)</p>	<p>A banker for more than 30 years. She handles MSME Operations and Marketing in various bank, and President of BAIPHIL for a year.</p> <p><b>Educational Attainment:</b> Bachelor of Science in Management at Ateneo De Manila University.</p> <p><b>BSP and other Trainings Attended:</b> Consumer Banking Workshop, Real Estate Licensing Brokers, Training on Development Financing, Corporate Governance, Consumer Finance and Sales Management Training, Bank Fraud and IFRS Financial Evaluation Training.</p>						
<p><b>11. Ms. Abundia C. Manabes</b> Independent Board</p>	<p><b>Other Current Directorship and Officership:</b></p> <table border="1" data-bbox="265 267 671 506"> <thead> <tr> <th data-bbox="265 267 468 304">Institution</th> <th data-bbox="468 267 671 304">Position</th> </tr> </thead> <tbody> <tr> <td data-bbox="265 304 468 417">NEGOSYONG PINOY(VENTURE-SOUTH) FINANCE CORPORATION</td> <td data-bbox="468 304 671 417">President and CEO</td> </tr> <tr> <td data-bbox="265 417 468 506">PERLA MANSION CONDO ASSOCIATION</td> <td data-bbox="468 417 671 506">VP/TREASURER</td> </tr> </tbody> </table>			Institution	Position	NEGOSYONG PINOY(VENTURE-SOUTH) FINANCE CORPORATION	President and CEO	PERLA MANSION CONDO ASSOCIATION	VP/TREASURER	<p>A Health Worker and Community Organizer for 17 years. Prior to her Presidency with CARD MBA, she was an Coordinator, Trustee and Vice President.</p> <p><b>Educational Attainment:</b> A graduate of Midwifery at Luzon Colleges School of Nursing and Midwifery.</p> <p><b>BSP and other Trainings Attended:</b> Basic Course on Corporate Governance, Risk Management for Banks, Leadership Training Workshop, Life Skills for Effective MI-MBA Governance, and Governance and AMLA Workshop for MI-MBAs.</p>
Institution	Position									
NEGOSYONG PINOY(VENTURE-SOUTH) FINANCE CORPORATION	President and CEO									
PERLA MANSION CONDO ASSOCIATION	VP/TREASURER									

## BOARD COMMITTEES

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

### A. Corporate Governance Committee

Committee Member	Attendance		Position
1. Ms. Irene D. Arroyo	6/6	100%	Chairperson
2. Ms. Chona A. Felesedario*	6/6	100%	Chairperson
3. Mr. Aristeo A. Dequito	8/8	100%	Member
4. Ms. Flordeliza L. Sarmiento**	4/4	100%	Member
5. Atty. Wilfredo B. Domo-ong***	4/4	100%	Member
6. Ms. Abundia C. Manabes	6/6	100%	Member

\*Replaced by Ms. Irene D. Arroyo Effective May 2021

\*\*Resigned effective April 30, 2021

\*\*\*Member of the committee until April 2021

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

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

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

### B. Risk Oversight Committee

Name of Director	Attendance		Position
1. Ms. Maria Agnes J. Angeles*	2/2	100%	Chairperson
2. Mr. Gregorio B. Annona III**	4/4	100%	Chairperson
3. Ms. Gloria R. Estrellado	5/5	100%	Chairperson
4. Ms. Maryjane A. Perreras	5/5	100%	Member
5. Ms. Irene D. Arroyo	7/7	100%	Member
6. Atty. Wilfredo B. Domo-ong	12/12	100%	Member

\*Replacing Mr. Anonas III effective November 2021

\*\*Replacing Ms. Estrellado; Resigned effective September 2021

The Risk Oversight Committee advises the Board of Directors on the Bank’s overall current and future risk appetite, oversee Senior Management’s adherence to the risk appetite statement, and reports on the state of risk culture of the Bank. The creation of risk oversight committee plays vital role as the bank’s success is largely dependent on the ability of its directors and officers in managing risks. The committee is composed three (3) members of the Board of Directors, majority of whom are independent directors including the Chairperson. The committee regularly met every 2nd Saturday of the month or as the need arises.

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

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

### C. Audit Committee

Name of Director	Attendance		Position
1. Ms. Chona A. Felesedario*	12/12	100%	Chairperson
2. Dr. Gilberto M. Llanto	11/12	92%	Member
3. Mr. Gregorio B. Anonas III	3/4	75%	Member
4. Dr. Jaime Aristotle B. Alip	5/5	100%	Member
5. Ms. Maria Agnes J. Angeles**	2/2	100%	Member

\*Replacing Dr. Llanto as Chairperson, effective June 2021

\*\*Replacing Mr. Anonas III

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

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

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

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

Name of Director	Attendance		Position
1. Atty. Wilfredo B. Domo-ong*	14/14	100%	Chairperson
2. Ms. Abundia C. Manabes	9/9	100%	Chairperson
3. Mr. Gregorio B. Anonas III	1/1	100%	Member
4. Ms. Chona A. Felesedario	8/8	100%	Member
5. Mr. Benedict A. Ame	14/14	100%	Non-Voting
6. Mr. Raymond A. Uy	14/14	100%	Non-Voting

*\*Replaced by Ms. Abundia Manabes*

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

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



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

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

**Other committees that include the Board and Management level are as follows:**

**E. Compliance Committee**

Name of Director	Attendance		Position
1. Atty. Wilfredo B. Domo-ong	12/12	100%	Chairperson
2. Ms. Mary Jane A. Perreras	12/12	100%	Vice-Chairperson
3. Ms. Cynthia B. Baldeo	5/5	100%	Member
4. Mr. Benito R. Pagspas	10/12	83%	Member
5. Mr. Benedict A. Ame	12/12	100%	Member
6. Mr. Raymond A. Uy	12/12	100%	Member

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

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

The tasks of the Compliance Committee include the following:

- a. Ensuring that compliance system of the bank is defined, established, and updated to facilitate an effective management of compliance with bank policies and regulatory requirements
- b. Ensure that updated compliance program was approved by the Board, oversee, and promotes its effective implementation
- c. Ensuring that compliance issues encounter by the Bank were immediately resolved and acted upon
- d. Ensuring that duties and responsibilities of Board of Directors stated under Section 132 of the MORB: Powers/responsibilities and duties of Director were done.
- e. Providing oversight on AML policy development and execution such that AML Policies and Procedures established by the senior management, led by the compliance office are adequate to ensure compliance and are kept updated/remain relevant to best react on the changing AML regulatory scenarios and conditions.
- f. Reviewing and taking action, as necessary, on AML related reports coming from the bank's compliance office.
- g. Overseeing and ensuring the effective performance of the AML/TF functions of the Bank's Compliance Office.



## F. Outsourcing Oversight Committee

Name of Director/Officer	Attendance		Position
1. Mr. Aristeo A. Dequito*	4/4	100%	Chairperson
2. Ms. Cynthia B. Baldeo	8/8	100%	Chairperson
3. Mr. Julius Adrian R. Alip	8/8	100%	Member
4. Ms. Jeannie T. La Rosa	12/12	83%	Member
5. Mr. Allan D. Dimaano	12/12	100%	Member
6. Mr. Jerry V. Montejo	12/12	100%	Member
7. Mr. Benedict A. Ame	12/12	100%	Member
8. Ms. Cherry A. Boncajes	12/12	100%	Member

*\*Replaced by Ms. Baldeo effective May 2021*

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

The Outsourcing Oversight Committee is comprised of senior management of the Bank. The Outsourcing Oversight Committee regularly met once a month held every Wednesday before the Board Meeting or as the need arises. The President and CEO regularly updates the Board of Directors on the status of Outsourcing activities of the bank during the Board of Directors Meeting.

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

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

## G. IT Steering Committee

Name of Director/Officer	Attendance		Position
1. Mr. Aristeo A. Dequito*	4/4	100%	Chairperson
2. Ms. Cynthia B. Baldeo	8/8	100%	Chairperson
3. Mr. Julius Adrian R. ALip	8/8	100%	Member
4. Ms. Jeannie T. La Rosa	12/12	100%	Member
5. Mr. Benedict A. Ame	12/12	100%	Member
6. Mr. Allan D. Dimaano	12/12	100%	Member
7. Mr. Jerrom Ibardeloza	12/12	100%	Member
8. Mr. Ross Meinard C. Ramos	12/12	100%	Member
9. Mr. Dennis D. Dimaculangan	12/12	100%	Member
10. Mr. Glexter S. Marasigan	10/10	100%	Member

*\*Replaced by Ms. Baldeo effective May 2021*

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

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

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

## H. Asset and Liability Committee

Name of Director/Officer	Attendance		Position
1. Ms. Jeannie T. La Rosa	12/12	100%	Chairperson
2. Ms. Cynthia B. Baldeo	11/12	97%	Vice Chairperson
3. Mr. Julius Adrian R. ALip	8/8	100%	Member
4. Mr. Aristeo A. Dequito*	4/4	100%	Member
5. Mr. Benedict A. Ame	12/12	100%	Member
6. Ms. Cherry A. Boncajes	12/12	100%	Member
7. Mr. Jerry V. Montejo	12/12	100%	Member
8. Ms. Anita F. Rapera	12/12	100%	Member
9. Ms. Florence B. Castillo	12/12	100%	Member
10. Ms. Mildred B. Matienzo	12/12	100%	Member
11. Mr. Rodel Bombase	12/12	100%	Member
12. Mr. Manolo M. Martinez	12/12	100%	Member

\*Adviser effective May 2021

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

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

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

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

### I. Remittance Committee

Name of Director/Officer	Attendance		Position
1. Ms. Maria Elena M. Ruiz	12/12	100%	Chairperson
2. Ms. Cynthia B. Baldeo*	6/6	100%	Vice Chair
3. Mr. Manolo M. Martinez	12/12	100%	Member
4. Dr. Edzel A. Ramos**	6/6	100%	Member
5. Mr. Julius Adrian R. Alip	6/6	100%	Member

*\*Replaced by Mr. Alip effective July 2021*

The Savings and Remittance Committee serves as a formalized group that is responsible for ensuring that all matters related to savings portfolio and remittance facility are monitored. The Committee is also responsible in advising the board on the current and future savings and remittance issues and initiatives and submits recommendations to the Board. The Committee met every 2nd Saturday of the month and is composed Once (1) Board of Director, the Senior Officer and the Marketing Head.

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

- a. Monitoring of movement of savings portfolio including performance of Savings Officers
- b. Monitoring of remittance transactions and recommend strategic initiatives to increase volume of transactions
- c. Recommending savings promos and campaigns to increase deposit portfolio
- d. Reviewing of sales promos and campaigns proposed by the Marketing Unit
- e. Identifying applicable trainings for Savings Officers
- f. Acting as sponsor for marketing proposals for savings mobilization
- g. Defining project success measures
- h. Following progress on on-going marketing promotions

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

Name of Director/Officer	Attendance		Position
1. Ms. Milagros C. Rojas	12/12	100%	Chairperson
2. Ms. Lourdes A. Marasigan	12/12	100%	Member
3. Mr. Benedict A. Ame	12/12	100%	Member

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

The ROPA committee is composed of at least one (1) Board of Director who serves as the committee chair, the Chief Compliance Officer and the Credit Risk Management Unit Officer. The committee met once a month held every Thursday prior to Board Meeting.

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

- a. Monitoring of movement of real and other properties acquired including disposal.
- b. Reviewing and assessing request for acquisitions or disposals proposed by management.
- c. Formulating ideas and suggestions to help safeguard the bank properties.
- d. Making recommendations to help management for the disposal of properties.
- e. Reviewing with management the valuation of properties acquired and result summary shall be reported to the Board.
- f. Performing other duties and responsibilities as authorized by the Board of Directors



## **K. Credit Committee**

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

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

- a. Board of Directors – credit proposals above five million up to eight million shall be approved by at least two (2) Board of Directors. Moreover, loans above eight million shall be approved by majority of the bank’s Board of Directors.
- b. President and CEO – review and approved credit proposals above two million up to five million pesos and recommend loans that are for approval of the Board of Directors.
- c. Executive Vice President – review and approved credit proposal above one million up to two million pesos and recommend credit proposals for approval of the President/CEO and the Board of Directors.
- d. AVP for Operations – review and approve credit proposals above PhP500,000 up to one million pesos and recommend credit proposals to the Executive Vice President and/or President/CEO.
- e. Regional Directors – review and approve credit proposal up to PhP500,000. The Regional Director shall recommend credit proposals for approval of the AVP for operations.
- f. Credit Analyst – conduct review, analysis and assessment of credit proposal and identify potential/perceived risk.
- g. The secretary shall serve as ex-officio member of the committee

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





## **INDEPENDENT CHECKS AND BALANCES**

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

### **INTERNAL CONTROL SYSTEM**

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

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

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

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

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

## INTERNAL AUDIT

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

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

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

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



## EXTERNAL AUDITOR

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

## COMPLIANCE SYSTEM

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

- a. Risks to reputation that arise from internal decisions that may damage a bank's market standing;
- b. Risks to reputation that arise from internal decision and practices that ultimately impinge on the public trust of a bank;
- c. Risks from the action of a bank that are contrary to the existing regulations and identified best practices and reflect weaknesses in the implementation of codes of conduct and standard of good practice; and
- d. Legal risks to the extent that changes in the interpretation or provisions of regulations directly affect bank's business model.

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

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

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

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

To monitor the effectiveness of implementation of the compliance system, the compliance unit has implemented a compliance rating system that measures the compliance risk exposures system of branches and other offices during compliance monitoring and testing.

## **COMPLIANCE RISK MANAGEMENT**

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

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

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



# MONEY LAUNDERING AND TERRORIST FINANCING PREVENTION PROGRAM (MTPP)

The Bank adopted the Updated Anti-Money Laundering Rules and Regulations of Bangko Sentral ng Pilipinas (BSP) - a comprehensive and risk-based Money Laundering and Terrorist Financing Prevention Program (MTPP) that promotes high ethical and professional standards of the Bank and ensures that it is not being used for money laundering and terrorist financing activities. It supports governments, law enforcement agencies, and international bodies such as the Financial Action Task Force in their efforts to combat the use of the financial system for the laundering of the proceeds crime and terrorism.

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

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

## MTPP RISK MANAGEMENT

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

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

Bank's Board of Directors have the ultimate duties and responsibilities to ensure full compliance with money laundering and terrorist financing prevention program. As such, Board of Directors through the Compliance Office and Internal Audit are regularly updated on the matters related to Anti-Money Laundering and terrorist financing compliance and risk management.

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

### **b. Compliance Office**

The Compliance office through the AML Compliance Officer primary responsible in the management of the implementation of the MTPP of the bank including its subsidiaries and affiliates. This includes achieving the bank's goals through planning, organizing, leading, and controlling. Compliance office is independent and has direct reporting line to the Board of Directors or any board-level or approved committee on all matters related to AML and TF compliance and their risk management. AML Compliance Officer is designated to handle the implementation of the MTPP program. He will be the liaison between Bank, the BSP, and the AMLC in matters relating to Bank's AML/CFT compliance. He is assisted by an Assistant AML Compliance Officer in monitoring the implementation of this MTPP program to all branches and other offices.



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

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

### **d. Internal Audit**

Simultaneous with operations and financial audit, compliance with Anti-Money Laundering Regulations is also being checked by Internal Auditors. The Internal Audit function associated with money laundering and terrorist financing is being conducted by qualified personnel who are independent of the Branch/Unit being audited. Internal Auditors have a direct reporting line to the Audit Committee. Result of audit is also promptly communicated to the Compliance Office for its appropriate corrective action. The Compliance Office regularly submits reports to the Board to inform them of management's action to address deficiencies noted in the audit.

### **e. Risk Assessment**

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

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



# DATA PRIVACY STATEMENT

## GENERAL STATEMENT

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

## OUR PRIVACY PRACTICES

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

## WHAT DATA WE COLLECT FROM YOU

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

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

## HOW WE USE YOUR INFORMATION

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

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

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

## WHEN DO WE COLLECT PERSONAL INFORMATION

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

- Face-to-face and/or telephone conversation with CARD SME Bank Customer Service Representative;
- Accomplishment and/or signing of forms/documents (e.g. loan proposal, New Accounts Form, Insurance Products, Employment application and contracts and Client Information Form);
- Registration through electronic banking channels and services (e.g. mobile banking application-konek2CARD, HCIS);
- Conducting Background and credit investigation and Loan Utilization Check; and
- Inquiries to the Credit Bureau such as CIC, NFIS and MIDAS.

## RECIPIENTS OF INFORMATION

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



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

## **HOW WE SAFEGUARD PERSONAL INFORMATION**

In accordance with the provisions of the DPA, Republic Act No. 1405 otherwise known as the Bank Secrecy Law, Republic Act No. 8791 otherwise known as the General Banking Law of 2000, BSP Circular No. 808, Series of 2013 otherwise known as the Guidelines on Information Technology Risk Management for All Banks and other Supervised Institutions, and BSP Circular No. 982, Series of 2017 otherwise known as the Enhanced Guidelines on Information Security Management, CARD SME Bank, its employees, agents and representatives, shall handle personal information with utmost care and adhere to the implemented organizational, physical, and technical security measures to maintain the confidentiality, integrity, security, and availability of all personal information under its custody.

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

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

## **YOUR RIGHTS AS DATA SUBJECT**

CARD SME Bank respects your rights to:

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

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

## HOW TO CONTACT US

Should you need to get in touch with us for any data privacy concerns or requests or should you have any questions or clarifications regarding the Statement, CARD SME Bank has adopted a Customer Assistance Management System (CAMS). This is an organized system where customer feedback, inquiries, and complaints are carefully handled and processed. Through this channel, a Customer Service Officer, who serves as the representative of the Data Protection Officer shall initially assist you and raise such concerns to the Compliance Unit of CARD SME Bank.

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

+6349- 539-5421

+63939-726-7550

+63927-429-6574

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

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

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

Telephone Number: (049) 503-2671 or 72

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

## CHANGES TO OUR PRIVACY STATEMENT

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



# CARD SME BANK SENIOR MANAGEMENT PROFILES

SENIOR MANAGEMENT	PROFILE
<p>Ms. Cynthia B. Baldeo Executive Vice President and Chief Operating Officer 57, Filipino</p>	<p>Ms. Baldeo was appointed as President and CEO effective April 30, 2021, she has been a banker for more than 20 years. She is with CARD SME Bank since 2007. She is a graduate of Laguna State Polytechnic College in 1988, finished her MBA from Trinity College of Quezon City in 2004, EMBA from Asian Institute of Management in 2010, and Senior Executive Leadership Program at Harvard Business School, USA in 2021.</p>
<p>Mr. Julius Adrian R. Alip Executive Vice President 43, Filipino</p>	<p>Mr. Alip was appointed as Executive Vice President Effective May 16, 2021. Prior to his appointment with CARD SME Bank, he handles CARD Leasing and Finance Corporation, Mga Likha ni Inay and CARD Business Development Services as President and CEO. He is a graduate of AB Technical Theater in De la Salle College of Saint Benilde in 1999, finished his Master of Science in International Community, and Public Administration, in New Hampshire University and Harvard University, in 2006 and 2014, respectively.</p>
<p>Ms. Cherry B. Boncajes Vice President for Operation 45, Filipino</p>	<p>Ms. Boncajes has been with microfinance and SME banking operations for more than 17 years. Prior to joining CARD SME Bank, she has been with CARD Bank, Inc. for eight (8) years. She graduated at the University of the Philippines Los Baños Campus with the degree of Bachelor of Science in Forestry in 1998 and finished her Master of Arts in Organizational Development in Southeast Asia Interdisciplinary Development Institute in 2010.</p>
<p>Ms. Anita F. Rapera Vice President for Operation 53, Filipino</p>	<p>Prior to joining CARD SME Bank, Ms. Rapera worked with CARD, Inc. (A Microfinance NGO) from April 1995 to June 2012 and handled microfinance operation as Account Officer, Unit Manager, Area Manager, and Regional Director. She joined CARD SME Bank as Regional Director from July 2012 to January 2017. After which she was promoted as AVP for Operation. She finished her Bachelor's degree in Accountancy from Masbate Colleges in 1994 and her Master of Arts in Organizational Development in Southeast Asia Interdisciplinary Development Institute in 2011.</p>

SENIOR MANAGEMENT	PROFILE
<p>Ms. Florence B. Castillo Assistant Vice President for Operation 43, Filipino</p>	<p>Ms. Castillo has been with CARD SME Bank since February 2016. Prior to joining CARD SME Bank, she has been with CARD, Inc. (A Microfinance NGO) accounting and finance from August 1997 to June 1998. CARD Bank, Inc., accounting and finance from July 1998 to September 2005, and CARD, Inc. Operation from October 2005 to January 2016. She earned her Bachelor's degree in Commerce major in Management from Colegio Dela Milagrosa in 1997 and finished her Master in Productivity and Quality Management at the Development Academy of the Philippines. She also finished Management Development Program at the Asian Institute of Management in 2016 and Leadership and Diversity for Innovation Program at Wharton University of Pennsylvania 2020.</p>
<p>Mr. Rodel T. Bombase Assistant Vice President for Operation 43, Filipino</p>	<p>Mr. Bombase is a homegrown Officer of CARD. He has been in the field of microfinance for more than sixteen years. Prior to joining CARD SME Bank, he was a Technical Officer, Branch Manager, Area Manager, and Regional Director of CARD, Inc. (A Microfinance NGO) He finished his Bachelor of Science in Agricultural Economics in Camarines Sur State Agricultural College and Master in Productivity and Quality Management at Development Academy of the Philippines.</p>
<p>Ms. Leonida M. Gutierrez Assistant Vice President for Operation 46, Filipino</p>	<p>Ms. Gutierrez finished her Degree in Economics at San Pablo Colleges in 1995 and Master of Arts in Organizational Development in Southeast Asia Interdisciplinary Development Institute in 2015. She has been with CARD MRI microfinance operations for more than twenty three (23) years, of which eleven years is dedicated with CARD SME Bank.</p>
<p>Ms. Patricia G. Saballo Assistant Vice President for Operation 46, Filipino</p>	<p>Ms. Saballo finished her Degree in Business Administration major in Microfinance at Saint Francis De Assisi in 2012 and Master in Productivity and Quality Management at Development Academy of the Philippines in 2017. She is working with CARD MRI microfinance operations for more than twenty (20) years. Twelve (12) years of which is with CARD SME Bank.</p>





SENIOR MANAGEMENT	PROFILE
<p>Ms. Joy G. Palomique Senior Regional Director 44, Filipino</p>	<p>Ms. Palomique finished her Bachelor’s Degree in Agri Business at Laguna State Polytechnique University in 1998, Master of Arts in Organizational Development in Southeast Asia Interdisciplinary Development Institute in 2012 and Basic Strategic Management at John Gokongwei School of Management of Ateneo de Manila University in 2019. Prior to handling SME lending operations of CARD SME Bank in 2010, she has been working with CARD Inc., microfinance operations for almost nine (9) years.</p>
<p>Mr. Dennis O. Dimaculangan AVP for Mobile Financial Services 43, Filipino</p>	<p>Mr. Dimaculangan finished his BS Accountancy at Polytechnique University of the Philippines in 1998. He is currently taking up his Master of Arts in Organizational Development in Southeast Asia Interdisciplinary Development Institute. He has been with CARD SME Bank for more than twelve (12) years and handles SME Lending Operations and Credit Risk Management.</p>
<p>Ms. Jeannie T. La Rosa Vice President for Finance and Accounting 43, Filipino</p>	<p>Ms. La Rosa, finished her Bachelor’s degree in Commerce major in Banking and Finance from Divine World College of Calapan in 1996 and Master of Arts in Organizational Development in Southeast Asia Interdisciplinary Development Institute in 2013. Prior to joining CARD SME Bank, she has been with CARD Bank, Inc. Finance and Accounting for almost 12 years.</p>
<p>Mr. Benedict A. Ame Chief Compliance Officer 41, Filipino</p>	<p>Prior to joining CARD SME Bank, Mr. Ame has been with CARD Bank for more than 10 years. Four years in the operation, accounting, and finance and more than six years in the Compliance Unit. He earned his Bachelor’s degree in Commerce, major in Management from Quezon Colleges of the North in 2002. He finished his Master in Productivity and Quality Management at Development Academy of Philippines in 2017.</p>

SENIOR MANAGEMENT	PROFILE
<p>Mr. Jerry V. Montejo Head of Risk Management 46, Filipino</p>	<p>Mr. Montejo has been with CARD SME Bank operations as Loan Officer, Loan Manager, Bank Manager, Account Manager, and Regional Director for more than nine years. Prior to joining CARD SME Bank, he worked with CARD, Inc. (A Microfinance NGO) as Account Officer and Unit Manager. He earned his degree, Bachelor of Science in Business Administration, major in Management in 2002, finished his Master in Productivity and Quality Management at the Development Academy of the Philippines in 2017, and Management Development Program at the Asian Institute of Management in 2019.</p>
<p>Mr. Raymond A. Uy Deputy Director for Audit 37, Filipino</p>	<p>Mr. Uy started with CARD as Account Officer prior to becoming an Internal Auditor since 2009. He has been in the field of audit and risk management for more than 10 years. He finished his Bachelor of Science in Accountancy at the University of Iloilo.</p>
<p>Mr. Manolo M. Martinez VP for Product Development/Innovative Solution 53, Filipino</p>	<p>Mr. Martinez was formerly a Business Manager of UNIONBANK, Sales Executive of Petron Corporation, and Corporate Sales Manager of BANKARD, Inc. He completed his degree in Bachelor of Science in Business Administration from the University of Sto. Tomas in 1992. He also attended Basic Strategic Management at John Gokongwei School of Management of Ateneo de Manila University in 2018.</p>
<p>Mr. Allan D. Dimaano Chief Information Officer 47, Filipino</p>	<p>Mr. Dimaano has been a banker for almost 19 years. Prior to joining CARD SME Bank, he was a Teller, Unit Manager, Remittance Officer, and Area Manager of CARD Bank, Inc. from 1999 to 2009. He joined CARD SME Bank since 2010 as Bank Manager and Senior Program Manager from 2013 to 2016. He finished Marine Engineering from Technological Institute of the Philippines in 1997 and earned his Master in Productivity and Quality Management from Development Academy of the Philippines in 2013.</p>



## List of Major Stockholders of CARD SME Bank, Inc. (with more than 10% Equity Shares)

Name of Stockholder	Nationality	Type of Shares	Percentage of Stockholdings	Voting Status
Center for Agriculture and Rural Development (CARD), Inc. (A Microfinance NGO)	Filipino	Common	36.752%	Voting
CARD Employees Multipurpose Cooperative (EMPC)	Filipino	Common	26.244%	Voting

### CARD SME BANK DIVIDEND POLICY

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

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

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

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

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

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

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

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

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

Amidst the COVID 19 pandemic, the board, senior management, officers and staff continuously attend seminars, training and orientations provided by the external and in-house training providers such as BAIPHIL, ABCOMP, CTB, CMDI and the Compliance Unit. Supervisory Assessment Framework (SAFr) webinar was attended by the board and senior management, Branch Focus Training was developed and implemented to address operational lapses of officers and staff at the branch level, a refresher training for Account Officers, Unit Managers and Area Managers, and AMLA, Data Privacy and Compliance Orientation was also conducted to the majority of the bank personnel. The Compliance Unit also attended Anti-Money Laundering & Combating the Financing of Terrorism webinars, Compliance Framework, Supervisory Assessment Framework (SAFr), and Related Party Transactions Training was attended.

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

## BOARD AND SENIOR MANAGEMENT SELECTION PROCESS

### Board Selection Process

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

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

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

- a. Membership record performance (repayment, attendance, and length of membership with CARD)
  - b. Business potential to support the family needs as well as other family activities or engagement: on-going business, at least college graduate or have at least 5 years' experience in business, legality of the business.
  - c. Achievements and development work involvement: in CARD, in family, and in the community.
  - d. Personal attributes: Self-confidence, communication skills, values and principle in life, and good grooming.
  - e. Reputation in the community, family background and how the family is regarded in the community.
6. Result of the deliberation shall be submitted to the Governance Committee for review and approval for further endorsement to the Board.

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

### **Senior Management Selection Process**

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



## PERFORMANCE ASSESSMENT

### Board Members

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

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

### Senior Management

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

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

## REMUNERATION POLICY

### Board Members

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

### Senior Management

CARD SME BANK, INC. has adopted a standardized salary grading system applicable for all level of position with a corresponding rates of pay that are fair and equitable in relation to the job requirements in terms of complexity, responsibility, skills and qualifications. The Bank maintains a salary and benefits structure competitive with the prevailing rates/system of similar agencies and organizations compatible with the financial condition and objectives of the institution. This remuneration policies of the bank is duly approved by the Board of Directors. There will be a provision on annual increase and performance assessment measures.

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

### Retirement, Succession Planning and Development Program

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

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



program, it ensures that qualified employees are recruited and developed to fill each key role within the bank.

Under this program are as follows:

- Succession Management program for middle to senior management officers to assume leadership position.
- Master's Degree Program and short-term leadership management course for middle management officers.

The mandatory retirement age for all Bank officers and staff including senior officers is 60 years old.

## **CONSUMER PROTECTION PRACTICES**

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

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

### **Consumer Protection Risk Management System**

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

The Board of Directors have the ultimate duties and responsibilities to ensure full compliance with the consumer protection policies and procedures. The board is responsible for the development and maintenance of a sound Customer Protection and Risk Management System for all products and services life cycle. Board and Senior Management ensure that effectiveness of this system is periodically reviewed including reporting of findings and audit mechanism in place. The Compliance unit is the designated office to monitor the implementation of this program. Simultaneous with operations and financial audit, Internal Audit unit likewise ensure that bank's consumer protection practices have been implemented and reviewed.

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

**a. Disclosure and Transparency**

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

**b. Protection of customer Information**

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

**c. Fair Treatment**

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

**Conflict of Interest**

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

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



## Consumer Assistance Management System (CAMS)

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

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

# POLICIES ON RELATED PARTY TRANSACTIONS

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

The Bank's Related Party Committee is composed of four (4) Board of Directors, three (3) of whom are Independent Directors, that evaluate all material related party transactions based on the approved threshold to ensure that the terms are no less favorable than the terms generally available to non-related party under the same circumstances and that no resources of the bank are misappropriated or misapplied. In case conflict of interest will arise in a particular transaction, concern committee member shall refrain from evaluating such particular transaction. Independent unit such as Compliance Head or Internal Audit Head sit as non-voting member of the committee.

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

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

Furthermore, loans granted to DOSRI shall not exceed 15% of the bank's total equity. For the year 2021, Seven (7) loan accounts were granted to DOSRI with outstanding balance amounting to Php120.004M as of December 31, 2021 which is 1.90% of total loan outstanding of the bank as of same period. Details of the related party transactions are presented in the Note 22 of the Audited Financial Statement.



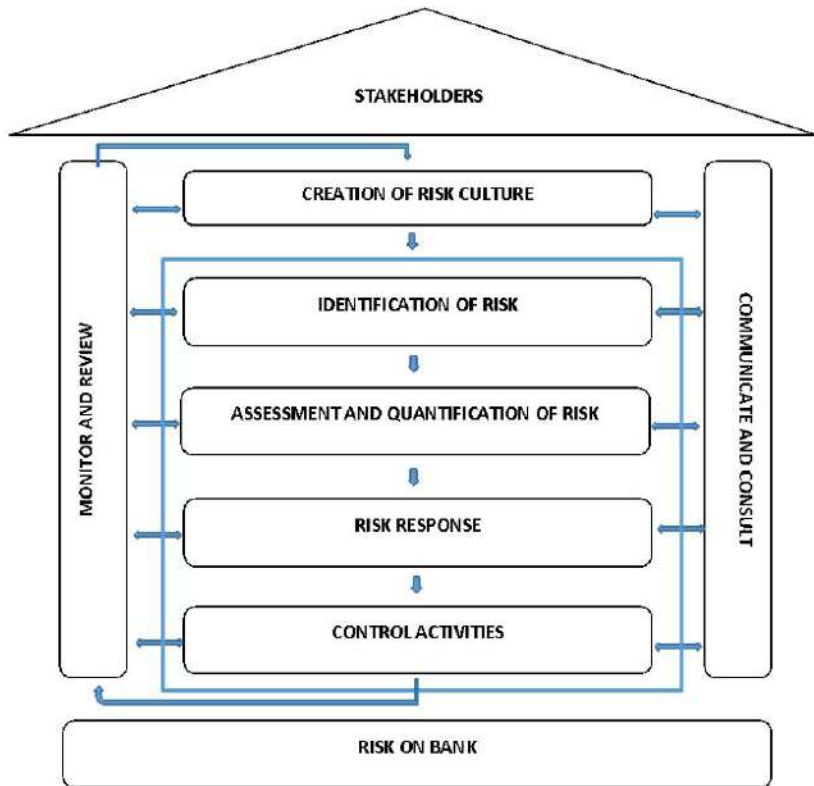


## **RISK MANAGEMENT FRAMEWORK**

### **OVERALL RISK MANAGEMENT CULTURE AND PHILOSOPHY**

### **RISK MANAGEMENT ADMINISTRATION**

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



## DEFINITIONS OF RISK

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

## OBJECTIVES OF RISK MANAGEMENT

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

## CARD SME BANK RISK APPETITE STATEMENT (RAS)

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

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

1. Based on the Manual of Regulations for Banks (MORB), the maximum single borrowing limit is 25%. CARD SME BANK, however, internally sets limit of 23% of the bank's net worth or PhP100 million, whichever is higher.
2. Total Loan Portfolio to Total Asset: at least 70%
3. Credit exposure to DOSRI (Directors, Officers, Stockholders, and Related Interests): maximum of 5% of Total Loan Portfolio. The BSP's limit is 15% of Total Loan Portfolio
4. Exposure limit to each industry or economic sector: not more than 25% of Total Loan Portfolio, maximum of 30% of TLP.

### b. Liquidity Risk

1. Liquidity ratio: minimum of 22%
2. Net Stable funding ratio: 105%

### **c. Capital and Earning Risk**

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

## **RISK GOVERNANCE STRUCTURE AND RISK MANAGEMENT PROCESS**

### **Board and Senior Management Oversight**

#### **The Board of Directors (BOD) are responsible for:**

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

## **RISK OVERSIGHT COMMITTEE**

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

In line with this vision is the Board of Directors and management's concern on "risk management". Other than being compliant to BSP Circular No. 456, as amended by Circular 749 and Circular 969, the creation and approval of Risk Oversight Committee is a vital move of CARD SME BANK Board of Directors. The Bank's success is largely dependent on the ability of its directors and officers in managing risks.

The Risk Oversight Committee is composed of three (3) Board of Directors, two (2) independent directors with details as follows:

#### **1. Maria Agnes J. Angeles– Chairperson**

Ms. Angeles, who is a BS Management graduate of Ateneo de Manila University, was a former executive of China Bank Savings and Planters Bank with banking experience for more than 34 years. Expert in the field of MSME operations and



lending, considering her trainings attended and work experiences, which include as Chairman of the SME Committee of the Philippine Chamber of Commerce and Industries.

### **2. Ms. Irene D. Arroyo– Vice Chairperson**

A BS Commerce, Economic Major in University of Sto Tomas and had finished Masters degree in Ateneo, Ms. Arroyo had previously serve as Vice President of the Philippine Deposit Insurance Corporation (PDIC) and as President of the Bankers Institute of the Philippines (BAIPHIL). She is also currently an Accredited Lecturer of BAIPHIL and Rural Bankers Association of the Philippines (RBAP).

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

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

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

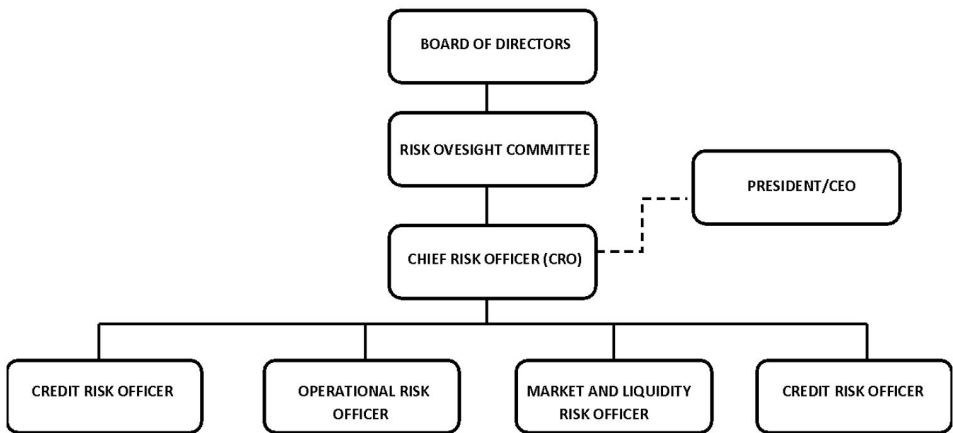
The ROC advises the Board of Directors on the Bank’s overall current and future risk appetite, oversees senior management’s adherence to the risk appetite statement, and reports on the state of risk culture of the bank. The ROC shall:

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

The Risk Committee is provided with adequate resources and has the authority to procure the services of independent technical experts, locally and foreign, in carrying out its mandate.

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

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



# CORPORATE SOCIAL RESPONSIBILITY

## **Policy Objective**

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

## **Policy Statement**

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

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

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

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

## **A.SCHOLARSHIP PROGRAM**

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

## **B. HEALTH PROTECTION PROGRAM**

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

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

### **1. E-Doctor Consultation**

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

### **2. E-Doctor Webinar**

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

### **3. CARD MRI Buy-and Sell**

To support the CARD microentrepreneurs, CARD MRI created an online community for its clients and members to continue their businesses despite restricted mobility due to the ECQ. This Facebook page allows CARD clients to buy and sell their products. We continue to provide these primary healthcare needs and business support which we already extended across the country.

# PRODUCTS AND SERVICES

## SAVINGS

### Micro Deposit

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

### Regular Savings

- iSave - A regular savings accounts evidenced by passbook.
- My A Account - ATM savings account.
- EarnMore - EarnMore Account represents special savings account (time deposit), which helps the client to secure savings for a better future. Interest rate depends on the amount of deposit and term.

### Checking Account

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

## LOANS

- Microfinance Loan - This product includes all loans intended for business or enterprises of the microfinance clients such as working capital, purchase of equipment and assets for use in the business, buying raw materials, etc. Clients can borrow up to a maximum of PhP150,000.
- Quick SME Loan - QSL is a loan product designed to help micro and small entrepreneurs located in semi-urban and urban areas. The loan aims to give financial support to micro and small entrepreneurs who are facing problems in deficiency of

working capital. QSL loan up to a maximum of PhP300,000 can support micro and small enterprises to promote income, production, and employment generation.

- » SME UNLAD Loan - The SME UNLAD Loan seeks to assist microfinance clients with good credit performance and showing potential to become regular SME. Maximum loan amount is up to PhP300,000.
- » Other Loans - This product intends to assist microfinance members to support the family needs for education, health, and insurance. Maximum loan amount is up to PHP10,000.00.

## **SME LOANS**

- Express Working Capital - Working capital loans are loans that would be repaid out of operating funds in the normal course of business. Short-term working capital may be used to finance seasonal needs of the company. This can be in the form of a term loan or a revolving credit line.
- Express Investment Capital Loan (EIL)- Investment loans are used to finance the acquisition of fixed assets and/or building renovation/ construction and financed by a term loan.
- Agrifinance Loans - Loan product for the agri-related business and agribusiness production.
- Consumer Loans - Loan Product specific for the need to acquire/ invest on vehicle, house, and lot.
  - Drive Ur Wheels (Car Loan)
  - Bahay Katuparan (Housing Loan)
- Wholesale Lending - Loans intended for microfinance retailing, and/or relending to small and medium entrepreneurs.

## **OTHER SERVICES**

### **Remittance**

- CARD Sulit Padala
- Cebuana Lhuillier





AUDITED FINANCIAL  
STATEMENTS

20  
21

## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of CARD SME Bank, Inc., A Thrift Bank (the Bank), which comprise the statements of financial position as at December 31, 2021 and 2020, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

#### Basis for Opinion

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

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

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

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

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



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

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

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

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

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

**Report on the Supplementary Information Required Under Bangko Sentral ng Pilipinas (BSP)  
Circular No. 1074 and Revenue Regulations No. 15-2010**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under BSP Circular No. 1074 in Notes 7, 17 and 22 and Revenue Regulations No. 15-2010 in Note 26 to the financial statements are presented for purposes of filing with the BSP and Bureau of Internal Revenue, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of CARD SME Bank, Inc., A Thrift Bank. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

*Miguel U. Ballelos Jr.*

Miguel U. Ballelos, Jr.

Partner

CPA Certificate No. 109950

Tax Identification No. 241-031-088

BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024

SEC Partner Accreditation No. 109950-SEC (Group A)

Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions

SEC Firm Accreditation No. 0001-SEC (Group A)

Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions

BIR Accreditation No. 08-001998-114-2022, January 20, 2022, valid until January 19, 2025

PTR No. 8853488, January 3, 2022, Makati City

April 9, 2022

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

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
<b>ASSETS</b>		
Cash and other cash items (Note 6)	<b>₱57,091,793</b>	₱48,177,003
Due from Bangko Sentral ng Pilipinas (Note 6)	<b>1,634,133,584</b>	1,322,053,915
Due from other banks (Note 6)	<b>113,683,978</b>	331,307,862
Loans and receivables (Note 7)	<b>6,204,448,683</b>	6,216,007,185
Financial assets at amortized cost (Note 8)	<b>147,523,532</b>	50,850,000
Property and equipment (Note 9)	<b>285,032,871</b>	279,108,637
Investment properties (Note 10)	<b>5,348,046</b>	8,532,786
Intangible assets (Note 11)	<b>12,079,343</b>	17,321,211
Retirement asset (Note 20)	<b>82,867,797</b>	98,343,779
Deferred tax assets (Note 21)	<b>85,060,818</b>	66,300,305
Other assets (Note 12)	<b>98,751,170</b>	115,035,900
<b>TOTAL ASSETS</b>	<b>₱8,726,021,615</b>	<b>₱8,553,038,583</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
Deposit liabilities (Note 13)		
Demand	<b>₱51,590,609</b>	₱84,524,387
Savings	<b>6,631,280,978</b>	5,563,818,785
	<b>6,682,871,587</b>	5,648,343,172
Bills payable (Note 14)	<b>24,216,180</b>	1,090,908,588
Income tax payable	<b>23,497,807</b>	252,638
Accrued interest and other expenses (Note 15)	<b>79,569,967</b>	86,784,111
Other liabilities (Note 15)	<b>200,960,252</b>	185,994,363
	<b>7,011,115,793</b>	7,012,282,872
<b>Equity</b>		
Common stock (Note 17)	<b>1,432,614,900</b>	1,155,622,800
Surplus (Note 7)	<b>280,187,914</b>	372,235,003
Remeasurement gains on retirement plan (Note 20)	<b>2,103,008</b>	12,897,908
	<b>1,714,905,822</b>	1,540,755,711
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱8,726,021,615</b>	<b>₱8,553,038,583</b>

*See accompanying Notes to Financial Statements.*

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

	<b>Years Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
<b>INTEREST INCOME</b>		
Loans and receivables (Note 7)	<b>₱2,305,079,869</b>	₱1,601,546,693
Due from BSP and other banks (Note 6)	<b>34,317,409</b>	18,412,617
Financial assets at amortized cost (Note 8)	<b>3,476,738</b>	3,111,999
Security deposits	<b>622,580</b>	624,375
	<b>2,343,496,596</b>	1,623,695,684
<b>INTEREST EXPENSE</b>		
Deposit liabilities (Note 13)	<b>154,370,708</b>	136,351,979
Bills payable (Note 14)	<b>20,426,218</b>	49,642,444
Lease liabilities (Note 23)	<b>6,675,084</b>	8,973,203
	<b>181,472,010</b>	194,967,626
<b>NET INTEREST INCOME</b>	<b>2,162,024,586</b>	1,428,728,058
<b>OTHER INCOME (LOSS)</b>		
Net gain (loss) on sale of fixed and investment properties (Notes 9 and 10)	<b>1,348,207</b>	(144,087)
Miscellaneous (Note 18)	<b>27,164,096</b>	25,575,758
	<b>28,512,303</b>	25,431,671
<b>TOTAL OPERATING INCOME</b>	<b>2,190,536,889</b>	1,454,159,729
<b>OPERATING EXPENSES</b>		
Compensation and fringe benefits (Note 22)	<b>726,629,761</b>	614,756,571
Provision for credit losses (Note 7)	<b>358,139,543</b>	19,651,928
Taxes and licenses	<b>188,423,331</b>	132,235,176
Depreciation and amortization (Notes 9 and 11)	<b>127,439,895</b>	120,970,036
Transportation and travel	<b>124,354,541</b>	82,352,293
Information technology (Note 22)	<b>110,080,295</b>	115,195,114
Stationery and office supplies	<b>105,963,884</b>	78,880,111
Occupancy and equipment-related cost (Notes 22 and 23)	<b>82,159,346</b>	71,562,604
Security, messengerial and janitorial	<b>55,799,791</b>	51,361,029
Power, light and water	<b>41,321,320</b>	35,078,157
Employee trainings (Note 22)	<b>34,344,327</b>	25,677,542
Program monitoring	<b>10,237,219</b>	11,976,219
Representation and entertainment (Note 21)	<b>6,396,394</b>	6,463,363
Professional fees	<b>4,476,993</b>	4,157,122
Miscellaneous (Note 19)	<b>58,835,217</b>	36,291,826
<b>TOTAL OPERATING EXPENSES</b>	<b>2,034,601,857</b>	1,406,609,091
<b>INCOME BEFORE INCOME TAX</b>	<b>155,935,032</b>	47,550,638
<b>PROVISION FOR INCOME TAX</b> (Note 21)	<b>35,357,721</b>	32,735,436
<b>NET INCOME</b>	<b>₱120,577,311</b>	₱14,815,202

*See accompanying Notes to Financial Statements.*



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

	<b>Years Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
<b>NET INCOME</b>	<b>₱120,577,311</b>	<b>₱14,815,202</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
<i>Other comprehensive income (loss) not recycled to profit or loss in subsequent periods:</i>		
Changes in remeasurement gains (losses) on retirement plan (Note 20)	(14,393,202)	4,076,432
Income tax effect (Note 21)	3,598,302	(1,222,930)
	<b>(10,794,900)</b>	<b>2,853,502</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱109,782,411</b>	<b>₱17,668,704</b>

*See accompanying Notes to Financial Statements.*

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

	Common stock (Note 17)	Surplus	Surplus reserves (Note 7)	Remeasurement gains on retirement plan (Note 20)	Total
<b>Balance at January 1, 2021</b>	<b>₱1,155,622,800</b>	<b>₱294,900,066</b>	<b>₱77,334,937</b>	<b>₱12,897,908</b>	<b>₱1,540,755,711</b>
Issuance through collection of subscriptions receivable (Note 17)	157,742,500	–	–	–	157,742,500
Total comprehensive income for the year	–	120,577,311	–	(10,794,900)	109,782,411
Stock dividends declared (Note 17)	119,249,600	(119,249,600)	–	–	–
Cash dividends declared (Note 17)	–	(93,374,800)	–	–	(93,374,800)
<b>Balance at December 31, 2021</b>	<b>₱1,432,614,900</b>	<b>₱202,852,977</b>	<b>₱77,334,937</b>	<b>₱2,103,008</b>	<b>₱1,714,905,822</b>
Balance at January 1, 2020	₱999,993,700	₱406,450,053	₱63,469,748	₱10,044,406	₱1,479,957,907
Transfers from surplus-to-surplus reserves (Note 17)	–	(13,865,189)	13,865,189	–	–
Issuance of new capital stock (Notes 17 and 24)	88,126,800	–	–	–	88,126,800
Issuance through collection of subscriptions receivable (Note 17)	6,300	–	–	–	6,300
Total comprehensive income for the year	–	14,815,202	–	2,853,502	17,668,704
Stock dividends declared (Note 17)	67,496,000	(67,500,000)	–	–	(4,000)
Cash dividends declared (Note 17)	–	(45,000,000)	–	–	(45,000,000)
Balance at December 31, 2020	₱1,155,622,800	₱294,900,066	₱77,334,937	₱12,897,908	₱1,540,755,711

*See accompanying Notes to Financial Statements.*



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

	<b>Years Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	<b>₱155,935,032</b>	₱47,550,638
Adjustments for:		
Provision for credit losses (Note 7)	<b>358,139,543</b>	19,651,928
Depreciation and amortization (Notes 9 and 11)	<b>127,439,895</b>	120,970,036
Net pension expense (Note 20)	<b>15,403,749</b>	13,501,918
Amortization of discount on bills payable (Note 14)	<b>7,947,592</b>	10,522,597
Interest expense on lease liabilities (Note 23)	<b>6,675,084</b>	8,973,203
Net loss (gain) on sale fixed and investment properties (Notes 9 and 10)	<b>(1,348,207)</b>	144,087
Changes in operating assets and liabilities:		
Decrease (increase) in the amounts of:		
Other assets	<b>16,284,730</b>	(11,162,704)
Loans and receivables	<b>(346,581,041)</b>	61,936,714
Increase (decrease) in the amounts of:		
Deposit liabilities	<b>1,034,528,415</b>	791,486,852
Accrued interest and other expense	<b>(7,214,144)</b>	(8,806,402)
Other liabilities	<b>(11,668,502)</b>	(15,835,755)
Net cash generated from operations	<b>1,355,542,146</b>	1,038,933,112
Income taxes paid	<b>(27,274,764)</b>	(69,954,208)
Retirement contributions paid (Note 20)	<b>(14,320,969)</b>	(11,986,888)
Net cash provided by operating activities	<b>1,313,946,413</b>	956,992,016
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of:		
Intangible assets (Note 11)	-	(19,301,616)
Property and equipment (Note 9)	<b>(29,202,723)</b>	(36,219,692)
Financial assets at amortized cost (Note 8)	<b>(96,673,532)</b>	-
Proceeds from sale of:		
Investment properties (Note 10)	<b>4,869,200</b>	1,058,125
Property and equipment (Note 9)	<b>1,050,000</b>	-
Net cash used in investing activities	<b>(119,957,055)</b>	(54,463,183)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Collections of subscriptions receivable (Note 17)	<b>157,742,500</b>	6,300
Availments of bills payable (Notes 14 and 24)	-	1,338,147,300
Issuance of new shares (Notes 17 and 24)	-	48,338,650
Fractional stock dividends paid in cash (Note 17)	-	(4,000)
Payment of principal portion of lease liabilities (Notes 23 and 24)	<b>(80,346,483)</b>	(68,371,613)
Cash dividends paid (Note 17)	<b>(93,374,800)</b>	(45,000,000)
Settlement of bills payable (Notes 14 and 24)	<b>(1,074,640,000)</b>	(1,414,640,000)
Net cash used in financing activities	<b>(1,090,618,783)</b>	(141,523,363)

(Forward)

	<b>Years Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>₱103,370,575</b>	₱761,005,470
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		
Cash and other cash items	<b>48,177,003</b>	26,391,653
Due from Bangko Sentral ng Pilipinas	<b>1,322,053,915</b>	670,187,575
Due from other banks	<b>331,307,862</b>	243,954,082
	<b>1,701,538,780</b>	940,533,310
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		
(Note 6)		
Cash and other cash items	<b>57,091,793</b>	48,177,003
Due from Bangko Sentral ng Pilipinas	<b>1,634,133,584</b>	1,322,053,915
Due from other banks	<b>113,683,978</b>	331,307,862
	<b>₱1,804,909,355</b>	₱1,701,538,780
<b>OPERATIONAL CASH FLOWS FROM INTEREST</b>		
Interest received	<b>₱2,329,721,578</b>	₱1,576,778,953
Interest paid	<b>188,079,603</b>	150,117,640

*See accompanying Notes to Financial Statements.*





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

---

### **NOTES TO FINANCIAL STATEMENTS**

---

#### **1. Corporate Information**

CARD SME Bank Inc., A Thrift Bank (the Bank), formerly known as Rural Bank of Sto. Tomas (Batangas), Inc., was incorporated in the Philippines on October 4, 1961. The Bank was granted the authority to operate by the Bangko Sentral ng Pilipinas (BSP) on May 10, 1962 as a Rural Bank with principal office in General Malvar Avenue, Sto. Tomas, Batangas. The Bank was granted by the BSP the authority to operate as a thrift Bank on June 15, 2011. On July 25, 2011, the Bank formally started its operations as a thrift Bank. Currently, its principal place of business is at 120 M. Paulino St., corner Burgos St., San Pablo City, Laguna. The Bank offers a wide range of products and services such as deposit and loan products mainly to the consumer market. As of December 31, 2021 and 2020, the Bank has 36 branches.

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

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

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

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

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

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

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

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

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

As of December 31, 2021 and 2020, the Bank is 36.75% and 36.33% owned by CARD, Inc., respectively.

---

## 2. Summary Significant Accounting Policies

### Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis. The financial statements are presented in Philippine peso (₱), the Bank's functional currency, and all values are rounded to the nearest peso except when otherwise indicated.

### Statement of Compliance

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

### Presentation of Financial Statements

The statements of financial position of the Bank are presented in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities within 12 months after the reporting date (current) and more than 12 months after the reporting date (noncurrent) is presented in Note 16.

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

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

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

The accounting policies adopted are consistent with those of the previous financial year except for the following amendments and improvements to PFRSs, Philippine Accounting Standards (PASs), and Philippine Interpretation which became effective beginning on or after January 1, 2020. Except as otherwise indicated, the new and amended standards and interpretations did not have any significant impact on the financial position or performance of the Bank.

### Amendments to Accounting Standards

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

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

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

The amendments are effective for annual reporting periods beginning on or after April 1, 2021. Early adoption is permitted.

- Amendments to PFRS 9, PAS 39, PFRS 7, PFRS 4, and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*  
The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):
  - Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
  - Relief from discontinuing hedging relationships
  - Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

### Future Changes in Accounting Standards

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

#### *Effective beginning on or after January 1, 2022*

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

*Effective beginning on or after January 1, 2023*

- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
- Amendments to PAS 8, *Definition of Accounting Estimates*
- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*

*Effective beginning on or after January 1, 2024*

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*

*Effective beginning on or after January 1, 2025*

- PFRS 17, *Insurance Contracts*

*Deferred effectivity*

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

## **Summary of Significant Accounting Policies**

### Cash and Cash Equivalents

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

Due from BSP includes statutory reserves required by the BSP, which the Bank considers as cash equivalents wherein drawings can be made to meet cash requirement. The components of cash and cash equivalents are shown in the statement of cash flows. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

### Fair Value Measurement

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

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

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

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

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

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



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

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

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

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

For assets and liabilities that are recognized in the financial statement at fair value on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Bank does not have assets and liabilities carried at fair value as of December 31, 2021 and 2020.

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

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

##### *Date of recognition*

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

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

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

### *Classification and Measurement of Financial Assets*

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

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

### *Business model assessment*

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

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

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment

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

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

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

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

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



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

#### *Financial assets at amortized cost*

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

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

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

The Bank may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the debt financial asset been measured at amortized cost. As of December 31, 2021 and 2020, the Bank has not made such designation.

#### Financial Instrument - Impairment

ECL represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECL allowances are measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition. The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial instrument.

For non-credit-impaired financial instruments:

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

For credit-impaired financial instruments:

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

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

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

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

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

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

#### *Write-off*

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

#### *Restructured receivables*

Where possible, the Bank seeks to restructure receivables, which may involve extending the payment arrangements and the agreement of new receivable conditions. Once the terms have been renegotiated, the receivable is no longer considered past due. Management continuously reviews restructured receivables to ensure that all criteria are met and that future payments are likely to occur.



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

#### Modification

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

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

#### Derecognition of Financial Assets and Financial Liabilities

##### *Financial assets*

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

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

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

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

a financial asset subject only to an option to buy it back at its fair value at the time of repurchase or has transferred fully proportionate share of the cash flows from a larger financial asset in an agreement).

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

#### *Financial liabilities*

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

#### Prepayments

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

#### Property and Equipment

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

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

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

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

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

Building and improvements	3 to 10 years
Furniture, fixtures, and equipment	1 to 5 years
Transportation equipment	5 to 7 years
Leasehold improvements	3 to 5 years or term of the lease, whichever is shorter
ROU assets - office space	1.5 to 10 years or term of the lease, whichever is shorter

ROU assets – vehicles	1.5 to 2 years or term of the lease, whichever is shorter
ROU assets - IT equipment	1.5 years or term of the lease, whichever is shorter

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

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

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

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

#### Investment Properties

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

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

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

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

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

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

### Intangible Assets

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

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

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

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

### Impairment of Nonfinancial Assets

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

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

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

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

## Retirement Benefits

### *Defined benefit plan*

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

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

Defined benefit costs comprise the following:

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

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

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

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

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

#### *Employee leave entitlement*

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

#### Equity

##### *Common stock*

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

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

##### *Surplus*

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

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

##### *Dividends*

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

#### Deposit for Future Stock Subscription

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

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

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

### Other Comprehensive Income

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

### Revenue Recognition

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

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

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

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

#### *Loan fees, service fees and penalties*

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

### Revenue outside the scope of PFRS 15

#### *Interest income*

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

Under PFRS 9, when a financial asset becomes credit-impaired, the Bank calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

### Expense Recognition

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

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

#### *Interest expense*

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

#### *Taxes and licenses*

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

### Leases

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

#### *Bank as a lessee*

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

- **Right-of-use assets**

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

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

- **Lease liabilities**

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

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

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

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



### *Bank as a lessor*

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

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

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

### Income Taxes

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

#### *Current tax*

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

#### *Deferred tax*

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

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

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

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

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

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

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

#### Provisions and Contingencies

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

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

#### Events After the Reporting Date

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

---

### **3. Significant Accounting Judgments and Estimates**

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

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

#### Judgments

##### *(a) Fair value of financial instruments*

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

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

*(b) Determination of the lease term for lease contracts with renewal and termination options*

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

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

*(c) Going concern assessment*

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

Estimates

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

*(a) Expected credit losses on financial assets*

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

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

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

*(b) Recognition of deferred tax assets*

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

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

*(c) Present value of defined benefit obligation*

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

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

*(d) Valuation of other long-term employee benefits*

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

As at December 31, 2021 and 2020 the amount of other long-term employee benefits accrued by the Bank is ₱13.29 million and ₱13.08 million, respectively (Note 15).

*(e) Leases - Estimating the incremental borrowing rate*

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The Bank estimates the IBR using observable inputs (by reference to average bank lending rates).

The Bank's lease liabilities amounted to ₱141.73 million and ₱118.88 million as of December 31, 2021 and 2020, respectively (Notes 15 and 23).

---

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

##### Fair Value Measurement

As of December 31, 2021, and 2020, except as discussed below, the carrying values of the Bank's financial assets and financial liabilities as reflected in the statements of financial position and related notes approximate their fair values.

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

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

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

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

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

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

*Noncurrent portion of refundable deposits and lease liabilities*

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

*Investment properties*

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

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

The following table summarizes the valuation techniques used and the significant unobservable inputs valuation used by the Bank:

	<b>Valuation Techniques</b>	<b>Significant Unobservable inputs</b>
Investment Property - Land	Market Data Approach	Location, size, shape, utility/neighborhood, improvements and time element
Investment Property – Building	Modified Quantity Survey Approach	Depreciated replacement cost
Noncurrent portion of unquoted debt securities and financial assets at amortized cost	Discounted cash flows method	Interpolated Philippine zero rates ranging from 1.01% to 4.64% and from 0.99% to 3.00% in 2021 and 2020, respectively.

	<b>Valuation Techniques</b>	<b>Significant Unobservable inputs</b>
Noncurrent portion of refundable deposits and lease liabilities	Discounted cash flows method	Incremental borrowing rates ranging from 3.55% to 7.19% and from 3.96% to 7.19% in 2021 and 2020, respectively.

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

#### **Valuation**

#### **Techniques, Inputs and Assumptions**

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

#### **Fair Value Hierarchy**

The following table summarizes the carrying values and the fair values by level of the fair value hierarchy of the Bank's assets and liabilities that are carried at fair value or for which fair values is disclosed as at December 31, 2021 and 2020:

	Carrying Value	2021			Total Fair Value
		Level 1	Level 2	Level 3	
<b>Assets and liabilities for which fair values are disclosed*:</b>					
<i>Financial assets</i>					
Loans and receivables					
SME (Small and medium-sized enterprises) loans	<b>₱802,531,029</b>	<b>₱-</b>	<b>₱-</b>	<b>₱737,227,714</b>	<b>₱737,227,714</b>
Unquoted debt securities	<b>96,736,871</b>	<b>-</b>	<b>-</b>	<b>83,983,082</b>	<b>83,983,082</b>
Financial assets at amortized cost	<b>147,523,532</b>	<b>-</b>	<b>-</b>	<b>148,844,571</b>	<b>148,844,571</b>
Other asset - refundable deposits	<b>15,721,995</b>	<b>-</b>	<b>-</b>	<b>15,721,995</b>	<b>15,721,995</b>
<i>Nonfinancial asset</i>					
Investment properties	<b>5,348,046</b>	<b>-</b>	<b>-</b>	<b>11,274,900</b>	<b>11,274,900</b>
<i>Financial liabilities</i>					
Deposit liabilities	<b>1,596,149,907</b>	<b>-</b>	<b>-</b>	<b>1,586,409,931</b>	<b>1,586,409,931</b>
Bills payable	<b>24,216,180</b>	<b>-</b>	<b>-</b>	<b>25,313,898</b>	<b>25,313,898</b>
Lease liabilities	<b>70,058,331</b>	<b>-</b>	<b>-</b>	<b>70,058,331</b>	<b>70,058,331</b>
Accrued vacation leave credits	<b>13,294,515</b>	<b>-</b>	<b>-</b>	<b>13,294,515</b>	<b>13,294,515</b>

\*Pertains to noncurrent assets and liabilities



	2020			Total Fair Value
	Carrying Value	Level 1	Level 2	
Assets and liabilities for which fair values are disclosed*:				
<i>Financial assets</i>				
Loans and receivables				
SME (Small and medium-sized enterprises) loans	P710,231,623	P-	P-	P665,646,770
Unquoted debt securities	128,868,750	-	-	117,239,884
Financial assets at amortized cost	30,850,000	-	-	34,162,752
Other asset - refundable deposits	6,258,354	-	-	6,258,354
<i>Nonfinancial asset</i>				
Investment properties	8,532,786	-	-	21,517,900
<i>Financial liabilities</i>				
Deposit liabilities	709,233	-	-	704,162
Bills payable	24,429,446	-	-	24,817,510
Lease liabilities	63,163,907	-	-	63,163,907
Accrued vacation leave credits	13,076,063	-	-	13,076,063
<i>*Pertains to noncurrent assets and liabilities</i>				

As of December 31, 2021 and 2020, 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 2021 and 2020.

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

### *Financial Risk Management Policies and Procedures*

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

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

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

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

### Credit risk

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

#### *Management of credit risk*

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

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

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

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

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

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



### Modification

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

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

The impact of loan modifications as a result of the Bayanihan 1 and Bayanihan 2 Acts amounted to a loss of ₱140.92 million. For the year ended December 31, 2020, the net impact of the loan modifications (i.e., after subsequent accretion of the modified loans) amounted to a loss of ₱12.94 million recorded as a deduction to the interest income from loans and receivables. In 2021, the Bank recouped as a subsequent accretion of the modified loans amounting to ₱10.29 million as an to interest income. The remaining unamortized amount of interest income amounted to ₱2.65 million and ₱12.94 million as of December 31, 2021 and 2020, respectively.

### Maximum exposure to credit risk

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

	<b>2021</b>			
	Maximum Exposure to Credit Risk*	Fair Value of Collateral and Credit Enhancements	Financial Effect of Collateral or Credit Enhancements	Net Exposure to Credit Risk
Loans and receivables:				
Microfinance loans	₱4,958,699,162	₱1,257,345,847	₱1,225,323,528	₱3,733,375,634
SME loans	1,112,870,990	322,469,085	196,435,886	916,435,104
	<b>₱6,071,570,152</b>	<b>₱1,579,814,932</b>	<b>₱1,421,759,414</b>	<b>₱4,649,810,738</b>

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

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

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

Credit enhancement for microfinance loans pertains to deposit hold-out from center fund savings equivalent to 15.00% of the loaned amount of the member as of December 31, 2021 and 2020. For SME loans, collateral includes real and chattel mortgages while credit enhancement consists of deposit hold-out equivalent to 10.00% of the loaned amount or the related actual savings account balance in excess of the minimum maintaining balance, whichever is lower.

As of December 31, 2021 and 2020, the Bank has no financial assets with rights to offset in accordance with Amendments to PAS 32, *Financial Instruments-Offsetting Financial Assets and Financial Liabilities*. There are also no financial instruments that are subject to an enforceable master netting arrangements or similar agreements which require disclosure in the financial statements in accordance with PFRS.

Additionally, the tables below show the distribution of maximum credit exposure by industry sector of the Bank as of December 31, 2021 and 2020:

	2021				
	Due from BSP and other banks	Loans and receivables	Financial assets at amortized cost	Refundable deposits*	Total
Wholesale trade and retail trade repair of motor vehicles, motorcycles, and personal and household goods	P-	P3,227,158,328	P-	P-	P3,227,158,328
Government	1,634,133,584	-	-	-	1,634,133,584
Financial intermediation	113,683,978	498,468,960	147,523,532	-	759,676,470
Real estate, renting and business activities	-	563,141,958	-	15,721,995	578,863,953
Restaurant and hotels	-	573,326,084	-	-	573,326,084
Agriculture	-	543,233,780	-	-	543,233,780
Fishery and forestry	-	124,399,953	-	-	124,399,953
Manufacturing	-	124,230,707	-	-	124,230,707
Transport, storage, and communication	-	65,855,263	-	-	65,855,263
Education	-	35,641,263	-	-	35,641,263
Private households with employed persons	-	23,082,938	-	-	23,082,938
Construction	-	7,525,871	-	-	7,525,871
Health and social work	-	7,015,160	-	-	7,015,160
Mining and quarrying	-	119,495	-	-	119,495
Other community, social, and personal service activities	-	665,984,228	-	-	665,984,228
	1,747,817,562	6,459,183,988	147,523,532	15,721,995	8,370,247,077
Allowance for credit losses	-	(381,324,425)	-	-	(381,324,425)
Unearned interest and discount	-	(6,289,411)	-	-	(6,289,411)
<b>Total</b>	<b>P1,747,817,562</b>	<b>P6,071,570,152</b>	<b>P147,523,532</b>	<b>P15,721,995</b>	<b>P7,982,633,241</b>

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

	2020				
	Due from BSP and other banks	Loans and receivables	Financial assets at amortized cost	Refundable deposits*	Total
Wholesale trade and retail trade repair of motor vehicles, motorcycles, and personal and household goods	P-	P3,385,957,428	P-	P-	P3,385,957,428
Government	1,322,053,915	128,862,608	-	-	1,450,916,523
Agriculture	-	796,895,161	-	-	796,895,161
Restaurant and hotels	-	487,651,852	-	-	487,651,852
Construction	-	466,826,051	-	-	466,826,051
Financial intermediation	331,307,862	1,568,173	50,850,000	-	383,726,035
Manufacturing	-	362,781,612	-	-	362,781,612
Real estate, renting and business activities	-	195,546,423	-	19,919,927	215,466,350
Transport, storage, and communication	-	167,780,255	-	-	167,780,255
Health and social work	-	145,433,638	-	-	145,433,638

(Forward)

2020					
	Due from BSP and other banks	Loans and receivables	Financial assets at amortized cost	Refundable deposits*	Total
Electricity, gas, and water	P-	P123,520,223	P-	P-	P123,520,223
Fishery and forestry	-	102,557,558	-	-	102,557,558
Education	-	42,561,134	-	-	42,561,134
Private households with employed persons	-	4,185,894	-	-	4,185,894
Mining and quarrying	-	1,045,050	-	-	1,045,050
Other community, social and personal service activities	-	86,353,953	-	-	86,353,953
	1,653,361,777	6,499,527,013	50,850,000	19,919,927	8,223,658,717
Allowance for credit losses	-	(267,919,267)	-	-	(267,919,267)
Unearned interest and discount	-	(15,600,561)	-	-	(15,600,561)
<b>Total</b>	<b>P1,653,361,777</b>	<b>P6,216,007,185</b>	<b>P50,850,000</b>	<b>P19,919,927</b>	<b>P7,940,138,889</b>

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

### *Credit quality per class of financial assets*

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

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

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

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

#### *SME Loans Receivable*

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

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

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

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

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

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

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

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

For Microfinance Loan and Other Loan exposures, the credit rating for this type is still being developed, however continuous and extensive monitoring of past-due is being practiced by the management to ensure that past due rate will not exceed the 3.00% minimum threshold. However, PD ratings are already tailored depending on the days past due of Microfinance loan.

The description of the loan grades used by the Bank for microfinance loan receivable from customers are as follows:

**Microfinance Loan and Other Loan Receivables**

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

*High Grade (PD Rating of 0)*

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

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

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

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

The following tables illustrate the Bank's credit exposures as at December 31, 2021 and 2020:

	2021			Total
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
<b>Microfinance Loans</b>				
<b>Neither past due nor impaired</b>				
High grade	P=	P=	P=	P=
Standard Grade	4,447,124,347	-	-	4,447,124,347
<b>Past due but not impaired</b>	-	-	-	-
<b>Past due and impaired</b>	-	-	648,367,467	648,367,467
	<b>₱4,447,124,347</b>	<b>P=</b>	<b>₱648,367,467</b>	<b>₱5,095,491,814</b>



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

2021				
ECL Staging				
SME Loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Neither past due nor impaired				
High grade	P-	P-	P-	P-
Standard Grade	1,085,952,111	-	-	1,085,952,111
Past due but not impaired	-	5,047,527	-	5,047,527
Past due and impaired	-	-	122,423,503	122,423,503
	<b>P1,085,952,111</b>	<b>P5,047,527</b>	<b>P122,423,503</b>	<b>P1,213,423,141</b>

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

The tables below show the credit quality per class of financial assets (gross of allowance for credit losses and unearned interest income) as of December 31, 2021 and 2020:

	December 31, 2021			
	Stage 1	Stage 2	Stage 3	Total
Due from BSP (Note 6)	P1,634,133,584	P-	P-	P1,634,133,584
Due from other banks (Note 6)	113,683,978	-	-	113,683,978
Loans and receivables (Note 7):				
Loans and discounts:				
Microfinance	4,447,124,347	-	648,367,467	5,095,491,814
SME	1,085,952,111	5,047,527	122,423,503	1,213,423,141
Unquoted debt securities	128,555,491	-	-	128,555,491
Other receivables:				
Accrued interest receivable	150,913,860	-	-	150,913,860
Accounts receivable	6,705,923	-	-	6,705,923
Sales contract receivable	2,095,265	-	-	2,095,265
Financial assets at amortized cost (Note 8)	147,523,532	-	-	147,523,532
Other assets – refundable deposits (Note 12)	15,721,995	-	-	15,721,995
	<b>P7,732,410,086</b>	<b>P5,047,527</b>	<b>P770,790,970</b>	<b>P8,508,248,583</b>

	December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Due from BSP (Note 6)	P1,322,053,915	P-	P-	P1,322,053,915
Due from other banks (Note 6)	331,307,862	-	-	331,307,862
Loans and receivables:				
Loans and discounts:				
Microfinance	4,650,946,332	-	569,802,633	5,220,748,965
SME	875,533,714	9,987,938	107,274,104	992,795,756
Unquoted debt securities	126,792,049	-	-	126,792,049
Other receivables:				
Accrued interest receivable	137,138,842	-	-	137,138,842
Accounts receivable	19,956,136	-	-	19,956,136
Sales contract receivable	2,095,265	-	-	2,095,265
(Forward)				
Financial assets at amortized cost (Note 8)	50,850,000	-	-	50,850,000
Other assets – refundable deposits (Note 12)	19,919,927	-	-	19,919,927
	<b>P7,536,594,042</b>	<b>P9,987,938</b>	<b>P677,076,737</b>	<b>P8,223,658,717</b>

### Liquidity Risk

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

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

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

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

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

The table below shows the maturity profile of the Bank's financial assets and financial liabilities based on contractual undiscounted cash flows as of December 31, 2021 and 2020:

	2021				Total
	On demand and up to 1 month	More than 1 month to 6 months	More than 6 months to 1 year	Beyond 1 year	
<b>Financial Assets</b>					
Due from BSP (Note 6)*	<b>P1,634,665,424</b>	<b>P-</b>	<b>P-</b>	<b>P-</b>	<b>P1,634,665,424</b>
Due from other Banks (Note 6)	<b>113,683,978</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>113,683,978</b>
Loans and receivables:					
Loans and discounts*	<b>759,890,345</b>	<b>3,577,889,445</b>	<b>2,335,900,072</b>	<b>2,621,738,708</b>	<b>9,295,418,570</b>
Unquoted debt securities*	<b>26,175,540</b>	<b>1,217,337</b>	<b>978,976</b>	<b>114,027,388</b>	<b>142,399,241</b>
Other receivables:					
Accounts receivable	<b>6,705,923</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,705,923</b>
Sales contract receivable	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,095,265</b>	<b>2,095,265</b>
Financial assets at amortized cost*	<b>-</b>	<b>-</b>	<b>-</b>	<b>160,131,388</b>	<b>160,131,388</b>
Other assets - refundable	<b>-</b>	<b>-</b>	<b>-</b>	<b>15,721,995</b>	<b>15,721,995</b>
	<b>2,541,121,210</b>	<b>3,579,106,782</b>	<b>2,336,879,048</b>	<b>2,913,714,744</b>	<b>11,370,821,784</b>

(Forward)

	2021				
	On demand and up to 1 month	More than 1 month to 6 months	More than 6 months to 1 year	Beyond 1 year	Total
<b>Financial Liabilities</b>					
Deposit liabilities:					
Demand	₱51,590,609	P-	P-	P-	₱51,590,609
Savings* / **	5,035,131,572	1,160,218,118	443,616,290	4,854,147	6,643,820,127
Bills payable	-	-	24,530,554	-	24,530,554
Accrued expenses and other liabilities:					
Lease liabilities	7,399,402	31,702,014	28,694,992	73,000,328	140,796,736
Accrued interest payable	-	46,963,443	-	-	46,963,443
Accrued other expenses	-	32,606,524	-	-	32,606,524
Accrual for vacation leave credits	-	-	-	13,294,515	13,294,515
Accounts payable	5,470,962	-	-	-	5,470,962
Dividends payable	320,590	-	-	-	320,590
	<b>5,099,913,135</b>	<b>1,271,490,099</b>	<b>496,841,836</b>	<b>91,148,990</b>	<b>6,959,394,060</b>
<b>Net undiscounted financial assets (liabilities)</b>	<b>(₱2,558,791,925)</b>	<b>₱2,307,616,683</b>	<b>₱1,840,037,212</b>	<b>₱2,822,565,754</b>	<b>₱4,411,427,724</b>

\* Includes future interest

\*\* Based on behavioral expectations

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

\* Includes future interest

\*\* Based on behavioral expectations

As of December 31, 2021 and 2020, the Bank had a total of ₱2,060.00 million and ₱2,010.00 million credit lines with local Banks, respectively, out of which, nil and ₱1,350.00 million had been drawn as of December 31, 2021 and 2020, respectively.

### Market Risk

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

### *Interest rate risk*

The Bank's nominal interest rate for REM loans is set at a fixed rate of 21.00% in 2021 and 2020. Microfinance loans earn nominal interest rates ranging from 0.64% to 54.00% and from 2.60% to 28.00% with equivalent effective interest rate ranging from 11.95% to 69.41% and from 9.57% to 86.44% per annum in 2021 and 2020, respectively. For SME loans, interest rate charged to a borrower depends on the credit risk rating classification, the deposit level of the client as a percentage of the loan, and the internal basic interest rate.

As of December 31, 2021 and 2020, repricing debt instrument only comprise 2.00% of total loan, thus the effect of interest repricing on loans is immaterial to the Bank.

The Bank's savings deposit liabilities include compulsory and voluntary savings that earn 0.50% to 3.00% and 1.00% to 6.00% interest per annum in 2021 and 2020, respectively. Special savings deposits earn 0.50% to 3.00% and 1.00% to 6.00% interest per annum in 2021 and 2020, respectively. These special savings deposits are concentrated on 30 days to one year maturity.

The Bank pays fixed interest rates on bills payable from 3.00% to 6.56% in 2021 and 2020, respectively.

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

### *Foreign currency risk*

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

### Operational Risk Management Policies and Procedures

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

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

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



operations in the face of potential disruptions to operations as well as fraud management framework for the prevention, detection, investigation and recovery strategies to manage fraud, both internal and external.

## 6. Cash and Cash Equivalents

The composition of this account follows:

	2021	2020
Cash and other cash items	₱57,091,793	₱48,177,003
Due from BSP	1,634,133,584	1,322,053,915
Due from other banks	113,683,978	331,307,862
	<b>₱1,804,909,355</b>	<b>₱1,701,538,780</b>

Cash includes cash in vault and in automated teller machines.

Due from BSP consists of:

	2021	2020
Demand deposit	₱205,133,584	₱174,499,562
Time deposit facility	1,100,000,000	140,000,000
Securities facility	200,000,000	–
Overnight deposit facility	129,000,000	749,000,000
Overnight reverse repurchase facility	–	258,554,353
	<b>₱1,634,133,584</b>	<b>₱1,322,053,915</b>

Due from BSP includes the aggregate balance of noninterest-bearing peso savings and demand deposit account which the Bank maintains in compliance with the BSP requirements to meet regular and liquidity reserves on deposits. As of December 31, 2021 and 2020, the Bank is compliant with the applicable reserve requirements (Note 13).

Time deposit facility is a key liquidity absorption facility used by the BSP for active liquidity management. Time deposit facilities earn interests ranging from 1.59% to 1.87% and 1.50% to 4.13% in 2021 and 2020, respectively, with maturity ranging from 30 to 90 days.

Securities facility is one of BSP's liquidity mopping tool to manage inflation which is offered only under a 28-day tenor. Securities facility earn interests ranging from 1.72% to 1.79% in 2021 with a maturity of 28 days.

Overnight deposit facility is a standing liquidity window that absorbs residual or leftover liquidity from BSP operations. Overnight deposit facilities earn an interest rate of 1.50% in 2021 and 2020 with a maturity of one day.

Overnight reverse repurchase is a placement made by the Bank to BSP. The reverse repurchase facility of the BSP is an overnight facility where BSP acts as a seller of government securities. The securities are offered using a fixed-rate and full-allotment method, where individual bidders are awarded a portion of the total offer depending on their bid size. Overnight reverse repurchase facility earn an interest rate of 2.00% in 2021 and 2020 with a maturity of one day.

Interest income on BSP placements amounted to ₱33.84 million and ₱16.71 million in 2021 and 2020, respectively.

Due from other banks consists of:

	2021	2020
Demand deposit	P102,804,668	P302,193,460
Savings deposit	10,879,310	29,114,402
	<b>P113,683,978</b>	<b>P331,307,862</b>

Due from other banks consist of funds deposited in domestic banks which are used as part of the Bank's working capital. Demand and savings deposits bear annual interest rates ranging from 0.05% to 0.63% and from 0.30% to 3.25% for the years ended December 31, 2021 and 2020, respectively.

Interest income on due from other banks amounted to P0.48 million and P1.70 million in 2021 and 2020, respectively.

## 7. Loans and Receivables

This account consists of:

	2021	2020
Loans and discounts:		
Microfinance	P5,095,491,814	P5,220,748,965
SME	1,213,423,141	992,795,756
	<b>6,308,914,955</b>	6,213,544,721
Unquoted debt securities	128,555,491	126,792,049
	<b>6,437,470,446</b>	6,340,336,770
Unearned interest income	(6,289,410)	(15,600,561)
	<b>6,431,181,036</b>	6,324,736,209
Other receivables:		
Accrued interest receivable	150,913,860	137,138,842
Accounts receivable (Note 22)	6,705,923	19,956,136
Sales contract receivable	2,095,265	2,095,265
	<b>6,590,896,084</b>	6,483,926,452
Less allowance for credit and impairment losses	386,447,401	267,919,267
	<b>P6,204,448,683</b>	<b>P6,216,007,185</b>

Microfinance loans amounting to P44.16 million and P492.00 million were held as collateral for borrowings with the International Finance Corporation as of December 31, 2021 and 2020 (Note 14).

Loans and discounts earn the following interest rates:

	2021	2020
Loans and discounts:		
Microfinance	11.95%-69.41%	9.57%-86.44%
SME	4.20%-90.93%	5.90%-88.67%

Unquoted debt securities include Micro, Small and Medium Enterprise Notes and Agrarian Reform Bonds with maturity ranging from one to ten years and interest ranging from 1.01% to 4.64% and from 2.00% to 5.36% in 2021 and 2020, respectively. Amortization of discount or premium on loans amounted to P1.76 million premium and P5.88 million discount in 2021 and 2020, respectively.

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

	2021	2020
Loans and discounts:		
Microfinance	P2,180,577,200	P1,503,791,337
SME	121,744,918	93,707,067
Unquoted debt securities	2,757,751	4,048,289
	<b>P2,305,079,869</b>	<b>P1,601,546,693</b>

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

	2021			
	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Loss allowance at January 1, 2021	P12,858,252	P-	P145,873,354	P158,731,606
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 3	(12,437,855)	-	12,437,855	-
Transfer from Stage 3 to Stage 1	90,966	-	(90,966)	-
New financial assets originated or purchased	121,612,129	-		121,612,129
Changes in PDs/LGDs/EADs	34,697,002	-	206,253,578	240,950,580
Financial assets derecognized during the period	(61,219,612)	-		(61,219,612)
<b>Total net P&amp;L charge during the period</b>	<b>82,742,630</b>	<b>-</b>	<b>218,600,467</b>	<b>301,343,097</b>
Other movements without P&L impact				
Write-offs, foreclosures and other movements		-	(206,289,031)	(206,289,031)
<b>Total movements without P&amp;L impact</b>		<b>-</b>	<b>(206,289,031)</b>	<b>(206,289,031)</b>
<b>Loss allowance at December 31, 2021</b>	<b>P95,600,882</b>	<b>P-</b>	<b>P158,184,790</b>	<b>P253,785,672</b>

	2020			
	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Loss allowance at January 1, 2020	P49,681,643	P-	P130,978,843	P180,660,486
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	(4,579,449)	-	4,579,449	-
Transfer from Stage 2 to Stage 1	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 1	697,443	-	(697,443)	-
Transfer from Stage 3 to Stage 2	-	-	-	-
New financial assets originated or purchased	35,485,380	-		35,485,380
Changes in PDs/LGDs/EADs	(16,544,638)	-	52,770,413	36,225,775
Financial assets derecognized during the period	(51,882,127)	-	(32,787,372)	(84,669,499)
<b>Total net P&amp;L charge during the period</b>	<b>(36,823,391)</b>	<b>-</b>	<b>23,865,047</b>	<b>(12,958,344)</b>
Other movements without P&L impact				
Write-offs, foreclosures and other movements	-	-	(8,970,536)	(8,970,536)
<b>Total movements without P&amp;L impact</b>		<b>-</b>	<b>(8,970,536)</b>	<b>(8,970,536)</b>
<b>Loss allowance at December 31, 2020</b>	<b>P12,858,252</b>	<b>P-</b>	<b>P145,873,354</b>	<b>P158,731,606</b>

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

	2021			
	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
<b>Loss allowance at January 1, 2021</b>	<b>₱40,218,618</b>	<b>₱988,706</b>	<b>₱61,101,686</b>	<b>₱102,309,010</b>
<b>Movements with P&amp;L impact</b>				
Transfers:				
Transfer from Stage 1 to Stage 2	(753,447)	753,447	–	–
Transfer from Stage 1 to Stage 3	(14,470,459)	–	14,470,459	–
Transfer from Stage 2 to Stage 1	396,781	(396,781)	–	–
Transfer from Stage 2 to Stage 3	–	(987,598)	987,598	–
Transfer from Stage 3 to Stage 1	3,812,538	–	(3,812,538)	–
New financial assets originated or purchased	48,338,538	–	–	48,338,538
Changes in PDs/LGDs/EADs	21,824,098	2,515,709	98,556,874	122,896,681
Financial assets derecognized during the period	(37,544,506)	(605,101)	(76,019,705)	(114,169,312)
<b>Total net P&amp;L charge during the period</b>	<b>21,603,543</b>	<b>1,279,676</b>	<b>34,182,688</b>	<b>57,065,907</b>
<b>Other movements without P&amp;L impact</b>				
Write-offs, foreclosures and other movements	–	–	(31,836,164)	(31,836,164)
<b>Total movements without P&amp;L impact</b>			<b>(31,836,164)</b>	<b>(31,836,164)</b>
<b>Loss allowance at December 31, 2021</b>	<b>₱61,822,161</b>	<b>₱2,268,382</b>	<b>₱63,448,210</b>	<b>₱127,538,753</b>

	2020			
	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
<b>Loss allowance at January 1, 2020</b>	<b>₱10,335,798</b>	<b>₱5,564,361</b>	<b>₱76,027,936</b>	<b>₱91,928,095</b>
<b>Movements with P&amp;L impact</b>				
Transfers:				
Transfer from Stage 1 to Stage 2	(823,294)	823,294	–	–
Transfer from Stage 1 to Stage 3	(500,076)	–	500,076	–
Transfer from Stage 2 to Stage 1	5,451,654	(5,451,654)	–	–
Transfer from Stage 2 to Stage 3	–	(914,635)	914,635	–
Transfer from Stage 3 to Stage 1	12,051,052	–	(12,051,052)	–
Transfer from Stage 3 to Stage 2	–	637,837	(637,837)	–
New financial assets originated or purchased	5,832,613	–	–	5,832,613
Changes in PDs/LGDs/EADs	10,742,869	7,889,110	44,000,032	62,632,011
Financial assets derecognized during the period	(2,871,998)	(7,559,607)	(32,301,398)	(42,733,003)
<b>Total net P&amp;L charge during the period</b>	<b>29,882,820</b>	<b>(4,575,655)</b>	<b>424,456</b>	<b>25,731,621</b>
<b>Other movements without P&amp;L impact</b>				
Write-offs, foreclosures and other movements	–	–	(15,350,706)	(15,350,706)
<b>Total movements without P&amp;L impact</b>			<b>(15,350,706)</b>	<b>(15,350,706)</b>
<b>Loss allowance at December 31, 2020</b>	<b>₱40,218,618</b>	<b>₱988,706</b>	<b>₱61,101,686</b>	<b>₱102,309,010</b>

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

	2021			
	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
<b>Gross carrying amount and accrued interest receivables as at January 1, 2021</b>	<b>₱4,764,621,050</b>	<b>₱–</b>	<b>₱569,802,633</b>	<b>₱5,334,423,683</b>
Transfers:				
Transfer from Stage 1 to Stage 2	(379,448,165)	–	379,448,165	–
Transfer from Stage 3 to Stage 1	2,775,155	–	(2,775,155)	–
New financial assets originated or purchased	7,125,029,471	–	–	7,125,029,471
Collections of principal and interest	(2,408,788,627)	–	(91,819,146)	(2,500,607,773)
Financial assets derecognized during the period	(4,523,093,683)	–	–	(4,523,093,683)
Financial assets written-off during the period	–	–	(206,289,031)	(206,289,031)
<b>Gross carrying amount and accrued interest receivables as at December 31, 2021</b>	<b>₱4,581,095,201</b>	<b>₱–</b>	<b>₱648,367,466</b>	<b>₱5,229,462,667</b>

	2020				Total
	ECL Staging			Total	
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL		
Gross carrying amount and accrued interest receivables as at January 1, 2020	₱5,100,354,815	₱–	₱131,339,481	₱5,231,694,296	
Transfers:					
Transfer from Stage 1 to Stage 3	(532,997,326)	–	532,997,326	–	
Transfer from Stage 3 to Stage 1	1,090,047	–	(1,090,047)	–	
New financial assets originated or purchased	6,707,657,072	–	–	6,707,657,072	
Collections of principal and interest	(1,908,267,706)	–	(68,445,092)	(1,976,712,798)	
Financial assets derecognized during the period	(4,603,215,852)	–	(16,028,499)	(4,619,244,351)	
Financial assets written-off during the period	–	–	(8,970,536)	(8,970,536)	
Gross carrying amount and accrued interest receivables as at December 31, 2020	₱4,764,621,050	₱–	₱569,802,633	₱5,334,423,683	

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

	2021				Total
	ECL Staging			Total	
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL		
Gross carrying amount and accrued interest receivables as at January 1, 2021	₱896,927,279	₱9,987,938	₱107,274,104	₱1,014,189,321	
Transfers:					
Transfer from Stage 1 to Stage 2	(16,817,953)	16,817,953	–	–	
Transfer from Stage 1 to Stage 3	(119,942,800)	–	119,942,800	–	
Transfer from Stage 2 to Stage 1	3,662,916	(3,662,916)	–	–	
Transfer from Stage 2 to Stage 3	–	(5,276,290)	5,276,290	–	
Transfer from Stage 3 to Stage 1	9,166,072	–	(9,166,072)	–	
New financial assets originated or purchased	704,306,595	–	–	704,306,595	
Collections of principal and interest	(344,204,157)	(2,445,414)	(66,446,751)	(413,096,322)	
Financial assets derecognized during the period	(41,156,427)	–	(2,685,682)	(43,842,109)	
Financial assets written-off during the period	–	–	(31,836,164)	(31,836,164)	
Gross carrying amount and accrued interest receivables as at December 31, 2021	₱1,091,941,525	₱15,421,271	₱122,358,525	₱1,229,721,321	

	2020				Total
	ECL Staging			Total	
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL		
Gross carrying amount and accrued interest receivables as at January 1, 2020	₱965,010,882	₱108,719,615	₱101,991,373	₱1,175,721,870	
Transfers:					
Transfer from Stage 1 to Stage 2	(14,723,777)	14,723,777	–	–	
Transfer from Stage 1 to Stage 3	(58,203,285)	–	58,203,285	–	
Transfer from Stage 2 to Stage 1	44,114,000	(44,114,000)	–	–	
Transfer from Stage 2 to Stage 3	–	(7,401,099)	7,401,099	–	
Transfer from Stage 3 to Stage 1	18,834,822	–	(18,834,822)	–	
Transfer from Stage 3 to Stage 2	–	971,198	(971,198)	–	
New financial assets originated or purchased	328,177,081	–	–	328,177,081	
Collections of principal and interest	(287,296,384)	(5,913,317)	(19,030,784)	(312,240,485)	
Financial assets derecognized during the period	(98,986,060)	(56,998,236)	(6,134,143)	(162,118,439)	
Financial assets written-off during the period	–	–	(15,350,706)	(15,350,706)	
Gross carrying amount and accrued interest receivables as at December 31, 2020	₱896,927,279	₱9,987,938	₱107,274,104	₱1,014,189,321	

While the Bank recognizes in the statements of income the movements in the expected credit losses computed using the models, the Bank also complies with BSP's regulatory requirement to appropriate a portion of its surplus at an amount necessary to bring at least the allowance for credit losses to 1.00% of all outstanding Stage 1 loan accounts. In 2021 and 2020, the amount of surplus reserve for this purpose increased by nil and ₱77.33 million, respectively.

### Regulatory Reporting

In accordance with BSP regulations, the Bank considers loans with one-day past due as part of its portfolio-at-risk (PAR). As of December 31, 2021 and 2020, the Bank's PAR amounted to ₱783.72 million and ₱687.06 million, respectively. The allowance for credit losses recognized for past due loans amounted to ₱225.02 million and ₱207.96 million as of December 31, 2021 and 2020, respectively.

As of December 31, 2021 and 2020, performing and nonperforming loans (NPLs) based on Circular No. 772 and as reported to the BSP amounted as follows:

	2021	2020
<b>Microfinance Loans</b>		
Performing loans		
Business	<b>₱3,575,387,956</b>	₱4,020,541,817
Educational	<b>26,035,566</b>	28,195,115
Others	<b>845,700,826</b>	602,209,400
	<b>4,447,124,348</b>	4,650,946,332
Nonperforming loans		
Business	<b>573,415,221</b>	479,143,782
Educational	<b>7,267,766</b>	12,847,328
Others	<b>67,684,479</b>	77,811,523
	<b>648,367,466</b>	569,802,633
<b>Balance at end of year</b>	<b>₱5,095,491,814</b>	₱5,220,748,965
<b>SME Loans</b>		
Performing loans		
Agricultural	<b>₱79,965,621</b>	₱71,410,246
Business	<b>651,408,631</b>	450,056,109
Housing	<b>230,832,694</b>	220,771,782
Fringe	<b>15,343,285</b>	19,065,515
Car	<b>98,093,114</b>	114,230,062
	<b>1,075,643,345</b>	875,533,714
Past due but not impaired		
Agricultural	<b>3,777,761</b>	1,712,358
Business	<b>9,984,930</b>	6,762,701
Housing	<b>–</b>	1,091,333
Fringe	<b>794,406</b>	–
Car	<b>864,174</b>	421,546
	<b>15,421,271</b>	9,987,938
Nonperforming loans		
Agricultural	<b>23,039,505</b>	20,345,362
Business	<b>79,221,969</b>	72,529,165
Housing	<b>11,536,378</b>	9,229,909
Fringe	<b>2,858,538</b>	1,726,358
Car	<b>5,702,135</b>	3,443,310
	<b>122,358,525</b>	107,274,104
<b>Balance at end of year</b>	<b>₱1,213,423,141</b>	₱992,795,756

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

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

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

In the case of loans that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered nonperforming at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches ten percent (10.00%) of the total receivable balance.

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

The following table shows the secured and unsecured portions of loans and discounts as of December 31, 2021 and 2020:

	2021	2020
Secured portion		
Deposit hold-out (Note 13)	₱1,277,225,771	₱1,187,459,709
Chattel mortgage	144,533,643	165,033,982
	1,421,759,414	1,352,493,691
Unsecured portion	4,887,155,541	4,861,051,030
	<b>₱6,308,914,955</b>	<b>₱6,213,544,721</b>

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

	2021		2020	
	Amount	%	Amount	%
Wholesale trade and retail trade repair of motor vehicles, motorcycles, and personal and household goods	₱3,145,589,148	49.86	₱3,313,045,861	53.32
Restaurant and hotels	559,246,266	8.86	477,293,995	7.68
Real estate, renting and business activities	552,681,025	8.76	191,520,941	3.08
Agriculture	529,416,759	8.39	779,219,046	12.54
Financial intermediation	493,857,958	7.83	1,540,648	0.02
Fishery and forestry	121,432,168	1.92	100,135,121	1.61
Manufacturing	121,278,546	1.92	354,263,872	5.70
Transport, storage and communication	64,180,180	1.02	164,361,236	2.65
Education	34,785,394	0.55	42,064,069	0.68
Private households with employed persons	22,506,934	0.36	4,089,141	0.07
Construction	7,346,817	0.12	458,529,848	7.38
Health and social work	6,866,963	0.11	142,766,210	2.30
Mining and quarrying	116,171	0.00	1,037,126	0.02
Electricity, gas and water	-	0.00	120,840,185	1.94
Other community, social, and personal service activities	649,610,626	10.30	62,837,422	1.01
	<b>₱6,308,914,955</b>	<b>100.00</b>	<b>₱6,213,544,721</b>	<b>100.00</b>

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

---

**8. Financial Assets at Amortized Cost**

As of December 31, 2021 and 2020, held-to-collect investments have an outstanding balance amounting to ₱147.52 million and ₱50.85 million, respectively. This account represents investments in government securities acquired through Land Bank of the Philippines and Bank of the Philippine Islands bearing coupon rates and effective rates ranging from 2.38% to 6.25% and 4.88% to 6.25% with terms of three (3) to five (5) years in 2021 and 2020, respectively. The Bank's purpose for the investment is for compliance with the 20.00% minimum liquidity ratio requirement by BSP (see Note 17).

Financial assets at amortized cost earned interest income amounting to ₱3.48 million and ₱3.11 million in 2021 and 2020, respectively.







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

	2021	2020
Property and equipment	P122,198,027	P117,464,381
Intangible assets (Note 11)	5,241,868	3,505,655
	<b>P127,439,895</b>	<b>P120,970,036</b>

Construction in progress represents the cost of materials, labor, and other capitalizable expenditures incurred in connection with leasehold improvements of bank premises under establishment or renovation. This was completed in February 2021.

Disposal of property and equipment resulted to a loss of P0.33 million and P0.11 million in 2021 and 2020, respectively. This is included under other income – net gain (loss) on sale of fixed and investment properties.

There are no restrictions on the titles of the Bank's property and equipment and the Bank does not have any contractual commitments for the acquisition of property and equipment as of December 31, 2021 and 2020.

## 10. Investment Properties

The composition of and movements in this account follow:

	2021			
	Land	Building	Asset held by SPV	Total
<b>Cost</b>				
Balance at beginning of year	P7,575,855	P231,001	P956,930	P8,763,786
Disposals	(2,604,435)	–	(580,305)	(3,184,740)
Balance at end of year	4,971,420	231,001	376,625	5,579,046
<b>Accumulated depreciation</b>	–	231,000	–	231,000
<b>Net book value</b>	<b>P4,971,420</b>	<b>P1</b>	<b>P376,625</b>	<b>P5,348,046</b>
	2020			
	Land	Building	Asset held by SPV	Total
<b>Cost</b>				
Balance at beginning of year	P8,246,355	P231,001	P1,642,665	P10,120,021
Disposals	(670,500)	–	(685,735)	(1,356,235)
Balance at end of year	7,575,855	231,001	956,930	8,763,786
<b>Accumulated depreciation</b>	–	231,000	–	231,000
Allowance for impairment losses				
Balance at beginning of year	154,023	–	–	154,023
Disposals	(154,023)	–	–	(154,023)
Balance at end of year	–	–	–	–
<b>Net book value</b>	<b>P7,575,855</b>	<b>P1</b>	<b>P956,930</b>	<b>P8,532,786</b>

Direct operating expenses on investment properties amounting to P0.30 million and P0.37 million in 2021 and 2020 are included under 'Taxes and licenses'. In 2021 and 2020, all of the Bank's investment properties are non-revenue generating. The fair values of investment properties are disclosed in Note 4.

The Bank received ₱4.87 million and ₱1.06 million in 2021 and 2020, respectively, for the sale of investment properties. Sale of investment properties resulted to ₱1.68 million gain and ₱0.13 million loss in 2021 and 2020, respectively. It is included under other income – net gain (loss) on sale of fixed and investment properties.

*Assets held by a Special Purpose Vehicle*

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

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

Major provisions of the SPA follow:

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

---

## 11. Intangible Assets

The composition of and movements in this account follow:

	2021	2020
<b>Cost</b>		
Balance at beginning of year	<b>₱37,480,941</b>	₱18,179,325
Acquisition	–	19,301,616
Balance at end of year	<b>37,480,941</b>	37,480,941
<b>Accumulated amortization</b>		
Balance at beginning of year	<b>20,159,730</b>	16,654,075
Amortization	<b>5,241,868</b>	3,505,655
Balance at end of year	<b>25,401,598</b>	20,159,730
<b>Net book value</b>	<b>₱12,079,343</b>	₱17,321,211

The account consists of software costs such as Microsoft license, system customization, data analytics platform and data ingest development.

---

## 12. Other Assets

This account consists of

	2021	2020
<b>Financial assets</b>		
Refundable deposits	<b>₱15,721,995</b>	₱19,919,927
<b>Nonfinancial assets</b>		
Prepaid expenses (Note 22)	<b>55,072,853</b>	64,729,010
Stationeries and supplies	<b>24,556,322</b>	26,986,963
Application subscriptions and cash bonds	<b>3,400,000</b>	3,400,000
	<b>₱98,751,170</b>	₱115,035,900

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

Application subscriptions are membership fees to the Philippine Clearing House Corporation and Bayad Center, and cash bonds are with Bancnet for its ATM operations.

---

## 13. Deposit Liabilities

The Bank's deposit liabilities follow:

	2021	2020
Savings deposit		
Regular savings	<b>₱4,896,151,438</b>	₱4,206,259,490
Special savings	<b>1,735,129,540</b>	1,357,559,295
Demand deposit	<b>51,590,609</b>	84,524,387
	<b>₱6,682,871,587</b>	₱5,648,343,172

Regular savings deposit liabilities include the aggregate compulsory savings of ₱50.00 per week collected from each microfinance member in 2021 and 2020. Under an assignment agreement, the pledge savings earn annual interest of 1.50% in 2021 and 2020. Pledge savings equivalent to 15.00% of the loan proceeds serves as guarantee fund of outstanding receivables from members (Note 7).

Demand deposit liabilities are non-interest earning deposit account.

Savings deposits include regular and special savings deposits. Regular savings deposits earn annual interest ranging from 0.50% to 3.00% and 1.00% to 6.00% in 2021 and 2020, respectively. Special savings deposits earn interest ranging from 0.75% to 1.60% and 1.60% to 4.00% in 2021 and 2020, respectively.

Details of interest expense on deposit liabilities follow:

	2021	2020
Regular savings	<b>₱115,991,249</b>	₱104,159,838
Special savings	<b>38,379,459</b>	32,192,141
	<b>₱154,370,708</b>	₱136,351,979

BSP requires 3.00% reserve requirement for thrift banks. Available reserves as of December 31, 2021 and 2020 amounted to ₱205.13 million and ₱174.50 million, respectively (Note 6). As of December 31, 2021 and 2020, the Bank is compliant with the applicable reserve requirements.

#### 14. Bills Payable

The composition of and movements in this account follow:

	2021	2020
<b>Face value</b>		
Balance at beginning of year	₱1,099,120,000	₱1,163,760,000
Availment	–	1,350,000,000
Principal payments	(1,074,640,000)	(1,414,640,000)
<b>Balance at end of year</b>	<b>24,480,000</b>	<b>1,099,120,000</b>
<b>Unamortized transaction cost</b>		
Balance at beginning of year	8,211,412	6,881,309
Availment	–	11,852,700
Amortization	(7,947,592)	(10,522,597)
<b>Balance at end of year</b>	<b>263,820</b>	<b>8,211,412</b>
<b>Carrying value</b>	<b>₱24,216,180</b>	<b>₱1,090,908,588</b>

##### Local banks

These are promissory notes from various local banks with term of one year obtained for working capital requirement of the Bank with annual interest rates ranging from 3.00% to 5.00% in 2021 and 2020, respectively. The outstanding bills payable from local banks is nil and ₱800.00 million as of December 31, 2021 and 2020, respectively.

##### International Finance Corporation (IFC)

On December 3, 2015, the Bank entered into a Loan Agreement (“the Agreement”) with IFC for the availment of loan (“the Loan”) amounting to ₱160.00 million which will mature on December 15, 2022. The purpose of the loan is to provide funds to be used by the Bank for financing its lending operations to small and medium-sized enterprises and microfinance entities. The note bears a Philippine fixed base rate of 6.56%, inclusive of 2.70% spread, and has a tenor of seven years. The principal of the note is repaid semi-annually.

On December 18, 2020, the Bank entered into a Loan Agreement (“the Agreement”) with IFC for the availment of loan (“the Loan”) amounting to ₱250.00 million which matured on November 29, 2021. The loan was used by the Bank to finance its lending operations to small and medium-sized enterprises and microfinance entities. The note bore a Philippine fixed base rate of 3.49%, inclusive of 1.70% spread, and had a tenor of one year.

Borrowings from IFC contain the following embedded derivatives:

- Prepayment option which allows the Bank to redeem the loan (or portion of the loan not less than ₱45.00 million) prior to respective maturities; and
- Cross currency swap which allows the parties to exchange interest payments and principals denominated in different currencies (in USD and Philippine Pesos).

The Bank assessed that these embedded derivatives are clearly and closely related to the host bond instruments, since their redemption price approximate the bonds’ amortized cost on redemption dates.

Accordingly, these embedded derivatives were not accounted for separately from the host bond instruments.

#### *Debt covenants*

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

a. Negative covenants

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

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

b. Financial covenants

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

- Risk Weighted Capital Adequacy Ratio of not less than 10.00%
- Equity to Assets Ratio of not less than 5.00%
- Economic Group Exposure Ratio of not more than 15.00%
- Aggregate Large Exposure Ratio of not more than 400.00%
- Related Party Exposure Ratio of not more than 15.00%
- Open Credit Exposures Ratio of not more than 25.00%
- Fixed Assets Plus Equity Participants Ratio of not more than 35.00%
- Aggregate Foreign Exchange Risk Ratio of not more than 25.00%

- Single Currency Foreign Exchange Risk Ratio of not more than 10.00%
- Interest Rate Risk Ratio of not less than -10.00% and not more than 10.00%
- Aggregate Interest Rate Risk Ratio of not less than -20.00% and not more than 20.00%
- Foreign Currency Maturity Gap Ratio of not less than (i.e., more negative than) -150.00%;
- Aggregate Negative Maturity Gap Ratio of not less than (i.e., more negative than) -300.00%.

The period of compliance with the above covenants commenced on March 31, 2017. As at December 31, 2021 and 2020, the Bank is in compliance with the above covenants. Microfinance loans amounting to ₱44.16 million and ₱492.00 million were held as collateral for the above borrowings as of December 31, 2021 and 2020, respectively (Note 7).

Interest expense on bills payable in 2021 and 2020 amounted to ₱20.43 million and ₱49.64 million, respectively. Amortization of unamortized transaction costs amounted to ₱7.95 million and ₱10.52 million in 2021 and 2020, respectively.

## 15. Accrued Expenses and Other Liabilities

Accrued expenses include:

	2021	2020
<b>Financial liabilities</b>		
Accrued interest payable	₱46,963,443	₱53,571,036
Accrual for vacation leave credits	13,294,515	13,076,063
Accrued other expenses	19,312,009	20,137,012
	<b>₱79,569,967</b>	<b>₱86,784,111</b>

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

Other liabilities include:

	2021	2020
<b>Financial liabilities</b>		
Lease liabilities (Note 23)	₱141,731,517	₱118,876,632
Accounts payable (Note 22)	5,470,962	9,628,654
Dividends payable	320,590	187,583
	<b>147,523,069</b>	<b>128,692,869</b>
<b>Nonfinancial liabilities</b>		
Gross receipts tax	₱29,475,808	₱29,883,139
Withholding taxes	12,904,260	13,652,640
Others	11,057,115	13,765,715
	<b>53,437,183</b>	<b>57,301,494</b>
	<b>₱200,960,252</b>	<b>₱185,994,363</b>

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

## 16. Maturity Analysis of Assets and Liabilities

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

	2021			2020		
	Less than Twelve Months	Over Twelve Months	Total	Less than Twelve Months	Over Twelve Months	Total
<b>Financial Assets</b>						
Cash and other cash items	₱57,091,793	₱-	₱57,091,793	₱48,177,003	₱-	₱48,177,003
Due from BSP	1,634,133,584	-	1,634,133,584	1,322,053,915	-	1,322,053,915
Due from other banks	113,683,978	-	113,683,978	331,307,862	-	331,307,862
Loans and receivables - gross	5,697,863,297	899,322,197	6,597,185,494	5,650,166,929	849,360,084	6,499,527,013
Financial assets at amortized cost	-	147,523,532	147,523,532	20,000,000	30,850,000	50,850,000
Other assets - refundable deposits	-	15,721,995	15,721,995	13,661,573	6,258,354	19,919,927
	<b>7,502,772,652</b>	<b>1,062,567,724</b>	<b>8,565,340,376</b>	<b>7,385,367,282</b>	<b>886,468,438</b>	<b>8,271,835,720</b>
<b>Nonfinancial Assets</b>						
Property and equipment - gross	-	571,658,514	571,658,514	-	517,267,402	517,267,402
Investment properties - gross	-	5,579,046	5,579,046	-	8,763,786	8,763,786
Intangible assets - gross	-	37,480,941	37,480,941	-	37,480,941	37,480,941
Retirement asset	-	82,867,797	82,867,797	-	98,343,779	98,343,779
Deferred tax asset	-	85,060,818	85,060,818	-	66,300,305	66,300,305
Other assets	79,629,175	3,400,000	83,029,175	91,715,973	3,400,000	95,115,973
	<b>79,629,175</b>	<b>786,047,116</b>	<b>865,676,291</b>	<b>91,715,973</b>	<b>731,556,213</b>	<b>823,272,186</b>
	<b>₱7,582,401,827</b>	<b>₱1,848,614,840</b>	<b>9,431,016,667</b>	<b>₱7,477,083,255</b>	<b>₱1,618,024,651</b>	<b>9,095,107,906</b>
Less: Allowance for credit and impairment losses			386,447,401			267,919,267
Accumulated depreciation and amortization			312,258,241			258,549,495
Unearned interest			6,289,410			15,600,561
			<b>₱8,726,021,615</b>			<b>₱8,553,038,583</b>
<b>Financial Liabilities</b>						
Deposit liabilities						
Demand	₱51,590,609	₱-	₱51,590,609	₱84,524,387	₱-	₱84,524,387
Savings	6,626,521,055	4,759,923	6,631,280,978	5,563,109,552	709,233	5,563,818,785
Bills payable	24,216,180	-	24,216,180	1,066,479,142	24,429,446	1,090,908,588
Accrued expenses and other liabilities						
Lease liabilities	67,796,408	73,935,109	141,731,517	15,879,717	102,996,915	118,876,632
Accrued interest payable	46,963,443	-	46,963,443	53,571,036	-	53,571,036
Accrued expenses	19,312,009	-	19,312,009	20,137,113	-	20,137,113
Accrued vacation leave credits	-	13,294,515	13,294,515	-	13,076,063	13,076,063
Accounts payable	5,470,962	-	5,470,962	9,628,654	-	9,628,654
Dividends payable	320,590	-	320,590	187,483	-	187,483
	<b>6,842,191,256</b>	<b>91,989,547</b>	<b>6,934,180,803</b>	<b>6,813,517,084</b>	<b>141,211,657</b>	<b>6,954,728,741</b>
<b>Nonfinancial Liabilities</b>						
Income tax payable	23,497,807	-	23,497,807	252,638	-	252,638
Other liabilities						
Accrued taxes	42,380,068	-	42,380,068	43,535,779	-	43,535,779
Others	11,057,115	-	11,057,115	13,765,714	-	13,765,714
	<b>76,934,990</b>	<b>-</b>	<b>76,934,990</b>	<b>57,554,131</b>	<b>-</b>	<b>57,554,131</b>
	<b>₱6,919,126,246</b>	<b>₱91,989,547</b>	<b>₱7,011,115,793</b>	<b>₱6,871,071,215</b>	<b>₱141,211,657</b>	<b>₱7,012,282,872</b>

## 17. Equity

### Capital Stock

As of December 31, 2021 and 2020, the Bank's capital stock consists of:

	2021		2020	
	Shares	Amount	Shares	Amount
Par value – ₱ 100 per share				
Authorized	15,000,000	₱1,500,000,000	15,000,000	₱1,500,000,000
Issued and outstanding				
Beginning balance	11,556,228	1,155,622,800	9,999,937	999,993,700
Issuances of stock dividends	1,192,496	119,249,600	674,960	67,496,000

(Forward)



	2021		2020	
	Shares	Amount	Shares	Amount
Issuances of capital stock	-	-	483,387	48,338,650
Issuance of capital stock to settle deposit for future stock subscription	-	₱-	397,881	₱39,788,150
Issuance of capital stock from settlement of subscriptions receivable	<b>1,577,425</b>	<b>157,742,500</b>	63	6,300
	<b>14,326,149</b>	<b>1,432,614,900</b>	11,556,228	1,155,622,800
Subscribed				
Beginning balance	-	-	63	6,300
Issuance of capital stock from settlement of subscriptions receivable	-	-	(63)	(6,300)
	-	-	-	-
	<b>14,326,149</b>	<b>₱1,432,614,900</b>	11,556,228	₱1,155,622,800

#### Deposit for Future Stock Subscription

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

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

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

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

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

#### Dividends

Dividends declared by the Bank in 2021 and 2020 are the following:

Date of declaration	Cash dividends		Record date
	Per share	Total amount	
November 13, 2021	₱2.25	₱33.75 million	October 31, 2021
May 8, 2021	₱5.50	₱59.62 million	April 15, 2021
December 12, 2020	₱4.00	₱45.00 million	October 31, 2020

Date of declaration	Stock dividends		Record date
	Type	Total amount	
May 8, 2021	Common	₱119.25 million	April 15, 2021
December 12, 2020	Common	₱67.50 million	October 31, 2020

In the Resolution No. 010-S-2021 dated May 8, 2021, the stockholders of the Bank approved the declaration of stock dividends totaling ₱119.25 million.

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

Stockholders entitled to receive fractional shares resulting from stock dividends declared by the Bank shall receive cash in lieu of capital stocks. Total stock dividends paid in cash amounted to nil and ₱4,000 in 2021 and 2020, respectively.

#### Capital Management

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

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

#### Regulatory Qualifying Capital

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

Under current Banking regulations, the combined capital accounts of each Bank should not be less than an amount equal to ten percent (10.00%) of its risk assets. Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board of the BSP.



The CAR of the Bank as of December 31, 2021 and 2020, as reported to the BSP, is shown in the table below:

	2021	2020
Common Equity Tier 1 (CET1)	<b>₱1,672,170,241</b>	₱1,539,532,320
Tier 1	<b>1,582,682,341</b>	1,464,104,334
Tier 2	<b>47,609,124</b>	48,096,842
<b>Total qualifying capital</b>	<b>1,630,291,465</b>	1,512,201,176
Risk-weighted assets	<b>₱7,520,817,784</b>	₱7,587,147,596
CET1	<b>22.23%</b>	20.29%
Tier 1 capital ratio	<b>21.05%</b>	19.30%
Tier 2 capital ratio	<b>0.63%</b>	0.63%
CAR	<b>21.68%</b>	19.93%

As of December 31, 2021 and 2020, the Bank's CAR and capital are in compliance with the regulatory capital requirements.

As of December 31, 2021 and 2020, the Bank's minimum liquidity ratio is 52.91% and 42.13%, respectively. The Bank is compliant with the applicable BSP requirement.

The Bank has no contingencies and commitments arising from off-balance sheet items as of December 31, 2021 and 2020.

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:

	2021	2020
Return on average equity	<b>6.64%</b>	2.66%
Return on average assets	<b>1.25%</b>	0.49%
Net interest margin	<b>26.99%</b>	18.82%

#### 18. Miscellaneous Income

This account consists of:

	2021	2020
Fees from remittances	<b>₱10,956,567</b>	₱2,284,253
Loans-related fees and other charges	<b>8,905,210</b>	11,943,263
Recoveries from written-off accounts	<b>1,497,346</b>	1,307,878
Overages	<b>1,282,046</b>	1,397,740
Deposit-related fees and other charges	<b>1,222,763</b>	6,706,928
Commission income	<b>35,349</b>	820,501
Others	<b>3,264,815</b>	1,115,195
	<b>₱27,164,096</b>	₱25,575,758

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

---

## 19. Miscellaneous Expenses

This account consists of:

	2021	2020
Insurance	<b>₱19,403,487</b>	₱13,510,317
Fines, penalties, and other charges	<b>9,477,953</b>	2,035,672
Honorarium and director's fees	<b>8,523,648</b>	4,366,013
Health and medical expenses	<b>7,742,273</b>	6,500,578
Supervision and examination fee	<b>2,269,746</b>	1,980,321
Membership fees and dues	<b>2,002,243</b>	775,527
Advertising and publicity	<b>1,947,813</b>	668,379
Donations and charitable contributions	<b>1,026,590</b>	3,407,668
Periodicals and magazines	<b>1,023,429</b>	583,056
Litigation expense	<b>317,412</b>	92,462
Community development	–	352,865
Others	<b>5,100,623</b>	2,018,968
	<b>₱58,835,217</b>	₱36,291,826

Others include expenses related to meals and accommodations and anniversary celebrations.

---

## 20. Retirement Benefits

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

MERP and Hybrid Plan comply with the requirements of RA No. 7641 (Retirement Law). MERP provides lump sum benefits equivalent to up to 120.00% of final salary for every year of credited service, a fraction of at least six months being considered as one whole year, upon retirement, death, total and permanent disability, or voluntary separation after completion of at least one year of service with the participating companies.

Hybrid Plan provides a retirement benefit equal to 100.00% of the member's employer accumulated value (the Bank's contributions of 8.00% plan salary to Fund A plus credited earnings) and 100.00% of the Member's Employee accumulated value (member's own contributions up to 10.00% of plan salary to Fund B plus credited earnings), if any. Provided that in no case shall 100.00% of the Employee Accumulated Value in Fund A be less than 100.00% of plan salary for every year of credited service. Total retirement expense in 2021 and 2020 related to Hybrid Plan amounted to ₱15.40 million and ₱13.50 million, respectively. The latest actuarial valuation report covers reporting period as of December 31, 2021 and 2020.

Changes in retirement asset are as follows:

	2021		2020	
	January 1	December 31	January 1	December 31
Fair value of plan assets	P310,312,396	P318,379,175	P310,312,396	P318,379,175
Present value of defined benefit obligation	(198,748,289)	(198,748,289)	(198,748,289)	(198,748,289)
Effect of asset ceiling	(13,220,328)	—	(13,220,328)	(11,297,885)
Net benefit cost recognized in the statement of income	—	—	—	—
Current service cost	P—	P—	P—	P—
Net interest	P12,471,620	P13,471,620	P12,471,620	P13,471,620
Net pension expense*	(7,910,883)	(7,349,200)	(7,910,883)	(7,349,200)
Benefits paid	(4,467,220)	(4,467,220)	(4,467,220)	(4,467,220)
Transfer from assets	(3,763,971)	3,763,971	(3,763,971)	3,763,971
Return on plan assets (excluding amount included in net interest)	(4,094,619)	—	(4,094,619)	—
Actuarial changes arising from changes in assumptions	1,479,615	(23,490,673)	1,479,615	(23,490,673)
Actuarial changes arising from changes in financial assumptions	P—	P—	P—	P—
Actuarial changes arising from changes in demographic assumptions	P—	P—	P—	P—
Actuarial changes arising from changes in experience	5,663,863	5,663,863	5,663,863	5,663,863
Changes in the effect of limiting net defined benefit asset to asset ceiling	P—	P—	P—	P—
Subtotal	(4,094,619)	(16,347,195)	(4,094,619)	(16,347,195)
Contribution by employer	P14,230,969	—	P14,230,969	—
Subtotal	(4,094,619)	2,448,612	(4,094,619)	2,448,612
Net defined benefit asset	P98,543,779	P19,631,980	P98,543,779	P19,631,980
Net defined benefit asset	P98,543,779	P19,631,980	P98,543,779	P19,631,980

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

	2021		2020	
	January 1	December 31	January 1	December 31
Fair value of plan assets	P280,695,051	P280,695,051	P280,695,051	P280,695,051
Present value of defined benefit obligation	(172,571,842)	(172,571,842)	(172,571,842)	(172,571,842)
Effect of asset ceiling	(18,304,832)	—	(18,304,832)	—
Net defined benefit asset	P95,782,377	P108,123,209	P95,782,377	P108,123,209
Net benefit cost recognized in the statement of income	—	—	—	—
Current service cost	P—	P—	P—	P—
Net interest	P6,218,279	P6,218,279	P6,218,279	P6,218,279
Net pension expense*	(2,082,805)	(2,082,805)	(2,082,805)	(2,082,805)
Benefits paid	(2,275,242)	2,275,242	(2,275,242)	2,275,242
Transfer from plan assets	(2,275,242)	2,275,242	(2,275,242)	2,275,242
Return on plan assets (excluding amount included in net interest)	(4,744,259)	—	(4,744,259)	—
Actuarial changes arising from changes in demographic assumptions	1,561,492	(11,903,127)	1,561,492	(11,903,127)
Actuarial changes arising from changes in financial assumptions	P—	P—	P—	P—
Actuarial changes arising from changes in experience	10,742,520	10,742,520	10,742,520	10,742,520
Changes in the effect of limiting net defined benefit asset to asset ceiling	P—	P—	P—	P—
Subtotal	(4,744,259)	6,098,592	(4,744,259)	6,098,592
Contribution by employer	P11,986,888	—	P11,986,888	—
Subtotal	(4,744,259)	6,098,592	(4,744,259)	6,098,592
Net defined benefit asset	P98,543,779	P19,631,980	P98,543,779	P19,631,980
Net defined benefit asset	P98,543,779	P19,631,980	P98,543,779	P19,631,980

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

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

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

	2021	2020
Cash and cash equivalents	<b>₱133,781,676</b>	₱143,612,577
Receivables	<b>27,780,878</b>	–
Real estate	–	25,942,116
Investments		
Private bonds	<b>18,323,558</b>	4,747,780
Government securities	<b>141,038,856</b>	127,383,239
Mutual funds	–	1,520,531
Others	<b>7,454,207</b>	7,106,153
<b>Fair value of plan assets</b>	<b>₱328,379,175</b>	₱310,312,396

All plan assets do not have quoted prices in an active market except for government securities. Cash and cash equivalents are deposited in reputable financial institutions and related parties and are deemed to be standard grade. Accrued interest receivables pertain to accruals of interest from time deposits and debt securities.

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

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

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

	2021	2020
Discount rates		
January 1	<b>3.98%</b>	5.54%
December 31	<b>5.15%</b>	3.98%
Future salary increases		
January 1	<b>3.00%</b>	5.00%
December 31	<b>5.00%</b>	3.00%



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

	2021		2020	
	+100bps	-100bps	+100bps	-100bps
Discount rates	<b>(₱27,295,203)</b>	<b>₱32,986,857</b>	(₱23,068,535)	₱27,922,062
Salary rates	<b>32,696,042</b>	<b>(27,569,789)</b>	27,916,115	(23,475,335)

As of December 31, 2021 and 2020, the average duration of the defined benefit obligation is 12.90 years and 12.80 years, respectively.

Expected contribution is ₱14.15 million and ₱16.67 million in 2022 and 2021, respectively.

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

	2021	2020
Less than one year	<b>₱12,631,688</b>	₱10,813,444
More than 1 year to 5 years	<b>65,668,246</b>	55,235,322
More than 5 years to 10 years	<b>104,740,334</b>	89,706,472
More than 10 years to 15 years	<b>159,388,920</b>	117,831,836
More than 15 years to 20 years	<b>230,690,266</b>	161,430,372
More than 20 years to 25 years	<b>299,804,808</b>	198,839,528
More than 25 years	<b>632,464,327</b>	405,115,565

## 21. Income Taxes

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

Income taxes include final income tax which is paid at the rate of 20.00%. This is generally withheld on gross interest income from government securities and other deposit substitutes.

Tax regulations provide that RCIT rate shall be 25.00% and 30.00% in 2021 and 2020, respectively and MCIT rate of 2.00% and 1.00% in 2021 and 2020, respectively. It further states that nondeductible interest expense shall likewise be reduced to 20.00% and 33.00% of interest income subjected to final tax in 2021 and 2020, respectively.

RA No. 9337, *An Act Amending National Internal Revenue Code* provides that the RCIT rate shall be 30.00%. Interest allowed as a deductible expense shall be reduced by 33.00% of interest income subject to final tax. The law also provides for MCIT of 2.00% on modified gross income which is paid if determined to be higher than RCIT. The excess of the MCIT over the RCIT can be carried-over and applied against the RCIT liability for the next three years.

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

- Effective July 1, 2020, regular corporate income tax (RCIT) rate is reduced from 30.00% to 25.00% for domestic and resident foreign corporations. For domestic corporations with net taxable income not exceeding ₱5.00 million and with total assets not exceeding ₱100.00 million

(excluding land on which the business entity's office, plant and equipment are situated) during the taxable year, the RCIT rate is reduced to 20.00%.

- Minimum corporate income tax (MCIT) rate reduced from 2.00% to 1.00% of gross income effective July 1, 2020 to June 30, 2023.

Applying the provisions of the CREATE Act, the Bank is subjected to lower regular corporate income tax rate effective July 1, 2020.

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

The regulations also provide that the MCIT and net operating loss carryover (NOLCO) may be applied against the Bank's income tax liability and taxable income, respectively, over a three-year period from the year of inception. However, on September 30, 2020, the Bureau of Internal Revenue (BIR) issued Revenue Regulations No. 25-2020 implementing Section 4(bbbb) of "Bayanihan to Recover as One Act" which states that the NOLCO incurred for taxable years 2020 and 2021 can be carried over and claimed as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

As of December 31, 2020, the Bank did not consider the provisions of the CREATE Act yet in the income tax computation as reported in the financial statement given that the law was only signed by the President of the Philippines on March 26, 2021 and it was considered as a non-adjusting subsequent event. However, the Bank reflected the lower provision in the 2020 annual income tax return. For financial reporting purposes, the Bank started to use the new tax rate for the income tax computation in the first quarter of 2021. This resulted to a lower provision for current income tax by ₱5.12 million and increase in deferred income tax expense by ₱11.05 million for the year ended December 31, 2021.

Tax regulations also provide for the ceiling on the amount of entertainment, amusement and representation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense for a service company like the Bank is limited to the actual EAR paid or incurred but not to exceed 1.00% of net revenue. EAR expenses of the Bank amounted to ₱6.40 million and ₱6.46 million in 2021 and 2020, respectively.

Provision for (benefit from) income tax consists of:

	2021	2020
RCIT	<b>₱42,326,511</b>	₱-
MCIT	-	20,414,747
Final tax	<b>8,193,422</b>	5,131,970
	<b>50,519,933</b>	25,546,717
Deferred	<b>(15,162,212)</b>	7,188,719
	<b>₱35,357,721</b>	<b>₱32,735,436</b>

Deferred tax recognized in other comprehensive income amounted to ₱3.60 million benefit and ₱1.22 million expense for the years ended December 31, 2021 and 2020, respectively.



Components of deferred tax assets - net are as follows:

	2021	2020
Deferred tax assets on:		
Allowance for credit and impairment losses	₱96,611,850	₱80,375,780
Unamortized past service cost	5,120,828	8,141,933
Accumulated vacation leave	3,323,629	3,922,819
Unearned interest income	662,220	3,883,050
Accumulated depreciation - investment properties	57,750	69,300
Net lease liabilities over right of use assets	845	-
Accrued rent	645	142,484
	<b>105,777,767</b>	<b>96,535,366</b>
Deferred tax liabilities on:		
Retirement asset	20,716,949	29,503,134
Net right-of-use assets over lease liabilities	-	731,927
	<b>20,716,949</b>	<b>30,235,061</b>
	<b>₱85,060,818</b>	<b>₱66,300,305</b>

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

Year	Amount of Excess	Used/Expired	Balance	Expiry Year
2020	₱12,838,907	₱12,838,907	₱-	2023

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

	2021	2020
Statutory income tax	₱38,983,757	₱14,265,193
Income tax effects of:		
Impact of CREATE transition	5,925,378	-
Nondeductible operating expenses	5,232,044	24,174,266
Interest income subject to final tax	(1,944,551)	(5,704,023)
Excess of MCIT over RCIT	(12,838,907)	-
Provision for income tax	<b>₱35,357,721</b>	<b>₱32,735,436</b>

## 22. Related Party Transactions

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

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

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

#### Transactions with Retirement Plans

Under PFRS, certain post-employment benefit plans are considered as related parties. CARD-MRI's MERP is a stand-alone entity assigned in facilitating the contributions to retirement starting 2015. The plan assets are mostly invested in time deposits and special savings of related party banks and government bonds (Note 20). As of December 31, 2021 and 2020, the retirement funds do not hold or trade the Bank's shares of stock.

#### Remunerations of Directors and Other Key Management Personnel

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

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

	2021	2020
Short-term employee benefits	₱17,510,565	₱14,194,064
Post-employment benefits	1,688,447	1,780,766
	<b>₱19,199,012</b>	<b>₱ 15,974,830</b>

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

#### Other Related Party Transactions

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

#### *Deposit liabilities, accounts receivable and accounts payable*

The table below shows deposit liabilities, accounts receivable and accounts payable held by the Bank for key management personnel and affiliates as of December 31, 2021 and 2020:

Category	December 31, 2021		
	Amount/Volume	Outstanding Balance	Nature, Terms and Conditions
<b>Key Management Personnel</b>			
Deposit liabilities		₱3,372,743	These are savings accounts with annual interest rates ranging from 1.50% to 6.00%.
Deposits	₱15,919,448		
Withdrawals	(18,113,475)		
Directors' fees/payable		-	Pertains to per diem payments directors
<b>Shareholders</b>			
Deposit liabilities		487,054,689	These are savings accounts with annual interest rates ranging from 1.50% to 6.00%.
Deposits	1,038,921,735		
Withdrawals	(1,019,626,907)		
Interest expense/payable		6,895,711	Pertains to interest on deposit liabilities. Share on expenses of transferred staff. These are expected to be collected on January 2021.
Accounts receivable		62,497	
Charges	17,375,501		
Collections	(17,313,004)		

December 31, 2021			
Category	Amount/Volume	Outstanding Balance	Nature, Terms and Conditions
Accounts payable	P21,840,505	P33,526	Pertains to share on various expenses. These are expected to be paid on January 2020.
Charges			
Payments	(21,806,979)		
December 31, 2020			
Category	Amount/Volume	Outstanding Balance	Nature, Terms and Conditions
<b>Key Management Personnel</b>			
Deposit liabilities		P19,006,231	These are savings accounts with annual interest rates ranging from 1.50% to 6.00%.
Deposits	P21,626,364		
Withdrawals	(16,298,427)		
Directors' fees/payable		-	Pertains to per diem payments directors
<b>Shareholders</b>			
Deposit liabilities		386,723,544	These are savings accounts with annual interest rates ranging from 1.50% to 6.00%.
Deposits	1,594,350,793		
Withdrawals	(1,534,573,240)		
Interest expense/payable		6,575,074	Pertains to interest on deposit liabilities.
Accounts receivable		702,565	
Charges	6,472,869		Share on expenses of transferred staff. These are expected to be collected on January 2021.
Collections	(6,792,714)		
Accounts payable		P-	Pertains to share on various expenses. These are expected to be paid on January 2020.
Charges	P1,768,863		
Payments	(2,234,687)		

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

Category	2021		2020	
	Net exposure	Ratio	Net exposure	Ratio
Key management personnel	P3,372,343	0.24%	P19,006,231	1.64%
Shareholders	487,054,689	34.00%	386,723,544	33.46%

#### Regulatory Reporting

As required by BSP, the Bank discloses loan transactions with investees and with certain DOSRI. Existing Banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the lending company within the Bank.

As of December 31, 2021 and 2020, the balance of the secured loans to DOSRI are P120.00 million and P0.72 million, respectively. There is no unsecured loan to DOSRI as of December 31, 2021 and 2020. In the aggregate, loans to DOSRI generally should not exceed total equity or 15.00% of total loan portfolio, whichever is lower. As of December 31, 2021 and 2020, the Bank is in compliance with the regulatory requirements.

BSP Circular No. 423 dated March 15, 2004, as amended by BSP Circular No. 914 dated June 23, 2016, provide the rules and regulations governing credit exposures to DOSRI. The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to BSP Circular No. 423 and new DOSRI loans and other credit accommodations granted under said circular as of December 31, 2021 and 2020:

	2021	2020
Total outstanding DOSRI loans		
Current	<b>₱120,004,047</b>	₱732,242
	<b>₱120,004,047</b>	₱732,242
Percent of DOSRI accounts to total loans	<b>1.90%</b>	0.01%

There are no unsecured and past due DOSRI accounts in total outstanding DOSRI loans.

### 23. Lease Contracts

The Bank leases the premises occupied by some of its branches in which lease payments are subjected to escalation clauses ranging from 3.00% to 10.00%. The lease contracts are for the periods ranging from one to ten years and are renewable upon mutual agreement between the Bank and the lessors such as CARD, Inc., CARD MRI Property Holdings, CARD MBA and third-party lessors.

The following are the amounts recognized in statements of income:

	2021	2020
Depreciation expense of ROU assets included in property and equipment (Note 9)	<b>₱79,390,323</b>	₱74,590,849
Lease payments relating to short-term leases and leases with low value assets	<b>69,943,998</b>	62,398,626
Interest expense on lease liabilities	<b>6,675,084</b>	8,973,203
Total amount recognized in the statements of income	<b>₱156,009,405</b>	₱145,962,678

Rent expense in 2021 and 2020 pertains to expenses from short-term leases and leases of low-value assets. As of December 31, 2021 and 2020, the Bank has no contingent rent payable.

As of December 31, 2021 and 2020, the carrying amounts of 'Lease liabilities' are as follows:

	2021	2020
Balance at beginning of year	<b>₱118,876,632</b>	₱105,836,340
Additions	<b>96,526,284</b>	72,438,702
Interest expense	<b>6,675,084</b>	8,973,203
Payments	<b>(80,346,483)</b>	(68,371,613)
Balance at end of year	<b>₱141,731,517</b>	₱118,876,632

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

	2021	2020
Within one year	<b>₱76,084,040</b>	₱58,231,174
Beyond one year	<b>70,058,331</b>	67,803,548
	<b>₱146,142,371</b>	₱126,034,722

#### 24. Notes to Statements of Cash Flows

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

	2021	2020
Additions to property and equipment through lease contracts (Note 9)	<b>₱100,305,791</b>	₱87,934,926
Reduction in accounts payable resulting from disposal of property and equipment	–	111,441

The following table shows the reconciliation analysis of liabilities arising from financing activities for the year ended December 31, 2021 and 2020.

	2021			
	Bills payable (Note 14)	Lease liabilities (Notes 15 and 23)	Dividends payable (Notes 15 and 17)	Total liabilities from financing activities
<b>Beginning balances as at</b>				
January 1, 2021	<b>₱1,090,908,588</b>	<b>₱118,876,632</b>	<b>₱187,462</b>	<b>₱1,209,972,682</b>
Cash outflows	<b>(1,074,640,000)</b>	<b>(80,346,483)</b>	–	<b>(1,154,986,483)</b>
Non-cash items				
New lease contracts entered during the year	–	<b>96,526,284</b>	–	<b>96,526,284</b>
Amortization of discount of bills payables	<b>7,947,592</b>	–	–	<b>7,947,592</b>
Amortization on interest expenses of lease liabilities	–	<b>6,675,084</b>	–	<b>6,675,084</b>
Declaration of dividends			<b>133,128</b>	<b>133,128</b>
<b>Ending balances as of</b>				
December 31, 2021	<b>₱24,216,180</b>	<b>₱141,731,517</b>	<b>₱320,590</b>	<b>₱166,268,287</b>

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

---

## 25. Approval of the Release of Financial Statements

The accompanying financial statements were approved and authorized for issue by the Bank's BOD on April 9, 2022.

---

## 26. 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 2021 follow:

Gross receipts tax	₱119,402,298
Documentary stamp tax	48,854,747
Business permits and licenses	8,950,906
Real property tax	299,722
Other taxes	10,915,658
	<hr/>
	₱188,423,331

In 2021, withholding taxes remittances and withholding taxes lodged under 'Other liabilities - Accrued taxes' account follow:

Remittances:	
Gross Receipt Tax	₱119,396,981
Documentary stamp tax	59,052,397
Final withholding tax on interest expense	21,556,372
Expanded withholding tax	11,812,944
Withholding taxes on compensation and benefits	2,299,197
	<hr/>
	₱214,117,891
Accrued:	
Gross Receipt Tax	₱29,475,808
Documentary stamp tax	6,654,177
Final withholding tax on interest expense	4,349,594
Expanded withholding tax	1,047,623
Withholding taxes on compensation and benefits	852,866
	<hr/>
	₱42,380,068

### Tax Cases and Assessment

As of December 31, 2021, there are no outstanding assessments and tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR.





**CARD SME**  
Thrift Bank

**CARD MRI**  
We Are In The Business of Poverty Eradication.

*Let's grow your business, together.*

CARD SME Bank, Inc.



120 M. Paulino corner Burgos St.  
San Pablo City, Laguna, Philippines



(049) 503-2671 to 72



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



@CARDMRIofficial

