

Rizal Rural Bank (Taytay, Rizal), Inc.

Financial Statements December 31, 2012 (With Comparative Figures for December 31, 2011)

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.





SyCip Gorres Velayo & Co. 6760 Ayala Avenue 1226 Makati City Philippines

Phone: (632) 891 0307 Fax: (632) 819 0872 www.sgv.com.ph

BOA/PRC Reg. No. 0001, December 28, 2012, valid until December 31, 2015 SEC Accreditation No. 0012-FR-3 (Group A), November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors Rizal Rural Bank (Taytay, Rizal), Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Rizal Rural Bank (Taytay, Rizal), Inc. which comprise the statement of financial position as at December 31, 2012, and the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

A member firm of Ernst & Young Global Limited



- 2 -

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Rizal Rural Bank (Taytay, Rizal), Inc. as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

Other Matter

The financial statements of Rizal Rural Bank (Taytay, Rizal), Inc. for the year ended December 31 2011, were audited by another auditor who expressed an unmodified opinion on those statements on March 16, 2012.

Report on the Supplementary Information Required Under Revenue Regulations 19-2011 and 15-2010

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 19-2011 and 15-2010 in Notes 24 and 25 to the financial statements, respectively, is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Rizal Rural Bank (Taytay, Rizal), Inc. 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.

Christian G. Lauron

Partner

CPA Certificate No. 95977

SEC Accreditation No. 0790-AR-1 (Group A), March 1, 2012, valid until March 1, 2015

Aizfan D. Sauron

Tax Identification No. 210-474-781

BIR Accreditation No. 08-001998-64-2012,

April 11, 2012, valid until April 10, 2015

PTR No. 3669688, January 2, 2013, Makati City

March 9, 2013



STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2012

(With Comparative Figures for December 31, 2011)

		December 31	
		2011	2010
		(As restated -	(As restated -
	2012	Note 21)	Note 21)
ASSETS			
Cash and other cash items	₽355,664	₽317,404	₽227,413
Due from Bangko Sentral ng Pilipinas (Notes 6	•	•	•
and 12)	633,928	578,113	96,388
Due from other banks (Note 6)	7,367,277	6,118,196	7,427,957
Loans and receivables (Note 8)	23,351,446	3,815,369	2,583,870
Held-to-maturity investments (Note 7)	2,011,459	2,023,202	_
Property and equipment (Note 9)	1,163,347	909,339	1,008,231
Investment properties (Note 10)	_	4,562,125	4,562,125
Other assets (Note 11)	461,130	576,876	1,284,849
	₽35,344,251	₽18,900,624	₽17,190,833
LIABILITIES AND EQUITY			
LIABILITIES AND EQUITY Liabilities			
_			
Liabilities	₽14,846,249	₽9,053,594	₽7,800,571
Liabilities Deposit liabilities (Note 12)	₽14,846,249 11,024,727	₱9,053,594 3,953,747	₽7,800,571 3,000,668
Liabilities Deposit liabilities (Note 12) Savings			
Liabilities Deposit liabilities (Note 12) Savings	11,024,727	3,953,747	3,000,668
Liabilities Deposit liabilities (Note 12) Savings Time	11,024,727 25,870,976	3,953,747	3,000,668
Liabilities Deposit liabilities (Note 12) Savings Time Deposit for future stock subscription (Note 15)	11,024,727 25,870,976	3,953,747 13,007,341	3,000,668 10,801,239
Liabilities Deposit liabilities (Note 12) Savings Time Deposit for future stock subscription (Note 15) Income tax payable	11,024,727 25,870,976 6,875,000	3,953,747 13,007,341 - 25,214	3,000,668 10,801,239 - 24,000
Liabilities Deposit liabilities (Note 12) Savings Time Deposit for future stock subscription (Note 15) Income tax payable Other liabilities (Note 13)	11,024,727 25,870,976 6,875,000 - 344,703	3,953,747 13,007,341 - 25,214 59,706	3,000,668 10,801,239 - 24,000 37,810
Liabilities Deposit liabilities (Note 12) Savings Time Deposit for future stock subscription (Note 15) Income tax payable Other liabilities (Note 13) Equity	11,024,727 25,870,976 6,875,000 - 344,703	3,953,747 13,007,341 - 25,214 59,706	3,000,668 10,801,239 - 24,000 37,810
Liabilities Deposit liabilities (Note 12) Savings Time Deposit for future stock subscription (Note 15) Income tax payable Other liabilities (Note 13)	11,024,727 25,870,976 6,875,000 344,703 33,090,679	3,953,747 13,007,341 - 25,214 59,706 13,092,261 10,625,000	3,000,668 10,801,239 - 24,000 37,810 10,863,049 9,625,000
Liabilities Deposit liabilities (Note 12) Savings Time Deposit for future stock subscription (Note 15) Income tax payable Other liabilities (Note 13) Equity Common stock (Note 15)	11,024,727 25,870,976 6,875,000 - 344,703 33,090,679	3,953,747 13,007,341 - 25,214 59,706 13,092,261	3,000,668 10,801,239 - 24,000 37,810 10,863,049

See accompanying Notes to Financial Statements.



STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2012

(With Comparative Figures for the Year Ended December 31, 2011)

	Years Endo	ed December 31
		2011
		(As restated -
	2012	Note 21)
INTEREST INCOME ON		
Loans and receivables (Note 8)	₽1,330,017	₽726,867
Due from Bangko Sentral ng Pilipinas and other banks (Note 6)	49,938	44,735
Held-to-maturity investments (Note 7)	75,036	116,149
Tield-to-maturity investments (Note 7)	1,454,991	887,751
	1,434,771	007,731
INTEREST EXPENSE ON		
Deposit liabilities (Note 12)	185,500	168,840
NET INTEREST INCOME	1,269,491	718,911
Foreign exchange loss	(102,741)	-
Service charges	97,512	228,073
Miscellaneous (Note 17)	93,584	222,826
TOTAL OPERATING INCOME	1,357,846	1,169,810
	1,007,010	1,100,010
OPERATING EXPENSES	1 502 400	1 202 721
Compensation and fringe benefits (Note 16)	1,783,408	1,202,731
Provision for credit and impairment losses (Notes 8 and 11)	858,435	-
Rent (Note 19)	548,129	527,076
Professional fees	279,000	38,100
Stationeries and supplies	262,372	42,689
Depreciation and amortization (Note 9)	174,956	130,780
Power, light and water	136,990	123,049
Litigation	101,702	2,950
Taxes and licenses	90,657	158,087
Repairs and maintenance	84,752	21,785
Transportation and travel	62,669	7,278
Fuel and lubricants	56,205	15,760
Insurance	50,608	26,991
Fines, penalties and other charges	42,917	19,565
Miscellaneous (Note 17)	354,842	314,998
	4,887,642	2,631,839
LOSS BEFORE INCOME TAX	3,529,796	1,462,029
PROVISION FOR INCOME TAX (Note 18)	24,995	57,392
NET LOSS	3,554,791	1,519,421
OTHER COMPREHENSIVE INCOME		_
TOTAL COMPREHENSIVE LOSS	₽3,554,791	₽1,519,421

See accompanying Notes to Financial Statements.



STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2012

(With Comparative Figures for the Year Ended December 31, 2011)

Common Stock

	(Note 15)	Deficit	Total
Balances at January 1, 2012, as			
previously reported	₽10,625,000	(₽4,315,310)	₽ 6,309,690
Adjustments (Note 21)	_	(501,327)	(501,327)
Balances at January 1, 2012, as restated	10,625,000	(4,816,637)	5,808,363
Total comprehensive loss for the year	_	(3,554,791)	(3,554,791)
Balances at December 31, 2012	₽10,625,000	(₽8,371,428)	₽2,253,572
Balances at January 1, 2011, as			
previously reported	₽9,625,000	(P 2,954,813)	₽6,670,187
Adjustments (Note 21)	_	(342,403)	(342,403)
Balances at January 1, 2011, as restated	9,625,000	(3,297,216)	6,327,784
Total comprehensive loss for the year	_	(1,519,421)	(1,519,421)
Collection of subscriptions receivable	1,000,000	_	1,000,000
Balances at December 31, 2011	₽10,625,000	(P 4,816,637)	₽5,808,363

See accompanying Notes to Financial Statements.



STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2012

(With Comparative Figures for the Year Ended December 31, 2011)

	Years Endo	ed December 31
		2011
		(As restated -
	2012	Note 21)
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	(P 3,529,796)	(₱1,462,029)
Adjustments for:	(10,02),//0)	(11,102,02))
Provision for credit and impairment losses (Notes 7 and 11)	858,435	_
Foreign exchange loss	102,741	_
Depreciation and amortization (Note 9)	174,956	130,780
Amortization of held-to-maturity investments (Note 8)	11,743	-
Loss on sale of investment properties (Note 17)	29,389	_
Operating income before changes in	27,007	
operating assets and liabilities:	(2,352,532)	(1,331,249)
Decrease (increase) in the amounts of:	(2,002,002)	(1,551,215)
Loans and receivables (Note 22)	(15,514,477)	(936,532)
Other assets	96,569	(46,219)
Increase (decrease) in:	70,507	(10,21)
Deposit liabilities	12,863,635	2,229,211
Other liabilities	284,997	(191,724)
Net cash used in operations	(4,621,808)	(276,513)
Income taxes paid	(50,209)	(24,000)
Net cash used in operating activities	(4,672,017)	(300,513)
1 0	(4,072,017)	(500,515)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment (Note 9)	(428,964)	(19,986)
Acquisition of software (Note 11)	(340,823)	_
Disposal of investment property (Note 22)	12,701	_
Held-to-maturity investments	_	(1,753,771)
Net cash used in investing activities	(757,086)	(1,773,757)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from collection of subscriptions receivable	_	1,000,000
Deposit for future stock subscription (Note 15)	6,875,000	-
Net cash provided by financing activities	6,875,000	1,000,000
	0,072,000	1,000,000
NET INCREASE (DECREASE) IN CASH AND		
CASH EQUIVALENTS	1,445,897	(1,074,270)
EFFECTS OF FOREIGN EXCHANGE ON CASH AND		
CASH EQUIVALENT	102,741	_

(Forward)



	Year Ended December 31	
		2011
		(As restated -
	2012	Note 21)
CASH AND CASH EQUIVALENTS AT BEGINNING		
OF YEAR		
Cash and other cash items	₽317,404	₽221,235
Due from Bangko Sentral ng Pilipinas	578,113	96,388
Due from other banks	6,118,196	7,770,360
	7,013,713	8,087,983
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and other cash items	355,664	317,404
Due from Bangko Sentral ng Pilipinas	633,928	578,113
Due from other banks	7,367,277	6,118,196
	₽8,356,869	₽7,013,713

See accompanying Notes to Financial Statements.

Interest received

Interest paid



Years Ended December 31

2011

₽887,751

168,840

2012

₱1,454,991 167,653

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

(With Comparative Figures for December 31, 2011)

1. Corporate Information

Rizal Rural Bank (Taytay, Rizal), Inc. (the Bank) was incorporated under Philippine laws by virtue of Securities and Exchange Commission (SEC) Certificate of Registration No.ASO94-11394 dated December 15, 1994. The Bank was granted the authority to operate by the Bangko Sentral ng Pilipinas (BSP) on April 29, 1996. It was established primarily to engage in the business of rural banking as defined and authorized under Republic Act No. 3779, as amended, such as granting loans to small farmers and to deserving rural enterprises, as well as receiving deposits in accordance with the regulations promulgated by the Monetary Board. The Bank is principally located at G/F RRB Bldg, 227 Rizal Avenue, Baranggay. San Juan, Taytay, Rizal.

The Bank's proposed increase in capitalization was approved by the SEC on May 27, 2010, raising the authorized capital from ₱8.0 million to ₱50.0 million divided in to 490,000 common shares and 10,000 government preferred shares, both with the par value of ₱100.00 each.

Center for Agriculture and Rural Development (CARD) Inc., together with its affiliate CARD Bank Inc. and individual investors, and the majority shareholders of the Bank (collectively "the parties") have executed the Deed of Sale for the sale and purchase of 100.00% stockholdings, interest and ownership of the Bank, subject to approval by the Monetary Board of Bangko Sentral ng Pilipinas. On January 25, 2013, the parties received such approval from BSP.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis except for available-for-sale (AFS) investments which have been measured at fair value. The financial statements are presented in Philippine peso, the Bank's functional currency. All values are rounded to the nearest peso unless otherwise indicated.

Statement of Compliance

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

Presentation of Financial Statements

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

The comparative information has been reclassified from the financial statements previously presented to conform to the presentation of the financial statements for the year ended December 31, 2012.



Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following amended PFRS and Philippine Accounting Standards (PAS), which were adopted as of January 1, 2012:

PFRS 7, Financial Instruments: Disclosures - Transfers of Financial Assets (Amendments)
The amendments require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendments affect disclosures only and have no impact on the Bank's financial position or performance.

PAS 12, Income Taxes - Deferred Tax: Recovery of Underlying Assets (Amendments)
This amendment to PAS 12 clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, Investment Property, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a 'sale' basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ('use' basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, Property, Plant and Equipment, always be measured on a sale basis of the asset.

As at December 31, 2012, the Bank has no investment property and holds its property and equipment under cost model as per PAS 16. The amendment has no impact on the financial statements of the Bank.

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

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

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

Initial recognition of financial instruments

All financial assets and financial liabilities are initially measured at fair value. Except for financial assets and financial liabilities at fair value through profit or loss (FVPL), the initial measurement includes transaction costs. The Bank classifies its financial assets in the following categories: financial assets at FVPL, available-for-sale (AFS) investments, held-to-maturity (HTM) investments and loans and receivables. Financial liabilities are classified as financial

liabilities at FVPL and financial liabilities carried at amortized cost. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every statement of financial position date.

As at December 31, 2012 and 2011, the Bank had no financial instruments at FVPL and AFS investments

'Day 1' difference

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

Determination of fair value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction is used since it provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, and other relevant valuation models.

Financial assets and financial liabilities at FVPL

Financial assets and financial liabilities at FVPL include financial assets and liabilities held for trading purposes, financial assets and financial liabilities designated upon initial recognition as at FVPL, and derivative instruments.

Financial assets and financial liabilities are classified as held for trading (HFT) if they are acquired for the purpose of selling and repurchasing in the near term. Included in this classification are debt and equity securities which have been acquired principally for trading purposes.

Financial assets and financial liabilities are designated as at FVPL by management on initial recognition when any of the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or



the financial instrument contains an embedded derivative, unless the embedded derivative
does not significantly modify the cash flows or it is clear, with little or no analysis, that it
would not be separately recorded.

Financial assets and financial liabilities at FVPL are recorded in the balance sheet at fair value. Changes in fair value are recognized in 'Trading and securities gain' in the statements of income. Interest earned or incurred is recorded in 'Interest income' or 'Interest expense', respectively, while dividend income is recorded in 'Miscellaneous income' when the right to receive payment has been established.

As of December 31, 2012 and 2011, the Bank has no financial instruments at FVPL.

AFS investments

AFS investments are those which are designated as such or do not qualify to be classified as designated at FVPL, HTM investments or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. The Bank has no AFS investments.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities is recognized in the statement of comprehensive income. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded net of tax from reported income and are reported as 'Net unrealized gain (loss) on AFS investments' under 'Other Comprehensive Income' in the statement of comprehensive income.

When the security is disposed of, the cumulative gain or loss previously recognized in other comprehensive income is recognized in profit or loss. Interest earned on holding AFS debt securities are reported as 'Interest income' using the EIR method. The losses arising from impairment of AFS investments are recognized as 'Provision for credit losses' in the statement of comprehensive income.

HTM investments

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

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

Loans and receivables, amounts due from Bangko Sentral ng Pilipinas (BSP) and other banks This accounting policy relates to the statement of financial position captions 'Due from BSP', 'Due from other banks', and 'Loans and receivables'. These are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market.



They are not entered into with the intention of immediate or short-term resale and are not classified as 'AFS investments' of 'Financial assets at FVPL'.

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

Financial liabilities at amortized cost

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

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

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

Classification of Financial Instruments between Debt and Equity

A financial instrument is classified as debt if it provides for a contractual obligation to:

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

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

Derecognition of Financial Assets and Liabilities

Financial assets

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

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



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

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 comprehensive income.

Impairment of Financial Assets

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

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

Financial asset carried at amortized cost

For loans and receivables, due from BSP, due from other banks and HTM investments, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

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

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



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

For the purpose of a collective assessment for impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, collateral type, past-due status and term. Future cash flows in a group of financial assets that are collectively assessed for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a financial asset is uncollectible, it is written off against the related allowance for credit losses. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the loan loss provision and are recognized in the statement of comprehensive income.

If, subsequently, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the provision. The amount of the reversal is recognized in the statement of comprehensive income.

Restructured receivables

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

The receivables continue to be subject to an individual or collective impairment assessment, calculated using the receivable's original EIR. The difference between the recorded value of the original receivable and the present value of the restructured cash flows, discounted at the original EIR, is recognized in 'Provision for credit and impairment losses' in the statement of comprehensive income.

Offsetting Financial Instruments

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and the Bank intends to either settle on a net basis, or to realize the asset and the liability simultaneously. This is not generally the case with master-netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.



Foreign Currency Transactions

For financial reporting purposes, foreign-currency-denominated monetary assets and liabilities are translated into their equivalents in Philippine peso based on the Philippine Dealing System (PDS) closing rate at the end of the year and foreign-currency-denominated income and expenses, at the PDS weighted average rate for the year.

Foreign exchange differentials arising from foreign currency transactions and restatements of foreign-currency-denominated assets and liabilities are credited to or charged against statement of comprehensive income in the year in which the rates change.

Investment Properties

Investment properties, which include land and building, are initially measured at cost including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured, in which case the investment property acquired is measured at the carrying amount of the asset given up. Foreclosed properties are classified under 'Investment properties' from acquisition date. Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and any impairment losses. Land is stated at cost less any impairment in value.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciations and any impairment loss. The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs to bring the asset to its working condition and location for its intended use. Expenditures incurred after items of property and equipment have been put into operation, such as repairs and maintenance are normally charged against statement of comprehensive income in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of 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 and amortization is computed using the straight-line method over the estimated useful lives (EUL) of the respective assets.

The EUL of the property and equipment follow:

Leasehold rights and improvements 3 years or the terms of the related leases,

whichever is shorter

Furniture, fixtures and equipment 3 years Information technology equipment 3 years Transportation equipment 3 years

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

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



Software Costs

Software costs are recognized only when their cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to those assets will flow to the Bank.

Following initial recognition, software costs are carried at cost less any accumulated amortization and impairment losses. Software costs, which have finite useful lives, are amortized over the useful economic life of five years using straight line method. The amortization method and period are reviewed at least at each statement of financial position date.

Impairment of Nonfinancial Assets

Property and equipment and intangible assets

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

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is charged to statement of comprehensive income in the year in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of comprehensive income. After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The Bank assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Bank has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before the revenue is recognized:



Interest income

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

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

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

Service charges

Loan fees are recognized over the term of the credit lines granted to each borrower. Commissions are accrued when earned. Service fees penalties and bank charges are recognized only upon collection or where there is a reasonable degree of certainty as to their collectibility. These items are reported under 'Service charges' in the statement of comprehensive income.

Expense Recognition

Expenses are recognized when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Expenses are recognized when incurred.

Leases

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

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

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

Bank as lessee

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



Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized. All other borrowing costs are recognized as expense in the year in which they are incurred.

Income Taxes

Current tax

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

Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences with exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward of unused excess MCIT over RCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

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

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 statement of financial position date.

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

Current tax and deferred tax relating to items recognized directly in equity is recognized in other comprehensive income, and not in the net income.

Capital Stock

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



Deposit for Future Stock Subscription

Deposit for future stock subscription represents payments made on subscription of shares which cannot be directly credited to 'Preferred stock' or 'Common stock' pending registration with the SEC of the amendment to the Articles of Incorporation increasing capital stock. The paid-up subscription can be classified under equity if the nature of the transaction gives rise to a contractual obligation of the Bank to deliver its own shares to the subscriber in exchange of the subscription amount. In addition, deposit for future stock subscription shall be classified under equity if all of the following elements are present as at statement of financial position date:

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

Retained Earnings

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

Dividends

Dividends on preferred and common shares are recognized as a liability and deducted from equity when approved by the BOD of the Bank and the BSP. Dividends for the year that are approved after the statement of financial position date are dealt with as an event after the statement of financial position date.

Provisions

Provisions are recognized when an obligation (legal or constructive) is incurred as a result of a past event and where it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Bank expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an 'Interest expense'.

Contingent Liabilities and Contingent Assets

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



Events After the Statement of Financial Position Date

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

Future Changes in Accounting Policies

The Bank will adopt the standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Bank does not expect the adoption of these new and amended PFRS, PAS and Philippine Interpretations to have significant impact on its financial statements.

Effective in 2013

PFRS 7, Financial instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments)

These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

- a) The gross amounts of those recognized financial assets and recognized financial liabilities;
- b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
- c) The net amounts presented in the statement of financial position;
- d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
 - i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
 - ii. Amounts related to financial collateral (including cash collateral); and
- e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments to PFRS 7 are to be retrospectively applied and are effective for annual periods beginning on or after January 1, 2013. The amendments affect disclosures only and have no impact on the Bank's financial position or performance.

PFRS 10, Consolidated Financial Statements

PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The standard becomes effective for annual periods beginning on or after January 1, 2013.



PFRS 11, Joint Arrangements

PFRS 11 replaces PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The standard becomes effective for annual periods beginning on or after January 1, 2013.

PFRS 12, Disclosure of Interests in Other Entities

PFRS 12 includes all of the disclosures related to consolidated financial statements that were previously in PAS 27, as well as all the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The standard becomes effective for annual periods beginning on or after January 1, 2013.

The adoption of PFRS 12 will affect disclosures only and have no impact on the Bank's financial position or performance.

PFRS 13, Fair Value Measurement

PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The standard becomes effective for annual periods beginning on or after January 1, 2013.

PAS 19, Employee Benefits (Revised)

Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. The amendments become effective for annual periods beginning on or after January 1, 2013. Once effective, the Bank has to apply the amendments retroactively to the earliest period presented.

The Bank reviewed its existing employee benefits and determined that the amended standard has insignificant impact on its accounting for retirement benefits.

 $PAS\ 1$, $Presentation\ of\ Financial\ Statements$ - $Presentation\ of\ Items\ of\ Other\ Comprehensive\ Income\ or\ OCI\ (Amendments)$

The amendments to PAS 1 change the grouping of items presented in OCI. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012. The amendments will be applied retrospectively and will result to the modification of the presentation of items of OCI.



PAS 27, Separate Financial Statements (as revised in 2011)

As a consequence of the issuance of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements. The adoption of the amended PAS 27 will not have a significant impact on the separate financial statements of the entities in the Bank. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

PAS 28, Investments in Associates and Joint Ventures (as revised in 2011)
As a consequence of the issuance of the new PFRS 11, Joint Arrangements, and PFRS 12,
Disclosure of Interests in Other Entities, PAS 28 has been renamed PAS 28, Investments in
Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

Philippine Interpretation IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after January 1, 2013. This new interpretation is not relevant to the Bank.

Effective in 2014

PAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments)

The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Group's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

Effective in 2015

PFRS 9, Financial Instruments

PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement.* Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or



enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities. PFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Bank has not early adopted PFRS 9.

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

Annual Improvements to PFRSs (2009-2011 cycle)

The Annual Improvements to PFRSs (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.

PFRS 1, First-time Adoption of PFRS – Borrowing Costs

The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Bank as it is not a first-time adopter of PFRS.

$PAS\ 1,\ Presentation\ of\ Financial\ Statements\ -\ Clarification\ of\ the\ requirements\ for\ comparative\ information$

The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements.

On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Bank's financial position or performance.

PAS 16, Property, Plant and Equipment - Classification of servicing equipment
The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise.



PAS 32, Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments

The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*

PAS 34, Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities

The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Bank's financial position or performance.

3. Significant Accounting Judgments and Estimates

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

The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

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

Judgments

(a) Operating leases

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

(b) Fair value of financial instruments

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

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

(c) Classification of HTM investments

The classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than in certain specific circumstances - for example, selling a more than an insignificant amount close to maturity - it will be required to reclassify the entire portfolio as AFS investments. The investments would therefore be measured at fair value and not at amortized cost. Refer to Note 7 for the carrying value of HTM investments.



(d) Financial assets not quoted in an active market

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

(e) Contingencies

The amount of probable costs for the resolution of possible claims has been developed in consultation with outside legal counsel handling the Bank's defense and is based upon the analysis of potential results.

(f) Going concern

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

Estimates

(a) Credit losses on loans and receivables

The Bank reviews its loans and receivables to assess impairment annually. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of customers or national or local economic conditions that correlate with defaults on the loans and receivables. Past-due accounts for more than 90 days, and loans wherein the borrower requested moratorium but no subsequent collection is made after the moratorium period ends as at yearend, fall under specific loan loss. As at December 31, 2012 and 2011, the carrying values of loans and receivables and related allowance for credit losses are disclosed in Note 8.

(b) Recognition of deferred tax asset

The amount of deferred tax asset and liability 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 statement of condition 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. However, there is no assurance that the Bank will generate sufficient taxable profit to allow all or part of its deferred tax assets to be utilized. The Bank did not set up deferred tax assets as at December 31, 2012 and 2011.



(c) Impairment of nonfinancial assets

Property and equipment and software costs

The Bank assesses impairment on property and equipment and other intangibles whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The factors that the Bank considers important which could trigger an impairment review include the following:

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

The Bank recognizes an impairment loss whenever the carrying amounts of property and equipment and software costs exceed their recoverable amounts. As at December 31, 2012 and 2011, no impairment losses were provided on property and equipment and software costs.

(d) Estimated useful lives of property and equipment

The Bank estimates the useful lives of its property and equipment. This estimate is reviewed periodically to ensure that the periods of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property and equipment. Refer to accounting policy of property and equipment for the estimated useful lives.

4. Fair Value Measurement

The methods and assumptions used by the Bank in estimating the fair value of the financial instruments are:

The fair values approximate the carrying values for financial assets and financial liabilities that are liquid or have short-term maturities. These include cash and cash equivalents, loans and receivables-current, deposit liabilities and other liabilities.

Loans and receivables - Fair values of noncurrent portion of receivables are estimated using the discounted cash flow methodology, based on prevailing market rates for similar financial assets, taking into account the remaining maturities and applicable spreads of the counterparties.

HTM investments - Fair values are based on quoted market prices.

As at December 31, 2012 and 2011, the carrying values of the Bank's financial instruments, as reflected in the statements of financial position and related notes, approximate their respective fair values except for HTM investment. The fair values of HTM investments amounted to ₱2.17 million and ₱2.22 million as at December 31, 2012 and 2011.

For financial instruments recorded at fair value, the Bank uses the following three-level fair value hierarchy based on the source of inputs on their valuation:

- Level 1 those financial instruments which are quoted in active markets for identical assets or liabilities:
- Level 2 those financial instruments involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and



• Level 3 - those financial instruments with inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Bank does not have financial instrument carried at fair value as at December 31, 2012 and 2011.

There have been no changes in determining the fair value of financial instruments in 2012 and 2011. There were no transfers of financial instruments between Levels 1, 2 and 3 in 2012 and 2011.

5. Financial Risk Management Objectives and Policies

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

- Credit risk
- Market risk
- Liquidity risk

The Bank has instituted the Financial Risk Management Committee, composed of the President as Chairman and 2 directors, which is responsible for the comprehensive development of financial risk strategies, principles, frameworks, policies and limits purposely to eliminate or at least reduce the risk the Bank faces in banking activities and thus optimize returns on the capital or equity.

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

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

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

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

The Bank manages credit risk by setting limits for individual and group of borrowers. The Bank also monitors credit exposures and continually assesses the credit worthiness of counterparties. In addition, the Bank obtains security where appropriate, enters into agreements and collateral agreements, which include real estate, hold out on deposits, chattel and guarantees with counterparties and limits the duration of the exposures.



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

Maximum exposure to credit risk

The maximum credit exposure of the Bank's financial instruments is equal to their carrying value except for receivable from customers with collaterals financial effect amounted to ₱2.8 million and ₱2.2 million as at December 31, 2012 and 2011, respectively.

Credit enhancement for receivable from customers pertains to deposit hold-out from pledge savings equivalent to 15.00% of the original amount of the loan to the member and real estate mortgage as at December 31, 2012 and 2011.

Additionally, the tables below show the distribution of maximum credit exposure by industry sector of the Bank as at December 31, 2012 and 2011:

	2012			
	Loans and*	HTM	_	
	Receivables	Investments	Total	
Other community, social and personal				
service activities	₽16,704,648	_	₽16,704,648	
Financial institutions	7,367,277	_	7,367,277	
Wholesale and retail trade, repair of motor				
vehicles, motorcycles and personal and				
household goods	6,511,381	-	6,511,381	
Government	952,331	2,011,459	2,963,790	
Manufacturing	383,066	-	383,066	
Agriculture, hunting and forestry	172,042	-	172,042	
Education	126,685	-	126,685	
Fishing	50,000	-	50,000	
	32,267,430	2,011,459	34,278,889	
Less: Allowance for credit losses	909,055	_	909,055	
Unearned interest income	5,724	_	5,724	
Total	₽31,352,651	₽2,011,459	₽33,364,110	

^{*}Including Due from BSP and other banks

	2011 (As restated - Note 21)		
•	Loans and*	HTM	
	Receivables	Investments	Total
Financial institutions	₽6,118,196	₽_	₽6,118,196
Real estate, renting and business activities	1,546,588	_	1,546,588
Government	1,165,948	2,023,202	3,189,150
Manufacturing	501,772	_	501,772
Agriculture, hunting and forestry	465,591	_	465,591
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and			
household goods	358,883	_	358,883
Other community, social and personal			
service activities	685,037	_	685,037
Fishing	48,205	_	48,205
Health and social work	30,001	_	30,001
Education	7,801	_	7,801
	10,928,022	2,023,202	12,951,224
Less: Allowance for credit losses	410,620	_	410,620
Unearned interest income	5,724	_	5,724
Total	₱10,511,678	₽2,023,202	₱12,534,880

^{*}Including Due from BSP and other banks



Credit quality per class of financial assets

Due from BSP, due from other banks, HTM investments, and unquoted debt securities classified as loans are with the government and reputable financial institutions and are classified as neither past due nor impaired.

The table below shows the credit quality per class of loans and receivables (gross of allowance for credit losses and unearned interest) as at December 31, 2012 and 2011:

			2012	
	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Loans	₽17,900,745	₽55,108	₽727,293	₽18,683,146
Other receivables:				
Accrued interest receivable	416,198	_	_	416,198
Accounts receivable:	4,520,035	_	328,443	4,848,478
	₽22,836,978	₽55,108	₽1,055,736	₽23,947,822
			2011	
	Neither	Past due		
	past due nor	but not		
	impaired	impaired	Impaired	Total
Loans	₽2,361,252	₽_	₽718,227	₽3,079,479
Other receivables:				
Accrued interest receivable	230,416	_	_	230,416
Accounts receivable:	_	_	333,983	333,983
	₽2,591,668	₽_	₽1,052,210	₽3,643,878

As at December 31, 2012 and 2011, the Bank's receivables that are past due for more than 90 days are considered impaired.

Past due but not impaired loans amounting to \$\mathbb{P}\$55,108 were 61 to 90 days past due as at December 31, 2012. There were no past due loans as at December 31, 2011 that were not impaired.

Carrying amount per class of loans and receivables which terms have been renegotiated Restructured receivables have principal terms and conditions that have been modified in accordance with an agreement setting forth a new plan of payment or a schedule of payment on a periodic basis. When the receivable account becomes past due and is being restructured or extended, the approval of the BOD is required before loan booking and is always governed by the BSP rules on restructuring. As at December 31, 2011, outstanding loans amounting to \$\textstyle{P}0.61\$ million were restructured. No loans were restructured as at December 31, 2012.

Market Risk

Market risk is the risk of loss to future earnings, fair values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates. The Bank's market risk is very minimal with its placements in government securities.



Interest rate risk

The Bank's receivables earn fixed interest rates ranging from 32.80% to 58.80% in 2012 and fixed interest rates ranging from 23.00% to 25.00% per annum in 2011. The shortest term of loan is one month while the longest term is ten years in 2012 and three years in 2011. The Bank's interest rate is consistent with the market rate. The Bank's HTM investments earn fixed interest rates at 6.00% in both 2012 and 2011.

The Bank's savings deposit liabilities include compulsory and voluntary savings that earn 2.50% per annum. Special savings deposits have interest rates of 2.50% to 6.00% in 2012 and 3.50% to 6.50% in 2011. Average interest per annum is 5.00%.

In order to manage its interest rate risk, the Bank places its excess funds in high yield investments and other short-term time deposits.

The Bank has fixed interest rates therefore the sensitivity analysis was not presented.

Foreign currency risk

The Bank's principal transactions are carried out in Philippine peso and its exposure to foreign currency risk arises primarily with respect to the Company's cash in bank amounting to US\$34,560 (\$\Pmathbb{P}1.42\text{ million}) and US\$34,543 (\$\Pmathbb{P}1.51\text{ million}) as at December 31, 2012 and 2011, respectively. In translating the foreign currency into Philippine peso amount, the exchange rates used was \$\Pmathbb{P}41.05\text{ and }\Pmathbb{P}43.84\text{ to US\$1.0}\text{ as at December 31, 2012 and 2011, respectively.}

The following table demonstrates the sensitivity to a reasonably possible change in the US\$ exchange rate, with all other variables held constant, of the Company's income before income tax as at December 31, 2012 and 2011.

	US\$ appreciates	Effect on income
Year	(depreciates) by	before income tax
2012	5.00%	₽75,719
	(5.00%)	(75,719)
2011	5.00%	70,934
	(5.00%)	(70,934)

Liquidity Risk

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

The Bank's Asset and Liability Committee is responsible for formulating the Bank's liquidity risk management policies. Liquidity management is among the most important activities conducted within the Bank. The Bank manages its liquidity risk through analyzing net funding requirements under alternative scenarios, diversification of funding sources and contingency planning. The Bank utilizes a diverse range of sources of funds, although short-term deposits made with the Bank's network of domestic branches comprise the majority of such funding. Core deposits composed mainly of microfinance savings.

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



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

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

			20)12		
		Due within			Beyond	
	On demand	1 month	1 to 3 months	3 to 12 months	1 year	Total
Financial Assets						
Cash and other cash items	₽ 355,664	₽_	₽-	₽_	₽_	₽355,664
Due from BSP	633,928	_	_	-	_	633,928
Due from other banks	6,082,680	822,197	225,897	-	_	7,130,774
Loans and receivable - gross	5,404,527	421,575	4,512,710	13,468,176	446,521	24,253,509
HTM investments	_		30,000	120,000	2,480,000	2,630,000
Total Financial Assets	12,476,799	1,243,772	4,768,607	13,588,176	2,926,521	35,003,875
Financial Liabilities						
Deposit liabilities	14,846,250	432,236	8,991,794	1,600,695	_	25,870,975
Accounts payable	125,042	_	_	_	_	125,042
Accrued interest	17,847	_	_	-	_	17,847
Accrued expenses	28,552	_	_	_	_	28,552
Total Financial Liabilities	15,017,691	432,236	8,991,794	1,600,695	_	26,042,416
Net	(P 2,540,892)	₽811,536	(P 4,223,187)	₽11,987,481	₽2,926,521	₽8,961,459
		D :41:	2011 (As rest	ated - Note 21)	D 1	
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 vear	Total
Financial Assets	On demand	1 IIIOIIIII	1 to 3 monuis	3 to 12 monuis	ı yeai	Total
Cash and other cash items	₱ 317,404	₽_	₽_	₽_	₽_	₽317,404
Due from BSP	577,202	1-	1-	-	-	577,202
Due from other banks	4,912,083	878.079	241,250	_	_	6,031,412
Loans and receivable - gross	1,516,791	41,000	34,577	917,629	1,835,070	4,345,067
HTM investments	1,510,791	41,000	54,577	90,000	2,600,000	2,690,000
Total Financial Assets	7,323,480	919.079	275.827	1.007.629	4.435.070	13.961.085
Financial Liabilities	7,525,100	717,077	273,027	1,007,025	1,133,070	13,701,002
Deposit liabilities	9,053,594	_	101,589	3,852,158	_	13,007,341
Accounts payable	13,823	_	-	5,052,150	_	13,823
Total Financial Liabilities	9,067,417	_	101,589	3,852,158	_	13.021.164
Net	(₱1,743,937)	₽919.079	₽174,238	₱(2,844,529)	₽4,435,070	₽939.921
	()) /	,	. ,	()-	, ,	
			2010 (As resta	ated - Note 21)		
		Due within		,	Beyond	
	On demand	1 month	1 to 3 months	3 to 12 months	1 year	Total
Financial Assets						
Cash and other cash items	₽ 317,404	₽–	₽-	₽-	₽-	₽317,404
Due from BSP	577,202			_	_	577,202
Due from other banks	4,912,083	878,079	241,250	_	_	6,031,412
Loans and receivable - gross	1,516,791	41,000	34,577	917,629	1,835,070	4,345,067
Total Financial Assets	7,323,480	919,079	275,827	1,007,629	4,435,070	13,961,085
Financial Liabilities	0.052.50:		101.500	2.052.150		12.007.511
Deposit liabilities	9,053,594	_	101,589	3,852,158	_	13,007,341
Accounts payable	13,823		-	-	_	13,823
Total Financial Liabilities	9,067,417	-	101,589	3,852,158	-	13,021,164
Net	(P 1,743,937)	₽919,079	₽174,238	₱(2,844,529)	₽4,435,070	₽939,921



6. Due from BSP and Other Banks

The 'Due from BSP' account represents the aggregate balance of peso interest-bearing deposit accounts with BSP which the Bank maintains primarily to meet reserve requirements and to serve as a clearing account for interbank claims. Due from BSP earned interest at an annual rate ranging from 0.00% to 0.05% in 2012 and from 0.13% to 0.33% in 2011

Due from other banks represent funds deposited with domestic banks which are used by the Bank as part of its working funds. As at December 31, 2012 and 2011, due from other banks include USD-denominated deposits amounting to US\$34,560 (\$\mathbb{P}\$1.42 million) and US\$34,543 (\$\mathbb{P}\$1.51 million), respectively. Peso-denominated deposits earn interest at annual rates ranging from 1.25% to 2.50% in 2012 and 2011 while USD-denominated deposits earn interest at annual rate ranging from 0.38% to 1.60% in 2012 and 2011.

Interest income on due from BSP and other banks follows:

	2012	2011
Due from BSP	₽48,393	₽40,441
Due from other banks	1,545	4,294
	₽49,938	₽44,735

7. Held-to-maturity Investments

This account pertains to investments in treasury bonds with a 6.00% annual interest rate on its face and with yield rate of 5.53% to 6.00%. As of December 31, 2012 and 2011, unamortized premium on HTM investments amounted to \$\mathbb{P}\$11,460 and \$\mathbb{P}\$23,203, respectively.

8. Loans and Receivables

This account consists of:

		2011
		(As restated -
	2012	Note 21)
Receivable from customers		_
Microfinance loans	₽16,923,483	₽_
Other loans	1,759,663	3,079,479
	18,683,146	3,079,479
Less: Unearned interest discount	5,724	5,724
	18,677,422	3,073,755
Other receivables:		
Accounts receivable	4,848,478	333,983
Accrued interest receivable	416,198	230,416
Unquoted debt securities classified as loans	318,403	587,835
	24,260,501	4,225,989
Less: Allowance for credit losses	909,055	410,620
	₽23,351,446	₽3,815,369



Significant portion of receivable from customers are extended to borrowers engaged in various micro-businesses.

Receivable from customers earned annual fixed interest rates ranging from 32.80% to 58.80% in 2012 and 32.00% to 44.00% in 2011.

Interest income on loans and receivables amounted to P1.3 million in 2012 and P0.7 million in 2012 and 2011, respectively.

BSP Reporting

In accordance with BSP regulations, the Bank considers as part of portfolio-at-risk (PAR) an installment payment that is past due for a day only. As at December 31, 2012 and 2011, the Bank's PAR amounted to ₱0.78 million and ₱0.72 million, respectively. Restructured loans amounted to nil and ₱0.10 million as at December 31, 2012 and 2011, respectively.

The following table shows the secured and unsecured portions of receivable from customers as at December 31, 2012 and 2011:

	2012	2011
Secured portion	₽2,802,472	₽2,166,292
Unsecured portion	15,880,674	913,187
	₽18,683,146	₽3,079,479

Collateral of loans include real estate, chattel and deposit hold-out. The Bank also obtains additional security in the form of members' joint guarantees (under memorandum of agreements signed among various member groups).

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

	2012		2011	
	Amount	%	Amount	%
Other community, social and				
personal service activities	₽ 16,704,648	68.86	₽685,037	16.21
Wholesale and retail trade, repair of				
motor vehicles, motorcycles and				
personal and household goods	6,511,381	26.84	358,883	8.49
Manufacturing	383,066	1.58	501,772	11.87
Government	312,679	1.28	582,112	13.78
Agriculture, hunting and forestry	172,042	0.71	465,591	11.02
Education	126,685	0.52	7,800	0.18
Fishing	50,000	0.21	48,205	1.14
Health and social work	_	_	30,001	0.71
Real estate, renting and business				
activities	_	_	1,546,588	36.60
Total	₽24,260,501	100%	₽4,225,989	100%



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

	2012	2011
Balance at beginning of year	₽410,620	₽410,620
Provision for credit losses	498,435	_
Balance at end of year	₽909,055	₽410,620
Collective impairment	₽179,007	₽23,367
Individual impairment	730,048	387,253
Gross amounts of loans individually determined to		
be impaired, before deducting any individually		
assessed impairment losses	₽1,055,736	₽1,052,210

Collective impairment also covers incurred but not reported losses which may correlate with overall decline in portfolio or sub-portfolio quality either due to macroeconomic factors or external events e.g. calamities.

9. Property and Equipment

The composition of and movements in this account follow:

			2012		
	Furniture,	Information			
	Fixtures and	Technology	Transportation	Leasehold	
	Equipment	Equipment	Equipment	Improvements	Total
Cost					
Balance at beginning of year	₽784,169	₽–	₽112,087	₽1,478,010	₽2,374,266
Additions	74,639	294,733	59,592	_	428,964
Balance at end of year	858,808	294,733	171,679	1,478,010	2,803,230
Accumulated Depreciation					
and Amortization					
Balance at beginning of year	627,058	_	95,073	742,796	1,464,927
Depreciation and amortization	45,136	42,270	12,178	75,372	174,956
Balance at end of year	672,194	42,270	107,251	818,168	1,639,883
Net Book Value	₽186,614	₽252,463	₽64,428	₽659,842	₽1,163,347

			2011		
	Furniture,	Information			
	Fixtures and	Technology	Transportation	Leasehold	
	Equipment	Equipment	Equipment	Improvements	Total
Cost					
Balance at beginning of year	₽ 764,183	₽–	₽112,087	₽1,478,010	₱2,354,280
Additions	19,986	_	_	_	19,986
Balance at end of year	784,169	_	112,087	1,478,010	2,374,266
Accumulated depreciation					
and amortization					
Balance at beginning of year	585,534	_	81,189	667,424	1,334,147
Depreciation and amortization	41,524	_	13,884	75,372	130,780
Balance at end of year	627,058	-	95,073	742,796	1,464,927
Net Book Value	₽157,111	₽–	₽17,014	₽735,214	₽909,339



10. Investment Properties

The composition of and movements in this account follow:

		2012	
	Land	Building	Total
Cost			
Balance at beginning of year	₽ 4,488,678	₽ 164,287	₽4,652,965
Disposals	(4,488,678)	(164,287)	(4,652,965)
Balance at end of year	_	-	
Accumulated Depreciation			·
Balance at beginning of year	_	72,932	72,932
Disposals	_	(72,932)	(72,932)
Balance at end of year	_	_	_
Allowance for Impairment Losses			
Balance at beginning of year	_	17,908	17,908
Reversals	_	(17,908)	(17,908)
Balance at end of year	_	_	_
Net Book Value	₽-	₽-	₽-
		2011	
	Land	Building	Total
Cost			
Balance at beginning and end of year	₽4,488,678	₽164,287	₽4,652,965
Accumulated Depreciation		·	<u> </u>
Balance at beginning and end of year	_	72,932	72,932
Allowance for Impairment Losses			
Balance at beginning and end of year	_	17,908	17,908
Net Book Value	₽4,488,677	₽73,447	₽4,562,125

As a condition to the subsequent acquisition of CARD, Inc., with its affiliate, CARD Bank, Inc. and individual investors of majority shares of the Bank, the Bank and the current stockholders executed a Deed of Sale to sell all the Bank's investment properties at ₹4.52 million. Loss on sale of these investment properties amounted to ₹29,389 (Note 17).

11. Other Assets

This account consists of:

		2011
		(As restated -
	2012	Note 21)
Security deposits	₽360,000	₽360,000
Software costs	340,823	_
Stationery and supplies on hand	70,350	147,286
Sundry debit - meter deposit	34,780	34,780
Prepaid expenses	15,177	25,134
Creditable tax	_	9,676
	821,130	576,876
Less allowance for probable losses	360,000	_
	₽461,130	₽576,876
	<u>-</u>	



2011

In 2012, the Bank recognize impairment loss on security deposits amounting to ₱0.36 million.

12. Deposit Liabilities

The Bank's savings deposit liabilities include pledge savings amounting to ₱7.1 million and nil as at December 31, 2012 and 2011, respectively. These represent the ₱50.0 per week aggregate compulsory savings collected from each member/borrower for 2012. Under an assignment agreement, the pledge savings balances serve as security for loans granted by the Bank to its members. The pledge savings earn annual interest of 2.50%. A member/borrower is required to maintain a pledge savings balance equivalent to 15.00% of the original loan amount (Note 8).

Special savings deposits have interest rates of 2.50% to 6.00% in 2012 and 3.50% to 6.50% in 2011. Average interest per annum is 4.00%. Interest expense on deposit liabilities amounted to $\frac{20}{20}$ 0. Polynomial in $\frac{2012}{20}$ and $\frac{2011}{20}$ 0.

In 2011, under existing BSP regulations, deposit liabilities of the Bank are subject to liquidity reserves equivalent to 2.00% and statutory reserves equivalent to 6.00%. In March 2012, BSP issued Circular 753 effective April 6, 2012 unifying the liquidity and statutory reserves requirements to 6.00%, with cash in vault no longer eligible as reserve. Available reserves as at December 31, 2012 and 2011 are as follows:

	2012	2011
Cash and other cash items	₽_	₽317,404
Due from BSP	633,928	578,113
	₽633,928	₽895,517

13. Other Liabilities

This account consists of the following:

	2012	2011
Financial liabilities:		_
Accrued expenses	₽ 178,552	₽_
Accounts payable	125,042	29,841
Accrued interest payable	17,847	_
Non financial liabilities:		
Withholding taxes payable	23,262	15,650
Others	-	14,215
	₽344,703	₽59,706



14. Maturity Analysis of Assets and Liabilities

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

		2012			2011 (As r	estated -Note 21)
_	Within one	Beyond One		Within one	Beyond One	<u>.</u> ,
	Year	Year	Total	Year	Year	Total
Financial Assets						
Cash and other cash items	₽355,664	₽-	₽355,664	₽317,404	₽-	₽317,404
Due from BSP	633,928	_	633,928	578,113	_	578,113
Due from other banks	7,367,277	_	7,367,277	6,118,196	_	6,118,196
Loans and receivables-net	23,041,031	310,415	23,351,446	2,396,031	1,419,338	3,815,369
HTM investments	_	2,011,459	2,011,459	_	2,023,202	2,023,202
Nonfinancial Assets						
Property and equipment	_	1,163,347	1,163,347	_	909,339	909,339
Investment properties	_	_	_	_	4,562,125	4,562,125
Other assets	_	461,130	461,130	_	576,876	576,876
Total Assets	₽31,397,900	₽3,946,351	₽35,344,251	₽9,409,744	₽9,490,880	₽18,900,624
Financial Liabilities						
Deposit liabilities	₽25,870,976	₽_	₽25,870,976	₽13,007,341	₽	₽13,007,341
Other liabilities	1 23,070,270	-	1 23,070,270	1 15,007,541		1 13,007,541
Accrued interest payable	17,847	_	17,847	_	_	_
Accrued expenses	178,552	_	178,552	_	_	_
Accounts payable	125,042	_	125,042	29,841	_	29,841
Nonfinancial Liabilities	123,012		123,012	27,011		27,011
Deposit for future stock						
subscription	6,875,000	_	6,875,000	_	_	_
Other liabilities	0,075,000		0,075,000			
Income tax payable	_	_	_	25,214	_	25,214
Withholding taxes payable	23,262	_	23,262	15,650	_	15,650
Others		_		14,215	_	14,215
Total Liabilities	₽33,090,679	₽–	₽33,090,679	₽13,092,261	₽-	₽13,092,261

15. Equity

Capital Stock

The Bank's authorized capital stock amounted to ₱49.0 million, consisting of 490,000 common shares with par value of ₱100 per share and 10 preferred shares with par value of ₱100 per share.

As at December 31, 2012 and 2011, the Bank's capital stock consists of:

	2012		2011	
	Shares	Amount	Shares	Amount
Common stock				
Issued and outstanding	7,500	₽750,000	7,500	₽750,000
Subscribed	167,500	16,750,000	167,500	16,750,000
Subscription receivable		(6,875,000)		(6,875,000)
	175,000	₽10,625,000	175,000	₽10,625,000

As at December 31, 2012 and 2011, no preferred shares were issued nor subscribed.



Deposit for Future Stock Subscription

In connection with the acquisition of majority shares of the Bank, CARD, Inc., CARD Bank, Inc. and individual investors have advanced cash amounting to \$\mathbb{P}6.87\$ million which will be applied to the subscription receivable amount upon approval of BSP. These deposits were classified as a liability as the sale and transfer is still subject to the approval of BSP as at December 31, 2012 and subsequently approved in January 25, 2013. Further, the deposit for future stock subscription does not qualify as equity in accordance with any of the criteria set under SEC Financial Reporting Bulletin No. 006.

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

Under current banking regulations, the combined capital accounts of each bank should not be less than an amount equal to ten percent (10.00%) of its risk assets. The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio to total equity excluding:

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

Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board of the BSP. Under BSP Circular No. 360, effective July 1, 2003, the capital-to-risk assets ratio is to be inclusive of a market risk charge.



The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments. For the year ended December 31, 2012 and 2011, the Bank was in compliance with the risk-based capital adequacy ratio (CAR). The following table sets the CAR as reported to the BSP (amounts in millions):

	2012	2011
Tier 1 capital	₽2.93	₽6.31
Tier 2 capital	2.93	0.00
Gross qualifying capital	5.86	6.31
Less required deductions	_	
Total qualifying capital	₽5.86	₽6.31
Risk weighted assets	₽37.59	₽18.56
Tier 1 capital ratio	7.79%	34.00%
Tier 2 capital ratio	7.79%	0.00%
Total CAR	15.59%	34.00%

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

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

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

The Monetary Board recently approved the Revised Risk-Based Capital Adequacy Framework for stand-alone thrift banks (TBs), rural banks (RBs) and cooperative banks (Coop Banks) which takes effect on January 1, 2012. Currently, these banks are covered by Circular No. 280 dated March 29, 2001, as amended, which is primarily based on Basel 1.

The change upgrades these banks to higher capital adequacy standards, the so-called Basel 1.5 framework. The revised Basel 1.5 framework involves only a few key changes to the existing framework which include the following:

- On credit risk, the foreign currency-denominated credit exposures to the Philippine National Government (NG) and BSP will now carry a 100.00% risk weight, based on the country's current sovereign rating of "BB+", from the existing 0.00% risk weight. The new risk weight, however, will be phased-in over a three-year period, i.e., only 1/3 of the applicable risk weight will be applied starting January 1, 2012, 2/3 starting January 1, 2013 and the full risk weight starting January 1, 2014. Meanwhile, peso-denominated exposures to the Philippine NG/BSP will continue to be 0.00% risk-weighted.
- Exposures to government corporations which carry an explicit guarantee of the NG shall be 0.00% risk-weighted only if peso-denominated. Those that are FCY-denominated will follow the risk weight of the FCY-denominated exposures to NG/BSP.



- The assignment of 150.00% risk weight (from 100.00%) to Real and Other Properties Acquired (ROPA). The 150.00% risk weight shall, however, be gradually implemented over a three-year period, i.e., 115.00% risk weight shall be applied by January 1, 2012, 130.00% by January 1, 2013 and 150.00% by January 1, 2014. This revision is aligned with the BSP's thrust of reducing the level of non-performing assets of banks to strengthen the overall asset quality of the banking system.
- Another new element in the revised framework is the capital requirement for operational risk. For this purpose, the simplest approach, i.e., the Basic Indicator Approach (BIA) with minor modification shall be used. The modification entails a capital charge of 12.00% of the average positive annual gross income during the last three years of a bank. This was originally proposed at 15.00% but has been lowered to be consistent with the generally retail portfolio of the smaller banks. Moreover, it shall also be subject to staggered implementation over a three-year period, i.e., 4.00% capital charge shall be applied by January 1, 2012, 8.00% by January 1, 2013 and 12.00% by January 1, 2014, to allow banks time to adjust.
- Designed to enhance market discipline, another new element in the revised framework is the disclosure requirements in the Annual Reports and Quarterly Published Balance Sheet. The items that would now need to be disclosed are the banks' (a) components of qualifying capital; (b) capital requirements for credit, market and operational risks; and (c) total and tier 1 CARs.

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

On October 29, 2010, BSP issued the Circular No. 696, which states that rural banks with head office in cities other than Metro Manila, Cebu and Davao are required to comply with the minimum capital requirement of \$\mathbb{P}25.0\$ million.

16. Compensation and Fringe Benefits

This account consists of:

	2012	2011
Salaries and wages	₽1,304,755	₽1,078,893
Fringe benefits - officers and employees		
compensation premium and pagibig contribution	396,373	56,900
Other short term benefits	82,280	66,938
	₽1,783,408	₽1,202,731

17. Miscellaneous Income and Expenses

Miscellaneous income consists of:

	2012	2011
Service and processing	₽ 115,566	₱ 128,398
Loss on sale of investment properties	(29,389)	_
Other income	7,407	94,428
	₽93,584	₽222,826



Miscellaneous expense account consists of the following:

	2012	2011
Postage, telephone, cables and telegrams	₽40,218	₽29,976
Information technology expenses	36,754	27,547
Representation and entertainment (Note 18)	33,956	21,291
Staff training and development	9,991	_
Client training and development	6,000	_
Periodicals and magazines	3,700	_
Supervision and examination fee	2,582	13,997
Donations and charitable contributions	1,000	2,300
Provision for year-end expenses	92,087	102,770
Other expenses	128,554	117,117
	₽354,842	₽ 314,998

18. Income Taxes

Under Philippine tax laws, the Bank is subject to percentage and other taxes presented as 'Taxes and licenses' in the statements of comprehensive income as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp taxes. Income taxes also include RCIT, as discussed below and final taxes paid at the rate of 20.00%, which is a final withholding tax on gross interest income from government securities and other deposit substitutes.

Republic Act No. 9337, *An Act Amending National Internal Revenue Code*, provides that starting January 1, 2009, the RCIT rate shall be 30.00%, and deductible interest expense shall be reduced by 33.00% of interest income subjected to final tax. Current tax regulations also provide for MCIT of 2.00% on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Bank's income tax liability and taxable income, respectively, over a three-year period from the year of inception. Further, current tax regulations set a limit for entertainment, amusement and recreation (EAR) expenses that can be deducted for income tax purposes. EAR expenses are limited to 1.00% of net revenue for sellers of services. EAR expenses recorded under "Miscellaneous expenses amounted to \$\text{P0.03}\$ million and \$\text{P0.02}\$ million in 2012 and 2011, respectively.

Provision for income tax consists of:

	2012	2011
Current:		_
Corporate	₽_	₽25,215
Final tax	24,995	32,177
	₽24,995	₽57,392

Details of the Bank's NOLCO follow:

Inception Year	Amount	Used/Expired	Balance	Expiry Year
2011	₽1,396,285	_	₽1,396,285	2014
2012	2,663,107	_	2,663,107	2015
Total	₽4,059,392	_	₽4,059,392	



Also, the Bank has excess of MCIT over RCIT amounting to ₱25,515 originated in 2011 which will expire in 2014.

The Bank did not set up deferred tax assets on the following:

	2012	2011
Allowance for credit and impairment losses	₽1,269,055	₽410,620
NOLCO	4,059,392	1,396,285
Excess of MCIT over RCIT	25,515	25,215
	₽5,353,962	₽1,832,120

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

	2012	2011
Statutory income tax	(₽1,058,939)	(P 438,609)
Income tax effects of:		
Change in unrecognized deferred tax asset	1,061,415	512,089
Interest income subject to final tax	(12,497)	(16,088)
Nondeductible expenses	39,968	
Provision for income tax	₽24,995	₽57,392

19. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Entities are considered to be related if they are subjected under common control or common significant influence. Related parties maybe individuals or corporate entities.

Transactions with Directors and other Key Management Personnel

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

The table below shows the transaction of the Bank with key management personnel for 2012 and 2011:

	2012	2011	Nature, Terms and Conditions
Statement of Financial Position (i	n volume)		
Key management personnel			
Deposit liability	53,277	-	Consists of regular savings deposit account at an annual interest rate from 1.50% to 2.50%
Accounts receivable	4,520,035	-	Sale of investment properties to key management personnel on account
Statement of Comprehensive Inco	ome (in volume)		<u> </u>
Key management personnel			
Occupancy	₽527,076	₽527,076	An establishment owned by key management personnel being leased to the Bank. Lease contract is renewable annually
Interest expense	1,243	_	Interest from regular savings deposit account at an annual interest rate from 1 50% to 2 50%



Regulatory Reporting

As required by BSP, the Bank discloses loan transactions with investees and with certain directors, officers, stockholders and related interests (DOSRI). Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the lending company within the Bank.

In the aggregate, loans to DOSRI generally should not exceed total equity or 15.00% of total loan portfolio, whichever is lower. As at December 31, 2012 and 2011, the Bank is in compliance with the regulatory requirements.

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

As at December 31, 2012 and 2011, there were no loans, other credit accommodations and guarantees classified as DOSRI accounts under the existing regulations as shown in the table below:

	2012	2011
Total outstanding DOSRI accounts	₽_	₽_
Percent of DOSRI accounts granted prior to effectivity of BSP		
Circular No. 423 to total loans	0.00%	0.00%
Percent of DOSRI accounts granted after effectivity of BSP		
Circular No. 423 to total loans	0.00%	0.00%
Percent of DOSRI accounts to total loans	0.00%	0.00%
Percent of unsecured DOSRI accounts to total DOSRI accounts	0.00%	0.00%
Percent of past due DOSRI accounts to total DOSRI accounts	0.00%	0.00%
Percent of nonaccruing DOSRI accounts to total DOSRI accounts	0.00%	0.00%

20. Commitments and Contingencies

There are commitments and contingent liabilities that arise in the normal course of the Bank's operations which are not reflected in the accompanying financial statements.

As at December 31, 2012 and 2011, management is of the opinion that losses, if any, from these commitments and contingencies will not have a material effect on the Bank's financial statements.



21. Correction of Prior Period Errors

In 2012, the Bank restated its 2011 financial statements to effect the correction of errors pertaining to 2011 noted during 2012.

The tables below show the reconciliation of previously reported and restated balances of financial statement accounts affected by the restatements as discussed above:

	As previously		Prior period	
2011	reported		adjustments	As restated
Statement of financial position				_
Due from other banks	₽6,460,599	a	(₱342,403)	₱6,118,196
Held-to-maturity investments	2,611,037	b	(587,835)	2,023,202
Loans and receivables	2,663,136	b-d	1,152,233	3,815,369
Other assets	1,300,198	c	(723,322)	576,876
Total assets	19,401,951		(501,327)	18,990,624
Deficit	(4,315,310)	a,d	(501,327)	(4,816,637)
Total equity	(4,315,310)		(501,327)	(4,816,637)
Statement of comprehensive income				_
Interest income from loans and				
receivables	₽885,791	d	(₱158,924)	₽726,867
	As previously		Prior period	
2010	reported		adjustments	As restated
Statement of financial position				
Due from other banks	₽7,770,360	a	(₱342,403)	₽7,427,957
Deficit	(2,954,813)	a	(342,403)	(3,297,216)

The nature of the restatement amounts as shown in the table above is as follows:

- a. Recognition of foreign exchange loss on foreign-currency-denominated due from other banks amounting to ₱0.3 million
- b. Reclassification of unquoted debt securities from held-to-maturity investments to loans and receivables amounting to ₱0.6million
- c. Reclassification of accrued interest and accounts receivable amounting to ₱0.4 million and ₱0.3 million, respectively, from other assets to loans and receivables
- d. Reversal of interest income accrued for past due loans amounting to ₱0.2 million

22. Notes to Statements of Cash Flows

Noncash transaction of the Bank consists only of sale of investment properties on account amounting to ₱4.5 million in 2012.

23. Approval for the Release of Financial Statements

The BOD of the Bank has reviewed and approved the release of the accompanying financial statements on March 9, 2013.



24. Supplementary Information Required under Revenue Regulations 19-2011

In addition to the required supplementary information under RR No. 15-2010, on December 9, 2011, the BIR issued RR No. 19-2011 which prescribes the new annual income tax forms that will be used for filing effective taxable year 2011. Specifically, companies are required to disclose certain tax information in their respective notes to financial statements. For the taxable year ended December 31, 2012, the Bank reported the following revenues and expenses for income tax purposes:

Sales/receipts/fees	₽1,427,529
Cost of services	(1,653,914)
Non-operating and taxable other income	122,973
Itemized deductions	(2,559,695)
	(₱2,663,107)
The details of the Sales/Revenues/Receipts fees are as follows:	
Interest income	₽1,330,017
Service charges and fees	97,512
	₽1,427,529
The details of the Cost of services are as follows:	
Compensation and fringe benefits	₽1,459,047
Insurance	50,608
Interest expense	144,259
	₽1,653,914
Schedule of Itemized Deductions	
Compensation and fringe benefits	₽ 324,361
Rental	548,129
Professional fees	279,000
Office supplies	262,372
Depreciation	174,956
Communication, light and water	136,990
Foreign exchange loss	102,741
Litigation	101,702
Taxes and licenses	90,657
Repairs and maintenance	84,752
Transportation and travel	62,669
Fuel and oil	56,205
Representation and entertainment	14,275
Miscellaneous	320,886
Total	₽2,559,695



25. Supplementary Information Required under Revenue Regulations 15-2010

On November 25, 2010, the BIR issued RR 15-2010 prescribing the manner of compliance in connection with the preparation and submission of financial statements accompanying the tax returns. It includes provisions for additional disclosure requirements in the notes to the financial statements, particularly on taxes and licenses paid or accrued during the year. The components of 'Taxes and licenses' recognized in the statement of comprehensive income for the year ended December 31, 2012, follow:

Gross receipt tax (GRT)	₽64,913
Business permits and licenses	20,782
Real property tax	4,962
	₽90,657
GRT in 2012 consists of taxes on:	
Interest income on loans	₽48,332
Other income	16,581
	₽64,913
Paid: Final withholding tax on interest expense Withholding taxes on compensation and benefits Expanded withholding tax	₱22,248 123,002 43,880 ₱189,130
Accrued: Withholding taxes on compensation and benefits Final withholding tax on interest expense Expanded withholding tax	₱2,255 15,000 6,007 ₱23,262

