Rizal Rural Bank (Taytay, Rizal), Inc.

Financial Statements
December 31, 2013 and 2012
and Years Ended December 31, 2013 and 2012

and

Independent Auditors' Report

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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 statements of financial position as at December 31, 2013 and 2012 and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and 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 audits. We conducted our audits 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 the 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.

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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, 2013 and 2012 and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 25 to the financial statements 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.

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PTR No. 4225179, January 2, 2014, Makati City

April 12, 2014

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

	December 31	
	2013	2012 (As restated - Note 22)
ASSETS		
Cash and other cash items	**₱380,545**	₱355,664
Due from Bangko Sentral ng Pilipinas (Notes 6 and 12)	**4,115,479**	633,928
Due from other banks (Note 6)	**39,188,778**	7,367,277
Loans and receivables (Note 7)	**170,230,048**	23,351,446
Held-to-maturity investments (Note 8)	**2,011,151**	2,011,459
Property and equipment (Note 9)	**24,284,161**	1,163,347
Investment properties (Note 10)	**490,160**	–
Deferred tax assets (Note 20)	**5,409,164**	–
Other assets (Note 11)	**1,749,689**	461,130
	₱247,859,175	₱35,344,251
LIABILITIES AND EQUITY		
Liabilities		
Deposit liabilities (Note 12)		
Savings	**₱80,154,264**	₱14,846,249
Time	**104,074,359**	11,024,727
	184,228,623	25,870,976
Deposit for future stock subscription (Note 15)	**32,500,000**	6,875,000
Retirement liabilities (Note 17)	**15,605,570**	4,781,535
Income tax payable	**2,556,913**	–
Other liabilities (Note 13)	**4,764,580**	344,703
	239,655,686	37,872,214
Equity		
Common stock (Note 15)	**17,500,000**	10,625,000
Deficit	**(3,806,951)**	(13,152,963)
Remeasurement losses on retirement plan (Note 17)	**(5,489,560)**	–
	8,203,489	(2,527,963)
	₱247,859,175	₱35,344,251

See accompanying Notes to Financial Statements.

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

	Years Ended December 31	
	2013	2012 (As restated - Note 22)
INTEREST INCOME ON		
Loans and receivables (Note 7)	**₱42,415,648**	₱1,330,017
Due from Bangko Sentral ng Pilipinas and other banks (Note 6)	**308,605**	49,938
Held-to-maturity investments (Note 8)	**113,177**	75,036
	42,837,430	1,454,991
INTEREST EXPENSE ON		
Deposit liabilities (Note 12)	**2,786,985**	185,500
NET INTEREST INCOME	**40,050,445**	1,269,491
Gain on foreclosure (Note 10)	**207,621**	–
Foreign exchange loss	**(17,250)**	(102,741)
Service charges	–	213,078
Loss on sale of investment properties (Note 10)	–	(29,389)
Miscellaneous	**23,729**	7,407
TOTAL OPERATING INCOME	**40,264,545**	1,357,846
OPERATING EXPENSES		
Compensation and benefits (Note 16)	**15,385,799**	6,657,030
Taxes and licenses	**2,590,351**	90,657
Provision for credit and impairment losses (Notes 7 and 11)	**1,913,886**	858,435
Transportation and travel	**1,657,092**	62,669
Stationeries and supplies	**1,587,444**	262,372
Rent (Note 18)	**1,464,391**	548,129
Depreciation and amortization (Note 9)	**1,248,646**	174,956
Information technology	**1,171,552**	36,754
Security, messengerial, janitorial services	**866,292**	5,526
Fuel and lubricants	**846,961**	56,205
Training and development	**511,675**	15,991
Power, light and water	**458,088**	136,990
Professional fees	**376,120**	279,000
Seminars and meetings	**335,069**	–
Insurance	**273,946**	50,608
Postage, telephone, cables and telegrams	**190,780**	40,218
Repairs and maintenance	**147,770**	84,752
Representation and entertainment (Note 20)	**141,172**	33,956
Miscellaneous (Note 19)	**166,725**	274,929
	31,333,759	9,669,177
INCOME (LOSS) BEFORE INCOME TAX	**8,930,786**	(8,311,331)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 20)	**(415,226)**	24,995
NET INCOME (LOSS)	**₱9,346,012**	(₱8,336,326)

See accompanying Notes to Financial Statements.

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

	Years Ended December 31	
	2013	2012 (As restated - Note 22)
NET INCOME (LOSS)	**₱9,346,012**	(₱8,336,326)
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:		
Loss on remeasurement of retirement liabilities (Note 17)	**(7,842,228)**	–
Income tax effect (Note 20)	**2,352,668**	–
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱3,856,452**	(₱8,336,326)

See accompanying Notes to Financial Statements.

RIZAL RURAL BANK (TAYTAY, RIZAL), INC.
STATEMENTS OF CHANGES IN EQUITY

	Common Stock	Deficit	Remeasurement Losses on Retirement Plan	Total
Balances at January 1, 2013, as previously reported	**₱10,625,000**	**(₱8,371,428)**	**₱–**	**₱2,253,572**
Adjustment (Note 22)	**–**	**(4,781,535)**	**–**	**(4,781,535)**
Balances at January 1, 2013, as restated	**10,625,000**	**(13,152,963)**	**–**	**(2,527,963)**
Issuance of shares	**6,875,000**	**–**	**–**	**6,875,000**
Comprehensive income for the year	**–**	**9,346,012**	**(5,489,560)**	**3,856,452**
Balances at December 31, 2013	**₱17,500,000**	**(₱3,806,951)**	**(₱5,489,560)**	**₱8,203,489**
Balances at January 1, 2012	₱10,625,000	(₱4,816,637)	₱–	₱5,808,363
Comprehensive loss for the year	–	(8,336,326)	–	(8,336,326)
Balances at December 31, 2012	₱10,625,000	(₱13,152,963)	₱–	(₱2,527,963)

See accompanying Notes to Financial Statements.

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

	Years Ended December 31	
	2013	2012 (As restated - Note 22)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	**₱8,930,786**	(₱8,311,331)
Adjustments for:		
Provision for credit and impairment losses (Notes 7 and 11)	**1,913,886**	858,435
Depreciation and amortization (Note 9)	**1,248,646**	174,956
Gain on foreclosure of investment property	**(207,621)**	–
Gain on sale of property and equipment	**(2,035)**	–
Amortization of held-to-maturity investments (Note 8)	**308**	11,743
Foreign exchange loss	–	102,741
Unrealized loss on sale of investment properties	–	29,389
Operating income before changes in operating assets and liabilities:	**11,883,970**	(7,134,067)
Increase in:		
Loans and receivables (Note 23)	**(153,595,062)**	(15,514,477)
Other assets	**(1,288,559)**	(244,254)
Increase in:		
Deposit liabilities	**158,357,647**	12,863,635
Retirement liabilities	**2,981,807**	4,781,535
Other liabilities	**2,919,877**	284,997
Net cash generated from (used in) operations	**21,259,680**	(4,962,631)
Income taxes paid	**(84,357)**	(50,209)
Net cash provided by (used in) operating activities	**21,175,323**	(5,012,840)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment (Notes 9 and 23)	**(22,873,586)**	(428,964)
Proceeds from disposal of investment properties (Note 23)	**4,520,035**	12,701
Proceeds from disposal of property and equipment (Note 9)	**6,161**	–
Net cash used in investing activities	**(18,347,390)**	(416,263)
CASH FLOWS FROM FINANCING ACTIVITY		
Deposit for future stock subscription (Note 15)	**32,500,000**	6,875,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	**35,327,933**	1,445,897
EFFECTS OF FOREIGN EXCHANGE ON CASH AND CASH EQUIVALENTS	–	102,741
CASH AND CASH EQUIVALENTS AT BEGINNING 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

(Forward)

	Years Ended December 31	
	2013	2012 (As restated - Note 22)
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and other cash items	**₱380,545**	₱355,664
Due from Bangko Sentral ng Pilipinas	**4,115,479**	633,928
Due from other banks	**39,188,778**	7,367,277
	₱43,684,802	₱8,356,869

OPERATIONAL CASH FLOWS FROM INTEREST

	Years Ended December 31	
	2013	2012
Interest received	**₱39,530,554**	₱1,269,209
Interest paid	**2,271,571**	167,653

See accompanying Notes to Financial Statements.

1. Corporate Information

Rizal Rural Bank (Taytay, Rizal), Inc. (the Bank) was incorporated under Philippine laws by virtue of Securities and Exchange Commission (SEC) Certificate of Registration No. ASO94-11394 dated December 15, 1994. The Bank was granted the authority 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.

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

The Monetary Board, in its Resolution no. 155 dated 25 January 2013, approved the acquisition by Center for Agriculture and Rural Development (CARD) Inc., CARD Bank Inc. and various individuals of the 100% outstanding shares of the Bank.

2. Summary of Significant Accounting Policies

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

Statement of Compliance
The financial statements of the Bank have been prepared in 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.

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

In prior years, the Bank presented a single statement of comprehensive income. Starting 2013, the Bank decided to separate the single statement into statement of income and statement of comprehensive income to give a clear and more relevant information to the users of the financial statements for the difference of statement of income and other comprehensive income. The change in presentation has no impact to the financial position or performance of the Bank.

Changes in Accounting Policies and Disclosures
The Bank applied, for the first time, the following applicable new and revised accounting standards. Unless otherwise indicated, these new and revised accounting standards have no impact to the Bank. Except for these standards and amended PFRS which were adopted as of January 1, 2013, the accounting policies adopted are consistent with those of the previous financial year.

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 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. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

As a result of the guidance in PFRS 13, the Bank re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. The Bank has assessed that the application of PFRS 13 has not materially impacted the fair value measurements of the Bank. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 4.

PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI* (Amendments)
The amendments to PAS 1 introduced a grouping of items presented in OCI. Items that will 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 Bank's financial position or performance.

PAS 19, *Employee Benefits* (Revised)
On January 1, 2013, the Bank adopted the revised PAS 19.

For defined benefit plans, the revised PAS 19 requires all actuarial gains and losses to be recognized in OCI and unvested past service costs previously recognized over the average vesting period to be recognized immediately in the statement of income when incurred.

Prior to adoption of the revised PAS 19, the Bank recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses for each individual plan at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon adoption of the revised PAS 19, the Bank changed its accounting policy to recognize all actuarial gains and losses in OCI and all past service costs in the statement of income in the period they occur.

The revised PAS 19 replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period.

The revised PAS 19 also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee's entitlement to the benefits. In addition, the revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

Changes to definition of short-term employee benefits and timing of recognition for termination benefits do not have any impact to the Bank's financial position and financial performance.

The changes in accounting policies have been applied retrospectively. The adoption did not have an impact to the prior periods.

The revised PAS 19 also requires more extensive disclosures. These have been provided in Note 17. The Bank obtained the services of an external actuary to compute the impact to the financial statements upon adoption of the standard.

***Annual Improvements to PFRSs* (2009-2011 cycle)**

The *Annual Improvements to PFRSs* (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The Bank adopted these amendments for the current year.

PAS 1, *Presentation of Financial Statements – Clarification of the requirements for comparative information*
These 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. The amendment does not have any significant impact on the Bank's financial position or performance.

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*. The amendment does not have any significant impact on the Bank's financial position or performance.

Summary of Significant Accounting Policies

Fair Value Measurement
The Bank initially measures its financial instruments and nonfinancial assets, such as investment properties acquired in exchange for a non-monetary asset, at fair value. The fair values of financial instruments measured at amortized cost and investment properties are disclosed in Note 4.

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

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

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

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

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

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

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

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

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

Foreign Currency Transactions
For financial reporting purposes, foreign currency-denominated monetary assets and liabilities are translated to Philippine pesos based on the Philippine Dealing and Exchange Corporation (PDEx) closing rate prevailing at end of the reporting date, and foreign currency-denominated income and expenses using the rate at transaction date. Foreign exchange differences arising from restatements of foreign currency-denominated monetary assets and liabilities are recorded in "Foreign exchange gain (loss)" in the statement of income.

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 reporting date.

As at December 31, 2013 and 2012, 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 income in 'Miscellaneous' unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the 'Day 1' difference amount.

Determination of fair value
Fair value is the price that would be received to sell an asset or that would be paid to transfer a liability in an orderly transaction between market participants under current market conditions (i.e., an exit price) at the measurement date.

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

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

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

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

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 effective interest rate (EIR). The amortization is included in 'Interest income' in the statement of income. The losses arising from impairment are recognized in 'Provision for credit and impairment losses' in the statement of income.

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 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 recognized in the statement of income. Financial assets, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, subsequently, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account.

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

<u>Offsetting Financial Instruments</u>
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.

<u>Property and Equipment</u>
Property and equipment are carried at cost less accumulated depreciation and amortization 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 recognized in the

statement of 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:

Building	10 years
Leasehold improvements	5 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 and amortization are removed from the accounts, and any resulting gain or loss is reflected in the statement of income.

Investment Properties

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

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

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

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

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

Depreciation on building and improvements is calculated on a straight-line basis over the estimated useful life of 10 to 15 years from the time of acquisition of the investment properties.

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

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

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

Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the 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 recognized in the statement of income in the year in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset.

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

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 and penalties
Service charges and penalties are recognized only upon collection or accrued where there is reasonable certainty as to its collectability.

Gain on foreclosure of investment properties
Gain on sale of foreclosure of investment is recognized upon foreclosure of the investment properties.

Loss on sale of investment properties
Loss on sale is recognized upon absolute sale of the investment properties.

<u>Expense Recognition</u>
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.

Interest expense
Interest expense on deposit liabilities are recognized based on the accrual method of accounting, using the EIR which is the rate that exactly discounts estimated future cash flows through the expected life of the interest-bearing financial instruments to the net carrying amount of the financial liability.

Administrative and other operating expenses
Administrative and other operating expenses include the costs directly associated with the generation of revenue and cost of administering the business, and these are expensed as incurred.

<u>Retirement Benefits</u>
The Bank operates a defined benefit retirement plan which requires contributions to be made to a separately administered fund. The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Defined benefit costs comprise the following:

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

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

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

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

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 income on a straight-line basis over the lease term.

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

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

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

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

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

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

Deferred tax relating to items recognized directly in equity is recognized in other comprehensive income, and not in the statement of income.

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

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 reporting date:

a. The unissued authorized capital stock of the entity is insufficient to cover the amount of shares indicated in the contract;
b. There is 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.

Deficit
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.

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 statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an 'Interest expense'.

Related Party Relationships and Transactions
Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among the enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance or the relationship, and not merely the legal form.

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

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

Future Changes in Accounting Policies
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 2014

PAS 36, *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)
These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendments affect disclosures only and have no impact on the Bank's financial position or performance.

Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)
These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Bank since none of the entities in the Bank would qualify to be an investment entity under PFRS 10. The amendments have no impact on the Bank's financial position or performance.

Philippine Interpretation IFRIC 21, *Levies* (IFRIC 21)
IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Bank does not expect that IFRIC 21 will have material financial impact in future financial statements.

PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The Bank has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

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 Bank'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.

PAS 19, *Employee Benefits – Defined Benefit Plans: Employee Contributions* (Amendments)
The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014.

Annual Improvements to PFRSs (2010-2012 cycle)

The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:

PFRS 2, *Share-based Payment – Definition of Vesting Condition*
The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This amendment does not apply to the Bank as it has no share-based payments.

PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*
The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Bank shall consider this amendment for future business combinations.

PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments have no impact on the Bank's financial position or performance.

PFRS 13, *Fair Value Measurement – Short-term Receivables and Payables*
The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

PAS 16, *Property, Plant and Equipment – Revaluation Method – Proportionate Restatement of Accumulated Depreciation*
The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment has no impact on the Bank's financial position or performance.

PAS 24, *Related Party Disclosures – Key Management Personnel*
The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Bank's financial position or performance.

PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Amortization*
The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments have no impact on the Bank's financial position or performance.

Annual Improvements to PFRSs (2011-2013 cycle)

The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards – Meaning of 'Effective PFRSs'*
The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Bank as it is not a first-time adopter of PFRS.

PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements*
The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

PFRS 13, *Fair Value Measurement – Portfolio Exception*
The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Bank's financial position or performance.

PAS 40, *Investment Property*
The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a Bank of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Bank's financial position or performance.

PFRS 9, *Financial Instruments*
PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace 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 liabilities designated as at FVPL using the fair value option, 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 the statement of income, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in the statement of income. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation 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.

On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Bank will not adopt the standard before the completion of the limited amendments and the second phase of the project.

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. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Bank.

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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) *Assessment of functional currency*
PAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires management to determine its functional currency such that it must faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the Bank. In making this judgment, the Bank considers the following:
- the currency that mainly influences sales prices for financial instruments and services;
- the currency in which funds from financing activities are generated; and
- the currency in which receipts from operating activities are usually retained.

(b) *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.

(c) *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.

(d) *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 8 for the carrying value of HTM investments.

(e) *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.

(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 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, 2013 and 2012, the carrying values of loans and receivables and related allowance for credit losses are disclosed in Note 7.

(b) *Recognition of deferred income taxes*
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 reporting date and reduces this to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized. The recognized and unrecognized deferred tax assets for the Bank are disclosed in Note 20.

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

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

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

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

The Bank recognizes an impairment loss whenever the carrying amounts of nonfinancial assets exceed their recoverable amounts. As at December 31, 2013 and 2012, no impairment losses were provided on nonfinancial assets.

(e) *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 in Note 2 for the estimated useful lives.

4. Fair Value Measurement

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

The fair values of cash and cash equivalents, loans and receivables except for unquoted debt securities classified as loans, deposit liabilities and other liabilities approximate their carrying values in view of the relatively short-term maturities of these instruments.

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

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

		Fair value measurement using		
	Carrying Value	Quoted market price (Level 1)	Significant unobservable inputs (Level 3)	Total Fair Value
Assets for which fair values are disclosed:				
Unquoted debt securities classified as loans	₱1,264,012	₱–	₱1,106,935	₱1,106,935
Held-to-maturity investments	2,011,151	2,131,985	–	2,131,985
Investment properties	490,160	–	490,160	490,160
Other assets				
Refundable rental deposits	396,367	–	364,942	364,942

Instruments in Level 3 include those for which there is currently no active market. Disclosures on unobservable inputs are disclosed in Note 10.

As at December 31, 2012, the fair value of the financial assets and liabilities of the Bank approximate their carrying values except of the following:

	Carrying Value	Fair Value
Unquoted debt securities classified as loans	₱318,403	₱253,182
Held to maturity investments	2,011,459	2,131,378

The Bank does not have financial instruments carried at fair value as at December 31, 2013 and 2012.

There have been no changes in determining the fair value of financial instruments in 2013 and 2012. There were no transfers of financial instruments between Levels 1, 2 and 3 in 2013 and 2012.

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
An analysis of the maximum exposure to credit risk after taking into account any collateral held or other credit enhancements is shown below as at December 31, 2013 and 2012:

	2013			
	Maximum credit exposure	**Fair value of collateral**	**Net exposure**	**Financial effect of collateral or credit enhancement**
Receivable from customers				
Microfinance loans	**₱153,103,171**	**₱23,291,389**	**₱129,811,781**	**₱23,291,389**
Other loans	**10,804,910**	**2,626,167**	**9,084,133**	**1,720,777**
	₱163,908,081	**₱25,917,556**	**₱138,895,914**	**₱25,012,166**

	2012			
	Maximum credit exposure	Fair value of collateral	Net exposure	Financial effect of collateral or credit enhancement
Receivable from customers				
Microfinance loans	₱16,100,047	₱2,538,522	₱13,561,525	₱2,538,522
Other loans	1,674,044	1,194,472	1,384,961	289,083
	₱17,774,091	₱3,732,994	₱14,946,486	₱2,827,605

As at December 31, 2013 and 2012, the Bank does not hold any collateral or other credit enhancements to cover the credit risks associated with its due from BSP and other banks, other receivables, HTM and other financial assets. Hence, the carrying values of those financial assets best represent the maximum exposure to credit risk.

Credit enhancement for receivable from customers pertains to deposit hold-out from pledge savings equivalent to 15.00% of the original amount of the loan to the member and real estate mortgage as at December 31, 2013 and 2012.

The Bank has no financial instruments with rights of set-off in accordance to PAS 32 as at December 31, 2013 and 2012. There are also no financial instruments that are subject to an enforceable master netting arrangements or similar agreements which require disclosure in the financial statements in accordance with amendments on PFRS 7.

Additionally, the tables below show the distribution of maximum credit exposure by industry sector of the Bank as at December 31, 2013 and 2012:

	2013				
	Loans and Receivables	**Due from BSP and Other Banks**	**HTM Investments**	**Other Assets**	**Total**
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	**₱120,460,615**	**₱–**	**₱–**	**₱–**	**₱120,460,615**
Agriculture, hunting and forestry	**19,038,205**	**–**	**–**	**–**	**19,038,205**
Other community, social and personal service activities	**16,502,814**	**–**	**–**	**396,367**	**16,899,181**
Construction	**5,296,272**	**–**	**–**	**–**	**5,296,272**
Fishing	**5,219,107**	**–**	**–**	**–**	**5,219,107**
Manufacturing	**4,140,808**	**–**	**–**	**–**	**4,140,808**
Government	**1,264,012**	**4,115,479**	**–**	**–**	**5,379,491**
Electricity, gas and water supply	**531,555**	**–**	**–**	**–**	**531,555**
Mining and quarrying	**75,883**	**–**	**–**	**–**	**75,883**
Health and social work	**26,873**	**–**	**–**	**–**	**26,873**
Financial institutions	**–**	**39,188,778**	**2,011,151**	**–**	**41,199,929**
	172,556,144	**43,304,257**	**2,011,151**	**396,367**	**218,267,919**
Less allowance for credit losses	**2,326,096**	**–**	**–**	**–**	**2,326,096**
Total	**₱170,230,048**	**₱43,304,257**	**₱2,011,151**	**₱396,367**	**₱215,941,823**

	2012				
	Loans and Receivables	Due from BSP and Other Banks	HTM Investments	Other Assets	Total
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	₱6,511,381	₱–	₱–	₱–	₱6,511,381
Agriculture, hunting and forestry	172,042	–	–	–	172,042
Other community, social and personal service activities	16,825,609	–	–	394,780	17,220,389
Construction	–	–	–	–	–
Fishing	50,000	–	–	–	50,000
Manufacturing	383,066	–	–	–	383,066
Government	318,403	633,928	–	–	952,331
Financial institutions	–	7,367,277	2,011,459	–	9,378,736
	24,260,501	8,001,205	2,011,459	394,780	34,667,945
Less allowance for credit losses	909,055	–	–	–	909,055
Total	₱23,351,446	₱8,001,205	₱2,011,459	₱394,780	₱33,758,890

Credit quality per class of financial assets

The description of the financial assets grading used by the Bank is as follows:

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

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

The table below shows the credit quality per class of financial assets (gross of allowance for credit and impairment losses) as at December 31, 2013 and 2012:

	2013				
	Neither past due nor impaired				
	High grade	**Standard grade**	**Past due but not impaired**	**Impaired**	**Total**
Due from BSP	**₱4,115,479**	**₱–**	**₱–**	**₱–**	**₱4,115,479**
Due from other banks	**39,188,778**	**–**	**–**	**–**	**39,188,778**
Receivable from customers					
Microfinance loans	**–**	**154,763,433**	**₱230,219**	**₱282,277**	**₱155,275,929**
Other loans	**–**	**10,650,244**	**2,052**	**305,952**	**10,958,248**
Other receivables:					
Accrued interest receivable	**–**	**3,723,074**	**–**	**–**	**3,723,074**
Accounts receivable	**–**	**1,334,881**	**–**	**–**	**1,334,881**
Unquoted debt securities classified as loans	**–**	**1,264,012**	**–**	**–**	**1,264,012**
Held-to-maturity investments	**2,011,151**	**–**	**–**	**–**	**2,011,151**
Other assets	**–**	**396,367**	**–**	**–**	**396,367**
	₱45,315,408	**₱172,132,011**	**₱232,271**	**₱588,229**	**₱218,267,919**

	2012				
	Neither past due nor impaired				
	High grade	Standard grade	Past due but not impaired	Impaired	Total
Due from BSP	₱633,928	₱–	₱–	₱–	₱633,928
Due from other banks	7,367,277	–	–	–	7,367,277
Receivable from customers					
Microfinance loans	–	16,923,483			16,923,483
Other loans	–	977,262	55,108	727,293	1,759,663
Other receivables:					
Accrued interest receivable	–	416,198	–	–	416,198
Accounts receivable	–	4,520,035	–	328,443	4,848,478
Unquoted debt securities classified as loans	–	318,403	–	–	318,403
Held-to-maturity investments	2,011,459	–	–	–	2,011,459
Other assets	–	394,780	–	–	394,780
	₱10,012,664	₱23,550,161	₱55,108	₱1,055,736	₱34,673,669

As at December 31, 2013 and 2012, the Bank's receivables that are past due for more than 90 days are considered impaired.

Aging analysis of past due but not impaired loans and receivables

The following table shows the total aggregate amount of loans and receivables that are contractually past due but not considered as impaired per delinquency bucket as at December 31, 2013 and 2012.

	2013			
	Less than 30 Days	**31 to 60 Days**	**61 to 90 Days**	**Total**
Microfinance loans	**₱61,555**	**₱112,071**	**₱56,593**	**₱230,219**
Other loans	**–**	**1,003**	**1,049**	**₱2,052**
	₱61,555	**₱113,074**	**₱57,642**	**₱232,271**

	2012			
	Less than 30 Days	31 to 60 Days	61 to 90 Days	Total
Other loans	₱–	₱55,108	₱–	₱55,108

Carrying amount per class of loans and receivables which terms have been renegotiated
Restructured receivables have principal terms and conditions that have been modified in accordance with an agreement setting forth a new plan of payment or a schedule of payment on a periodic basis. When the receivable account becomes past due and is being restructured or extended, the approval of the BOD is required before loan booking and is always governed by the BSP rules on restructuring. No loans were restructured as at December 31, 2013 and 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 2013. The shortest term of loan is one month while the longest term is one year in 2013 and 2012. The Bank's interest rate is consistent with the market rate. The Bank's HTM investments earn fixed interest rate at 6.00% in both 2013 and 2012.

The Bank's savings deposit liabilities include compulsory and voluntary savings that earn 2.00% per annum. Special savings deposits have interest rates of 2.50% to 4.50% in 2013 and 2012.

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, and therefore is not subject to any interest rate risk.

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 Bank's Due from other banks amounting to nil and US$34,560 (₱1.42 million) as at December 31, 2013 and 2012, respectively. In translating the foreign currency into Philippine peso amount, the exchange rates used was ₱41.05 to US$1.0 as at December 31, 2012.

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

Year	US$ appreciates (depreciates) by	Effect on income before income tax
2012	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:

	2013					
	On demand	**Due within 1 month**	**1 to 3 months**	**3 to 12 months**	**Beyond 1 year**	**Total**
Financial Assets						
Cash and other cash items	**₱380,545**	**₱–**	**₱–**	**₱–**	**₱–**	**₱380,545**
Due from BSP	**4,115,479**	**–**	**–**	**–**	**–**	**4,115,479**
Due from other banks	**19,160,991**	**20,027,787**	**–**	**–**	**–**	**39,188,778**
Loans and receivable - gross	**5,784,835**	**5,125,001**	**46,480,596**	**135,228,412**	**1,264,012**	**193,882,856**
HTM investments	**–**	**–**	**–**	**59,958**	**2,227,788**	**2,287,746**
Other assets	**–**	**–**	**–**	**47,667**	**348,700**	**396,367**
Total Financial Assets	**29,441,850**	**25,152,788**	**46,480,596**	**135,336,037**	**3,840,500**	**240,251,771**
Financial Liabilities						
Deposit liabilities	**80,154,264**	**22,423,615**	**12,014,478**	**72,102,661**	**–**	**186,695,018**
Other liabilities	**3,946,230**	**–**	**–**	**–**	**–**	**3,946,230**
Total Financial Liabilities	**84,100,494**	**22,423,615**	**12,014,478**	**72,102,661**	**–**	**190,641,248**
Net	**(₱54,658,644)**	**₱2,729,173**	**₱34,466,118**	**₱63,233,376**	**₱3,840,500**	**₱49,610,523**

	2012					
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	Total
Financial Assets						
Cash and other cash items	₱355,664	₱–	₱–	₱–	₱–	₱355,664
Due from BSP	633,928	–	–	–	–	633,928
Due from other banks	6,319,183	822,197	225,897	–	–	7,367,277
Loans and receivable – gross	5,404,527	421,575	4,512,710	13,468,176	1,446,521	25,253,509
HTM investments	–		30,000	120,000	2,480,000	2,630,000
Other assets				34,780	360,000	394,780
Total Financial Assets	12,713,302	1,243,772	4,768,607	13,622,956	4,286,521	36,635,158
Financial Liabilities						
Deposit liabilities	14,846,250	432,236	8,991,794	1,600,695	–	25,870,975
Other liabilities	321,441	–	–	–	–	321,441
Total Financial Liabilities	15,167,691	432,236	8,991,794	1,600,695	–	26,192,416
Net	(₱2,454,389)	₱811,536	(₱4,223,187)	₱12,022,261	₱4,286,521	₱10,442,742

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 nil in 2013 and an annual rate ranging from 0.00% to 0.05% in 2012.

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, 2013 and 2012, due from other banks include USD-denominated deposits amounting to nil and US$34,560 (₱1.42 million), respectively. Peso-denominated deposits earn interest at annual rates ranging from 0.25% to 1.150% in 2013 and 2012 while USD-denominated deposits earn interest at annual rate ranging from 0.38% to 1.60% in 2012.

Interest income on due from BSP and other banks follows:

	2013	2012
Due from BSP	**₱–**	₱48,393
Due from other banks	**308,605**	1,545
	₱308,605	₱49,938

7. Loans and Receivables

This account consists of:

	2013	2012
Receivable from customers		
Microfinance loans	**₱155,275,929**	₱16,923,483
Other loans	**10,958,248**	1,759,663
	166,234,177	18,683,146
Less unearned interest discount	**–**	5,724
	166,234,177	18,677,422
Accrued interest receivable	**3,723,074**	416,198
Accounts receivable	**1,334,881**	4,848,478
Unquoted debt securities classified as loans	**1,264,012**	318,403
	172,556,144	24,260,501
Less allowance for credit losses	**2,326,096**	909,055
	₱170,230,048	₱23,351,446

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

Receivable from customers earns annual fixed interest rates ranging from 32.80% to 58.80% in 2013 and 2012.

Interest income on loans and receivables amounted to ₱42.42 million and ₱1.33 million in 2013 and 2012, 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, 2013 and 2012, the Bank's PAR amounted to ₱0.96 million and ₱0.78 million, respectively. Restructured loans amounted to nil as at December 31, 2013 and 2012, respectively.

Current banking regulations allow banks with no unbooked valuation reserves and capital adjustments to exclude from nonperforming classification those receivables classified as Loss in the latest examination of the BSP which are fully covered by allowance for credit losses, provided that interest on said receivables shall not be accrued.

As at December 31, 2013 and 2012, nonperforming loans (NPLs) not fully covered by the allowance for credit losses follow:

	2013	2012
Total NPLs	**₱829,308**	₱782,401
Loss NPLs fully covered by allowance for credit losses	**645,986**	730,048
Balance at end of year	**₱183,322**	₱52,353

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

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

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

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

The following table shows the secured and unsecured portions of receivable from customers as at December 31, 2013 and 2012:

	2013	2012
Secured portion		
Deposit hold-out	**₱155,275,929**	₱14,562,216
Real estate	**211,568**	2,289,460
Chattel	–	71,807
Unsecured portion	**10,746,680**	1,759,663
	₱166,234,177	₱18,683,146

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).

As at December 31, 2013 and 2012, information on the concentration of loans as to industry follows (at gross amount):

	2013		2012	
	Amount	%	Amount	%
Wholesale and retail trade	**₱120,460,615**	**69.81%**	₱6,511,381	26.84%
Agriculture, hunting and forestry	**19,038,205**	**11.03%**	172,042	0.71%
Other community, social and personal service activities	**16,502,814**	**9.57%**	16,825,609	69.35%
Construction	**5,296,272**	**3.07%**	–	–
Fishing	**5,219,107**	**3.02%**	50,000	0.21%
Manufacturing	**4,140,808**	**2.40%**	383,066	1.58%
Government	**1,264,012**	**0.73%**	318,403	1.31%
Others	**634,311**	**0.37%**	–	–
	₱172,556,144	**100.00%**	₱24,260,501	100.00%

Rural banks are not covered by the 30.00% limit on concentration of credit prescribed by the BSP.

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

	2013	2012
Balance at beginning of year	**₱909,055**	₱410,620
Provision for credit losses	**1,587,318**	498,435
Write-off	**(170,277)**	–
Balance at end of year	**₱2,326,096**	₱909,055
Collective impairment	**1,737,867**	179,007
Individual impairment	**588,229**	730,048
	₱2,326,096	₱909,055
Gross amounts of loans individually determined to be impaired, before deducting any individually assessed impairment losses	**₱588,229**	₱1,055,736

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).

The movements in allowance for credit losses on accounts receivable in 2013 follow:

Balance at beginning of year	₱–
Provision for credit losses	291,787
Write-off	291,787
Balance at end of year	₱–

In 2012, the Bank does not provide provision for credit losses on accounts receivable.

8. **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%. The unamortized premium on HTM investments of the Bank amounted to ₱0.02 million as at December 31, 2013 and 2012. The Bank recognized interest income amounting to ₱0.11 million and ₱0.08 million in 2013 and 2012, respectively.

9. Property and Equipment

The composition of and movements in this account follow:

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

	2012						
	Land	Building	Furniture, Fixtures and Equipment	Information Technology Equipment	Transportation Equipment	Leasehold Improvements	Total
Cost							
Balance at beginning of year	₱–	₱–	₱560,601	₱223,568	₱112,087	₱1,478,010	₱2,374,266
Additions	–	–	74,638	294,734	59,592	–	428,964
Disposals	–	–	–	–	–	–	–
Balance at end of year	–	–	635,239	518,302	171,679	1,478,010	2,803,230
Accumulated Depreciation and Amortization							
Balance at beginning of year	–	–	460,558	166,500	95,073	742,796	1,464,927
Depreciation and amortization	–	–	45,136	42,270	12,178	75,372	174,956
Disposals	–	–	–	–	–	–	–
Balance at end of year	–	–	505,694	208,770	107,251	818,168	1,639,883
Net Book Value	₱–	₱–	₱129,545	₱309,532	₱64,428	₱659,842	₱1,163,347

10. Investment Properties

In 2013, the Bank foreclosed one of its properties with fair value amounting to ₱0.49 million and recognized gain on foreclosure amounting to ₱0.21 million.

In 2012, 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 ₱0.03 million. The cost of the investment properties amounting to ₱4.65 million and its accumulated depreciation and allowance for impairment losses amounted to ₱0.07 million and ₱0.02 million, respectively.

The fair values of the Bank's investment properties have been determined based on valuations made by independent appraisers on the basis of recent sales of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made and based on the new definition of fair value (see Note 4).

The table below summarizes the valuation techniques used and the significant unobservable inputs valuation for each type of investment properties held by the Group and the Parent Company:

	Valuation technique	Significant unobservable inputs
Land	Market approach	Size, location, shape and time element

Description of the valuation techniques used to valuation of the Bank investment properties are as follow:

Market data approach A comparable method wherein the value of the property is based on sales and listings of comparable property by reducing reasonable comparative sales and listings to a common denominator. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparable. The properties used as basis of comparison are situated within the immediate vicinity of the subject property. Comparison would be premised on the factors of location, size and shape of the lot, and time element.

Size Physical magnitude, extent or bulk, relative or proportionate dimensions. The value of the lot varies in accordance to the size of the lots. Basic rule of thumb is the bigger the lot size the lower the value, the smaller the lot size the higher the value.

Shape Particular form or configuration. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.

Location For a tract of land designated for a purpose or site occupied or available for occupancy, one of the key factors in land valuation is the location or area of preference.

Time element The measured or measurable period during action or condition exist. It is usually associated with the period in which the property can be sold in an open market within reasonable time.

11. **Other Assets**

This account consists of:

	2013	2012
Financial assets		
Refundable rental deposits	**₱396,367**	₱394,780
Nonfinancial assets		
Stationery and supplies on hand	**998,075**	70,350
Prepaid rent	**214,533**	–
Prepaid expenses	**140,714**	356,000
	1,353,322	426,350
	1,749,689	821,130
Less allowance for probable losses	–	360,000
	₱1,749,689	₱461,130

In 2012, the Bank recognized impairment loss on security deposits amounting to ₱0.36 million. The same amount was written off in 2013.

The movement of the allowance for probable losses is as follows:

	2013	2012
Balance at beginning of year	**₱360,000**	₱–
Provision for credit losses	**34,782**	360,000
Write-off	**(394,782)**	–
Balance at end of year	**₱–**	₱360,000

12. **Deposit Liabilities**

The Bank's savings deposit liabilities include pledge savings amounting to ₱67.87 million and ₱7.08 million as at December 31, 2013 and 2012, respectively. These represent the ₱50.00 per week aggregate compulsory savings collected from each member/borrower. Under an assignment agreement, the pledge savings balances serve as security for loans granted by the Bank to its members. The pledge savings earn annual interest of 2.00%. A member/borrower is required to maintain a pledge savings balance equivalent to 15.00% of the original loan amount (Note 7).

Special savings deposits have interest rates of 2.50% to 4.50% in 2013 and 2012. Interest expense on deposit liabilities amounted to ₱2.79 million and ₱0.20 million in 2013 and 2012, respectively.

Under existing BSP regulations, deposit liabilities of the Bank are subject to 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 4.0% for demand and 2.0% for savings, with cash in vault no longer eligible as reserve. Available reserves as at December 31, 2013 and 2012 pertain to Due from BSP amounting to ₱4.12 million and ₱0.63 million as of 2013 and 2012, respectively. As at December 31, 2013 and 2012, the Bank is compliant with such regulations.

13. **Other Liabilities**

This account consists of the following:

	2013	2012
Financial liabilities:		
Accounts payable	**₱2,147,340**	₱125,042
Accrued expenses	**1,265,630**	178,552
Accrued interest payable	**533,261**	17,847
	3,946,231	321,441
Nonfinancial liabilities:		
Withholding taxes payable	**818,349**	23,262
	₱4,764,580	₱344,703

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:

	2013			2012		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Financial Assets						
Cash and other cash items	**₱380,545**	**₱–**	**₱380,545**	₱355,664	₱–	₱355,664
Due from BSP	**4,115,479**	**–**	**4,115,479**	633,928	–	633,928
Due from other banks	**39,188,778**	**–**	**39,188,778**	7,367,277	–	7,367,277
Loans and receivables	**168,966,036**	**1,264,012**	**170,230,048**	23,041,031	310,415	23,351,446
HTM investments	**–**	**2,011,151**	**2,011,151**	–	2,011,459	2,011,459
Other assets	**47,667**	**348,700**	**396,367**	–	–	–
Nonfinancial Assets						
Property and equipment	**–**	**24,284,161**	**24,284,161**	–	1,163,347	1,163,347
Investment properties	**–**	**490,160**	**490,160**	–	–	–
Deferred tax assets	**–**	**5,409,164**	**5,409,164**	–	–	–
Other assets	**1,353,322**	**–**	**1,353,322**	–	461,130	461,130
Total Assets	**₱214,051,827**	**₱33,807,348**	**₱247,859,175**	₱31,397,900	₱3,946,351	₱35,344,251
Financial Liabilities						
Deposit liabilities	**₱184,228,623**	**₱–**	**₱184,228,623**	₱25,870,976	₱–	₱25,870,976
Other liabilities	**3,946,231**	**–**	**3,946,231**	321,441	–	321,441
Nonfinancial Liabilities						
Income tax payable	**2,556,913**	**–**	**2,556,913**	–	–	–
Withholding taxes payable	**818,349**	**–**	**818,349**	23,262	–	23,262
Deposit for future stock subscription	**32,500,000**	**–**	**32,500,000**	6,875,000	–	6,875,000
Retirement liabilities	**–**	**15,605,570**	**15,605,570**	–	4,781,535	4,781,535
Total Liabilities	**₱224,050,116**	**₱15,605,570**	**₱239,655,686**	₱33,090,679	₱4,781,535	₱37,872,214

15. **Equity**

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

As at December 31, 2013 and 2012, the Bank's capital stock consists of:

	2013		2012	
	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	9,875,000
	175,000	**₱17,500,000**	175,000	₱10,625,000

As at December 31, 2013 and 2012, no preferred shares were issued nor subscribed.

Deposit for Future Stock Subscription
In 2013, the Bank applied for the increase of authorized capital stock to ₱250.00 million, consisting of 245 million common shares and 5 million preferred shares, both with par value of ₱100.00 per share. The Bank received deposit for future stock subscription amounting to ₱32.50 million. The application is still subject to approval of BSP and SEC and as such, does not qualify as equity in accordance with any of the criteria set under SEC Financial Reporting Bulletin No. 006.

In 2012, in connection with the acquisition of majority shares of the Bank, CARD, Inc., CARD Bank, Inc. and individual investors have advanced cash amounting to ₱6.88 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.

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, 2013 and 2012, 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):

	2013	2012
Tier 1 capital	**₱50.20**	₱2.93
Tier 2 capital	**1.65**	2.93
Gross qualifying capital	**51.85**	5.86
Less required deductions	**–**	–
Total qualifying capital	**₱51.85**	₱5.86
Risk weighted assets	**₱239.18**	₱37.59
Tier 1 capital ratio	**20.99%**	7.79%
Tier 2 capital ratio	**0.69%**	7.79%
Total CAR	**21.68%**	15.59%

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings including current year profit less accrued dividends, net long positions in own shares and goodwill.

The 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 ₱25.0 million.

On January 15, 2013, the BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards.

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

16. Compensation and Benefits

This account consists of:

	2013	2012
Salaries and wages	**₱6,588,936**	₱1,396,842
Employee benefits	**4,766,703**	396,373
Retirement	**3,398,702**	4,781,535
Other short term benefits	**631,458**	82,280
	₱15,385,799	₱6,657,030

17. Retirement Plan

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

Changes in net defined benefit liability of funded funds in 2013 are as follow:

		Net benefit cost in statements of income				Remeasurements in other comprehensive income					
	January 1, 2013 (As restated - Note 22)	Current service cost	Net interest	Subtotal	Transfer to the Plan	Re-Measurement on plan assets	Actuarial changes arising from experience	Actuarial changes arising from changes in financial assumptions	Subtotal	Contribution by employer	December 31, 2013
Present value of defined benefit obligation	₱4,781,535	₱3,371,928	₱292,152	₱3,664,080	₱8,269,768	₱–	₱9,297,724	(₱1,708,067)	₱7,589,657	₱–	₱24,305,040
Fair value of plan assets	–	–	265,378	265,378	8,269,768	(252,571)	–	–	(252,571)	416,895	8,699,470
Net defined benefit liability (asset)	₱4,781,535	₱3,371,928	₱26,774	₱3,398,702	₱–	₱252,571	₱9,297,724	(₱1,708,067)	₱7,842,228	(₱416,895)	₱15,605,570

As at and for the year ended December 31, 2012, the Bank adjusted its retirement liabilities and retirement expense amounting to ₱4.78 million (see Note 22).

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

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions. The Bank has no plan assets in 2012. The fair values of plan assets by each class as at December 31, 2013 are as follow:

Cash and cash equivalents	₱4,715,982
Debt instruments - government bonds	3,170,087
Loans	537,627
Mutual fund	120,053
Equity instrument	54,807
Other assets	100,914
Fair value of plan assets	₱8,699,470

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

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

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

Discount rate	6.38%
Future salary increases	12.00

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

	Increase (Decrease) in Basis Points	Increase (Decrease) in Present Value of Obligation
Discount rates	+250	(₱11,011,029)
	-100	7,031,547
Future salary increases	+200	14,308,491
	-100	(4,961,919)

The Bank expects to contribute ₱5.77 million to the defined benefit retirement plan in 2014.

The average duration of the defined benefit obligation at the end of the reporting period is 28.3 years.

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

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

	2013
Less than 1 year	₱–
More than 1 year to 5 years	–
More than 5 years to 10 years	5,091,373
More than 10 years to 15 years	–
More than 15 years to 20 years	1,410,032
More than 20 years to 25 years	67,065,632
More than 25 years	1,437,649,071

18. Leases

As Lessee

The Bank leases the premises occupied by some of its branches in which lease payments are subjected to escalation clauses at 15%. The lease contracts are for the periods ranging from one to five years and are renewable upon mutual agreement between the Bank and the lessors.

There are no future aggregate minimum lease payments under non-cancelable operating leases in 2012. The future aggregate minimum lease payments under non-cancelable operating leases in 2013 are as follows:

	2013
Within one year	₱756,379
Beyond one year but not more than five years	2,722,358
	₱3,478,737

19. Miscellaneous Expenses

This account consists of:

	2013	2012
Membership fees and dues	**₱47,000**	₱–
Fines, penalties and other charges	**23,760**	42,917
Supervision and examination fee	**3,688**	2,582
Litigation	**–**	101,702
Periodicals and magazines	**–**	3,700
Donations and charitable contributions	**–**	1,000
Other expenses	**92,277**	123,028
	₱166,725	₱274,929

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

20. **Income Taxes**

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

Republic Act No. 9337, *An Act Amending National Internal Revenue Code*, provides that starting January 1, 2009, the RCIT rate shall be 30.00%, and deductible interest expense shall be reduced by 33.00% of interest income subjected to final tax. Current tax regulations also provide for MCIT of 2.00% on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Bank's income tax liability and taxable income, respectively, over a three-year period from the year of inception. Further, current tax regulations set a limit for entertainment, amusement and recreation (EAR) expenses that can be deducted for income tax purposes. EAR expenses are limited to 1.00% of net revenue for sellers of services. The Bank recorded EAR expenses amounted to ₱0.14 million and ₱0.03 million in 2013 and 2012, respectively.

Provision for income tax consists of:

	2013	2012
Current:		
RCIT	**₱2,582,428**	₱–
Final tax	**84,357**	24,995
	2,666,785	24,995
Deferred	**(3,082,011)**	–
	(₱415,226)	₱24,995

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	₱–	

The Bank has excess of MCIT over RCIT amounting to ₱25,515 originated in 2011 which was used in 2013.

As at December 31, 2013, the Bank recognized net deferred tax assets as follows:

Deferred tax assets	
Pension liabilities	₱4,681,671
Allowance for credit and impairment losses	697,829
Accumulated vacation leave credits	80,952
Accrued rent under PAS 17	10,998
	5,471,450
Deferred tax liabilities	
Gain on foreclosure of investment property	62,286
	₱5,409,164

Deferred tax expense arising from pension liabilities recognized in the statement of income and direct deduction to other comprehensive income amounted to ₱2.33 million and ₱2.35 million, respectively.

As at December 31, 2012, the Bank had unrecognized deferred tax assets as follows:

Pension liabilities	₱1,434,461
NOLCO	1,217,818
Allowance for credit and impairment losses	380,716
Excess of MCIT over RCIT	25,515
	₱3,058,510

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

	2013	2012
Statutory income tax	**₱2,679,236**	(₱2,493,399)
Income tax effects of:		
Change in unrecognized deferred tax asset	**(3,096,741)**	2,490,923
Nondeductible expenses	**44,457**	39,968
Interest income subject to final tax	**(42,178)**	(12,497)
Provision for (benefit from) income tax	**(₱415,226)**	₱24,995

21. Related Party Transactions

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

- key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members,
- post-employment benefit plans for the benefit of the Bank's employees, and
- other related parties within the CARD MRI Group

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

Transactions with Retirement Plans

Under PFRS, certain post-employment benefit plans are considered as related parties. CARD MRI's MERP is managed by the CARD Employee Multipurpose Cooperative (EMPC). The plan assets are invested in time deposits and special savings accounts and government bonds. As at December 31, 2013 and 2012, the retirement funds do not hold or trade the Bank's shares.

Remunerations of Key Management Personnel

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

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

	2013	2012
Short-term employee benefits	**₱536,957**	₱455,000
Post-employment benefits	**166,315**	–
	₱703,272	₱455,000

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

Other Related Party Transactions

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

Loans receivables

As at December 31, 2013 and 2012, the Bank has no loan outstanding that was granted to related parties.

Deposit liabilities, accounts receivable and accounts payable

Deposit liabilities, accounts receivable and accounts payable held by the Bank for key management personnel, shareholder and other related parties as at December 31, 2013 and 2012 follow:

	December 31, 2013		
Category	**Amount / Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Key management personnel			
Deposit liabilities		**₱15,017**	Consists of regular savings deposit account at an annual interest rate from 1.50% to 2.50%
Deposits	**₱15,017**		
Withdrawals	**53,277**		
CARD, Inc. (shareholder)			
Deposit liabilities		**12,850,329**	Time deposit with interest rates of 4.0%
Deposits	**12,850,329**		
Withdrawals	–		
Accounts receivable		**880,954**	Share on expenses of transferred staff
Billings	**995,272**		
Collection	**(114,318)**		
Accounts payable		**46,014**	Pertains to share on various expenses
Billings	**8,159,587**		
Payment	**(8,113,573)**		
Deposit for future subscription		**7,000,000**	Cash payment by the shareholder as deposit for future subscription
Collection as deposit for future subscription	**7,000,000**		

(Forward)

Category	Amount / Volume	Outstanding Balance	Nature, Terms and Conditions
	December 31, 2013		
CARD, Bank (shareholder)			
Accounts receivable		**₱266,040**	Share on expenses of transferred staff
Billings	**₱266,040**		
Accounts payable		–	Pertains to share on various expenses
Billings	**63,298**		
Payment	**63,298**		
Deposit for future subscription		**7,000,000**	Cash payment by the shareholder as deposit for future subscription
Collection as deposit for future subscription	**7,000,000**		
BDSF (affiliate)			
Accounts receivable		**6,583**	Pertains to share of BDSF on various expenses
Billings	**162,860**		
Collection	**(156,277)**		
CMDI (affiliate)			
Deposit liabilities		**6,055,341**	These are checking, savings and time deposit accounts with annual interest rate ranging from 1.5% to 4.5%
Deposits	**6,055,341**		
Withdrawal	–		
Accounts receivable		**36,597**	Training fees, seminars and meetings, and share of expenses.
Billings	**151,394**		
Payment	**(114,797)**		
CARD MBA (affiliate)			
Accounts payable		**2,157**	Loan redemption fund (LRF) for loans of members/ payable
Collection	**14,971,620**		
Remittance	**(14,969,463)**		
CLFC (affiliate)			
Accounts payable		–	These are billings for issuance of supplies and operating lease transactions.
Billing	**2,147,708**		
Collection	**2,147,708**		

	December 31, 2012		
	Amount / Volume	Outstanding Balance	Nature, Terms and Conditions
Key management personnel			
Deposit liabilities		₱53,277	Consists of regular savings deposit account at an annual interest rate from 1.50% to 2.50%
Deposit	₱53,277		
Accounts receivable		4,520,035	Sale of investment properties to key management personnel on account
Sale on account	4,520,035		
Accounts payable		527,076	An establishment owned by key management personnel being leased to the Bank. Lease contract is renewable annually
Occupancy	527,076		
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, 2013 and 2012, 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, 2013 and 2012, there were no loans, other credit accommodations and guarantees classified as DOSRI.

	2013	2012
Total outstanding DOSRI accounts	**₱–**	₱–
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**0.00%**	0.00%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	**0.00%**	0.00%
Percent of DOSRI accounts to total loans	**0.00%**	0.00%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%
Percent of past due DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%
Percent of nonaccruing DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%

22. **Correction of Prior Period Errors**

In 2013, the Bank restated its 2012 financial statements to effect the correction of errors noted in 2012.

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

2012	As previously reported		Prior period adjustments	As restated
Statement of financial position				
Retirement liabilities	₱–	a	₱4,781,535	₱4,781,535
Deficit	(8,371,428)	a	(4,781,535)	(13,152,963)
Statement of income				
Compensation and benefits	1,783,408	a,b	4,873,622	6,657,030
Miscellaneous expense	367,016	b	(92,087)	274,929

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

a. Understatement of retirement expense amounting to ₱4.78 million
b. Reclassification of miscellaneous expense to compensation and benefits amounting to ₱0.09 million

23. Notes to Statements of Cash Flows

The following is the summary of noncash activities in 2013:

Noncash operating activities:	
Foreclosure of loan receivable	₱282,539
Noncash investing activities:	
Acquisitions of property and equipment on account	1,500,000
Noncash financing activities:	
Transfer of deposit for future subscription to common stock	6,875,000

Noncash transaction of the Bank consists sale of investment properties on account amounting to ₱4.5 million in 2012. The Bank collected the amount in 2013.

24. Approval for the Release of Financial Statements

The BOD of the Bank has reviewed and approved the release of the accompanying financial statements on April 12, 2014.

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, 2013, follow:

Gross receipt tax (GRT)	₱2,146,657
Business permits and licenses	443,694
	₱2,590,351

GRT in 2013 consists of taxes on:

Interest income on loans	₱42,899,927
Other income	23,729
	₱42,923,656

Withholding taxes in 2013 are categorized into:

Paid:	₱542,926
Final withholding tax on interest expense	631,871
Withholding taxes on compensation and benefits	382,848
Expanded withholding tax	111,917
	₱1,669,562

Accrued:	
Gross receipts tax	₱430,759
Withholding taxes on compensation and benefits	249,022
Final withholding tax on interest expense	116,776
Expanded withholding tax	21,192
Documentary stamp tax	600
	₱818,349

Tax Assessments and Cases

As at December 31, 2013, the Company has no outstanding final assessment notice from the BIR or cases in court or bodies outside the BIR.