Rizal Bank, Inc., A Microfinance-Oriented Rural Bank
(Formerly Rizal Rural Bank (Taytay, Rizal), Inc.)

Financial Statements
December 31, 2015 and 2014

and

Independent Auditors' Report

SGV
Building a better working world

A member firm of Ernst & Young Global Limited

SGV
Building a better working world

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

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Rizal Bank. Inc., A Microfinance-Oriented Rural Bank
(Formerly Rizal Rural Bank (Taytay, Rizal), Inc.)

Report on the Financial Statements

We have audited the accompanying financial statements of Rizal Bank, Inc., A Microfinance-Oriented Rural Bank (Formerly Rizal Rural Bank (Taytay, Rizal), Inc.), which comprise the statements of financial position as at December 31, 2015 and 2014, 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 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 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Rizal Bank, Inc., A Microfinance-Oriented Rural Bank as at December 31, 2015 and 2014, 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 24 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 Bank, Inc., A Microfinance-Oriented Rural Bank. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ray Francis C. Balagtas

Ray Francis C. Balagtas
Partner
CPA Certificate No. 108795
SEC Accreditation No. 1510-A (Group A),
October 1, 2015, valid until September 30, 2018
Tax Identification No. 216-950-288
BIR Accreditation No. 08-001998-107-2015,
March 4, 2015, valid until March 3, 2018
PTR No. 5321607, January 4, 2016, Makati City

March 12, 2016

RIZAL BANK, INC., A MICROFINANCE-ORIENTED RURAL BANK
(Formerly Rizal Rural Bank (Taytay, Rizal), Inc.)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2015	2014
ASSETS		
Cash and other cash items	**₱2,614,949**	₱1,973,592
Due from Bangko Sentral ng Pilipinas (Notes 6)	**20,674,211**	11,071,066
Due from other banks (Notes 6 and 21)	**169,717,670**	85,021,956
Loans and receivables (Note 7)	**806,294,187**	484,459,528
Held-to-maturity investments (Note 8)	**2,000,924**	2,006,130
Property and equipment (Note 9)	**54,418,602**	31,340,153
Investment property (Note 10)	**–**	490,160
Deferred tax assets (Note 20)	**5,767,580**	1,947,578
Retirement asset (Note 17)	**6,902,974**	3,386,708
Other assets (Note 11)	**10,893,982**	8,213,960
	₱1,079,285,079	₱629,910,831
LIABILITIES AND EQUITY		
Liabilities		
Deposit liabilities (Notes 12 and 21)		
Regular savings	**₱322,124,579**	₱188,496,441
Special savings	**208,863,014**	118,853,798
	530,987,593	307,350,239
Bills payable (Note 13)	**291,730,252**	175,000,000
Income tax payable	**13,812,525**	6,501,183
Deposits for future stock subscription (Note 15)	**–**	47,500,000
Other liabilities (Note 13)	**14,392,376**	11,674,914
	850,922,746	548,026,336
Equity		
Capital stock (Note 15)		
Common stock	**123,202,800**	49,000,000
Preferred stock	**9,827,600**	–
Retained earnings	**95,703,594**	28,962,035
Remeasurement gains (losses) on retirement plan	**(371,661)**	3,922,460
	228,362,333	81,884,495
	₱1,079,285,079	₱629,910,831

See accompanying Notes to Financial Statements.

RIZAL BANK, INC., A MICROFINANCE-ORIENTED RURAL BANK
(Formerly Rizal Rural Bank (Taytay, Rizal), Inc.)

STATEMENTS OF INCOME

	Years Ended December 31	
	2015	2014
INTEREST INCOME		
Loans and receivables (Note 7)	**₱308,464,877**	₱147,399,372
Due from other banks (Note 6)	**1,846,011**	524,218
Held-to-maturity investments (Note 8)	**114,793**	114,980
	310,425,681	148,038,570
INTEREST EXPENSE		
Deposit liabilities (Notes 12 and 21)	**15,772,013**	8,996,089
Bills payable (Note 13)	**6,313,948**	638,972
	22,085,961	9,635,061
NET INTEREST INCOME	**288,339,720**	138,403,509
Miscellaneous	**139,511**	115,067
TOTAL OPERATING INCOME	**288,479,231**	138,518,576
OPERATING EXPENSES		
Compensation and benefits (Notes 16 and 21)	**65,473,347**	43,029,699
Taxes and licenses (Note 20)	**17,892,204**	9,453,148
Transportation and travel (Note 18)	**11,314,082**	5,972,885
Provision for credit losses (Note 7)	**10,740,563**	4,671,862
Stationeries and supplies	**6,904,884**	4,127,006
Rent (Note 18)	**7,720,246**	3,366,922
Training and development	**6,152,903**	3,328,063
Depreciation and amortization (Notes 9 and 11)	**6,091,272**	2,743,854
Security, messengerial, janitorial services	**4,895,899**	2,491,622
Fuel and lubricants	**4,598,022**	2,780,645
Information technology (Note 18)	**3,254,724**	1,904,804
Power, light and water	**2,097,893**	1,150,196
Seminars and meetings	**1,818,008**	543,043
Insurance	**1,633,009**	1,823,056
Professional fees	**1,057,440**	385,605
Miscellaneous (Note 19)	**4,365,203**	2,708,411
	156,009,699	90,480,821
INCOME BEFORE INCOME TAX	**132,469,532**	48,037,755
PROVISION FOR INCOME TAX (Note 20)	**39,727,973**	15,268,769
NET INCOME	**₱92,741,559**	₱32,768,986

See accompanying Notes to Financial Statements.

RIZAL BANK, INC., A MICROFINANCE-ORIENTED RURAL BANK
(Formerly Rizal Rural Bank (Taytay, Rizal), Inc.)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2015	2014
NET INCOME	**₱92,741,559**	₱32,768,986
OTHER COMPREHENSIVE INCOME (LOSS)		
Other comprehensive income (loss) not recycled to profit or loss in subsequent periods:		
Remeasurement gains (losses) on retirement plan (Note 17)	**(6,134,459)**	13,445,742
Income tax effect (Note 20)	**1,840,338**	(4,033,722)
	(4,294,121)	9,412,020
TOTAL COMPREHENSIVE INCOME	**₱88,447,438**	₱42,181,006

See accompanying Notes to Financial Statements.

RIZAL BANK, INC., A MICROFINANCE-ORIENTED RURAL BANK
(Formerly Rizal Rural Bank (Taytay, Rizal), Inc.)

STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 15)	Preferred Stock (Note 15)	Retained Earnings (Deficit)	Remeasurement Gains (Losses) on Retirement Plan (Note 17)	Total
Balances at January 1, 2015	**₱49,000,000**	**₱–**	**₱28,962,035**	**₱3,922,460**	**₱81,884,495**
Issuance of shares	**74,202,800**	**9,827,600**	**–**	**–**	**84,030,400**
Total comprehensive income for the year	**–**	**–**	**92,741,559**	**(4,294,121)**	**88,447,438**
Declaration of dividends	**–**	**–**	**(26,000,000)**		**(26,000,000)**
Balances at December 31, 2015	**₱123,202,800**	**₱9,827,600**	**₱95,703,594**	**(₱371,661)**	**₱228,362,333**
Balances at January 1, 2014	₱17,500,000	₱–	(₱3,806,951)	(₱5,489,560)	₱8,203,489
Issuance of shares	31,500,000	–	–	–	31,500,000
Total comprehensive income for the year	–	–	32,768,986	9,412,020	42,181,006
Balances at December 31, 2014	₱49,000,000	₱–	₱28,962,035	₱3,922,460	₱81,884,495

See accompanying Notes to Financial Statements.

RIZAL BANK, INC., A MICROFINANCE-ORIENTED RURAL BANK
(Formerly Rizal Rural Bank (Taytay, Rizal), Inc.)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱132,469,532**	₱48,037,755
Adjustments for:		
Provision for credit and impairment losses (Notes 7 and 11)	**10,740,563**	4,671,862
Depreciation and amortization (Notes 9 and 11)	**6,091,272**	2,743,854
Retirement expense (Note 17)	**2,349,275**	4,071,087
Loss on retirement of property and equipment (Note 9)	**177,781**	–
Loss on sale of investment property (Notes 10 and 19)	**90,160**	–
Amortization of held-to-maturity investments (Note 8)	**5,206**	5,021
Operating income before changes in operating assets and liabilities:	**151,923,789**	59,529,579
Increase in:		
Loans and receivables	**(332,575,222)**	(318,901,342)
Other assets	**(2,268,541)**	(5,561,576)
Increase in:		
Deposit liabilities	**223,637,354**	123,121,616
Other liabilities	**2,717,462**	6,910,334
Net cash provided by (used in) operations	**43,434,842**	(134,901,389)
Income taxes paid	**(34,396,295)**	(11,896,635)
Contributions to retirement fund (Note17)	**(12,000,000)**	(9,617,623)
Net cash used in operating activities	**(2,961,453)**	(156,415,647)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property and equipment (Note 9)	**(29,164,785)**	(9,699,756)
Software costs (Note 11)	**(667,952)**	(1,002,785)
Proceeds from disposal of:		
Investment properties (Note 10)	**400,000**	–
Property and equipment	**73,754**	–
Net cash used in investing activities	**(29,358,983)**	(10,702,541)
CASH FLOWS FROM FINANCING ACTIVITY		
Proceeds from:		
Availment of bills payable	**303,813,585**	175,000,000
Issuance of common stock (Notes 15 and 22)	**26,702,800**	–
Issuance of preferred stock (Note 15)	**9,827,600**	–
Deposit for future stock subscription (Note 15)	–	46,500,000
Payments of bills payable	**(187,083,333)**	–
Payment of dividend	**(26,000,000)**	–
Net cash provided by financing activities	**127,260,652**	221,500,000

(Forward)

	Years Ended December 31	
	2015	2014
NET INCREASE IN CASH AND CASH EQUIVALENTS	**₱94,940,216**	₱54,381,812
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and other cash items	**1,973,592**	380,545
Due from Bangko Sentral ng Pilipinas	**11,071,066**	4,115,479
Due from other banks	**85,021,956**	39,188,778
	98,066,614	43,684,802
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and other cash items	**2,614,949**	1,973,592
Due from Bangko Sentral ng Pilipinas	**20,674,211**	11,071,066
Due from other banks	**169,717,670**	85,021,956
	₱193,006,830	₱98,066,614
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest received	**₱305,826,699**	₱145,619,661
Interest paid	**21,497,110**	8,915,387

See accompanying Notes to Financial Statements.

RIZAL BANK, INC., A MICROFINANCE-ORIENTED RURAL BANK
(Formerly Rizal Rural Bank (Taytay, Rizal), Inc.)

NOTES TO FINANCIAL STATEMENTS

1. **Corporate Information**

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

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

The principal place of business of the Bank is at P. Guevarra St., Cor. Aguirre St., Brgy. Poblacion 2, Sta. Cruz, Laguna. As at December 31, 2015, the Bank consists of its head office and six (6) branches.

On November 18, 2014, the BSP approved the change in the Bank's corporate name from Rizal Rural Bank (Taytay, Rizal), Inc. to Rizal Bank, Inc., A Microfinance-Oriented Rural Bank. On April 15, 2015, the SEC approved the change in the corporate name 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, the Bank's functional currency, and all values are rounded to the nearest peso except when otherwise indicated.

Statement of Compliance
The financial statements of the Bank have been prepared in 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 reporting 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 is reported in the statement of financial position if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Bank assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Bank and all of the counterparties.

Income and expenses are not offset in the statement of income unless required or permitted by any accounting standard or interpretation and as specifically disclosed in the accounting policies of the Bank.

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year. The following new and amended PFRSs and Philippine Accounting Standards (PAS) which were adopted by the Bank on January 1, 2015 did not have any significant impact on the financial statements of the Bank.

- Amendments to PAS 19, *Defined Benefit Plans: Employee Contributions*

- Annual Improvements 2010-2012 Cycle
  - PFRS 2, *Share-based Payment – Definition of Vesting Condition*
  - PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*
  - PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  - PAS 16, *Property, Plant and Equipment* and PAS 38*, Intangible Assets – Revaluation method – Proportionate Restatement of Accumulated Depreciation and Amortization*
  - PAS 24, *Related Party Disclosures – Key Management Personnel*

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

Summary of Significant Accounting Policies

Fair Value Measurement
The Bank initially measures its financial and non-financial instruments at fair value. Fair values of financial instruments measured at amortized cost are disclosed in Note 4.

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

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

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

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

If an asset or a liability measured at fair value has a bid price and an ask price (e.g., an input from a dealer market), the price between the bid-ask price spread that is most representative of fair value in the circumstances shall be used to measure fair value, regardless of where the input is categorized within the fair value hierarchy.

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described in Note 4, based on the lowest level input that is significant to the fair value measurement as a whole.

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

Cash and Cash Equivalents

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

Financial Instruments – Initial Recognition and Subsequent Measurement

Date of recognition

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

Initial recognition of financial instruments

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

As at December 31, 2015 and 2014, the Bank has 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 unless it qualifies for recognition as some other type of asset.

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

Loans and receivables
This accounting policy relates to the statement of financial position captions 'Loans and receivables', 'Due from BSP', 'Due from other banks' and refundable rental deposits under 'Other assets'. These are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market, other than:

- those that the Bank intends to sell immediately or in the near term and those that the Bank upon initial recognition designates as at FVPL;
- those that the Bank, upon initial recognition, designates as AFS investments; or
- those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

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

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

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

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

Derecognition of Financial Assets and Financial Liabilities

Financial assets

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

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

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

Financial liabilities

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

Impairment of Financial Assets

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

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

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

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

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

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

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

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

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

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

Property and Equipment

Depreciable property and equipment, which include building, furniture, fixtures and equipment, information technology equipment, transportation equipment and leasehold improvements, are stated at cost less accumulated depreciation and amortization, and any impairment in value. Land is stated at cost less any impairment in value.

The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the property and equipment to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged against operations in the year 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 additional costs of property and equipment.

Construction-in-progress are transferred to the related property and equipment account when the construction or installation and related activities necessary to prepare the property and equipment for their intended use are completed, and the property and equipment are ready for use.

Depreciation is calculated on the straight-line method over the estimated useful lives (EUL) of the depreciable assets. The EULs of the depreciable assets follow:

Building	10 years
Furniture, fixtures and equipment	3 years
Information technology equipment	3 years
Transportation equipment	3 years
Leasehold and improvements	5 years or the terms of the related leases, whichever is shorter

The EULs 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.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts.

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

Software Costs

Costs related to software purchased by the Bank for use in operations are amortized on a straight-line basis using an EUL of five (5) years.

Expenditures which enhance or extend the performance of computer software programs beyond their original specifications are recognized as capital improvements and added to the original cost of the software.

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

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

The difference between the fair value of the asset acquired and the carrying amount of asset given up is recognized in the statement of income. Expenditures incurred after the investment properties are recognized, such as repairs and maintenance costs, are normally charged to income in the period in which the costs are incurred.

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

Investment property is derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal.

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

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

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

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

An impairment loss is charged to the statement of income in the year in which it arises.

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

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

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

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

The carrying amount of the financial asset is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount adjusted for interest received is recorded as 'Interest income'.

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.

Bank charges
Bank charges are recognized only upon collection or where there is a reasonable degree of certainty as to their collectability. These items are reported under 'Miscellaneous' in the statement of income.

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

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

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

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

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

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

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

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

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

<u>Leases</u>
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

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

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

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

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

Deferred tax
Deferred tax is provided, using the statement of financial position liability method, on all temporary differences 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 deferred tax liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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

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

Equity
Capital stock is measured at par value for all shares issued and outstanding. When the Bank issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax. The subscribed capital stock is reported in equity less the related subscription receivable not currently collectible. Capital stock consists of common and preferred. Preferred stocks are (a) cumulative, (b) non-voting, and (c) non-redeemable.

Subscribed common stock is recognized at subscribed amount net of subscription receivable.

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

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

Cash dividends are recognized as liability and deducted from the equity when approved by the Board of Directors (BOD) while stock dividends are deducted from equity when approved by BOD and stockholders. Dividends for the year that are approved after the reporting date are dealt with as subsequent events. Stock issuance costs are accounted for as deduction from equity.

Deposit for Future Stock Subscription
Deposit for future stock subscription (DFS) represents payments made on subscription of shares which cannot be directly credited to 'Preferred stock' or 'Common stock' pending registration with the SEC of the amendment to the Articles of Incorporation increasing capital stock. In accordance with SEC Financial Reporting Bulletin No. 006 issued in 2012, the Bank does consider a deposit for future subscription as an equity instrument unless all of the following elements are present.

1. The unissued authorized capital stock of the Bank is insufficient to cover the amount of shares classified as deposits for future shares subscriptions;
2. the entity's BOD and shareholders have approved an increase in capital stock to cover the shares corresponding to the amount of the deposit; and
3. an application for the approval of the increase in capital stock has been presented for filing or filed with the SEC and BSP.

DFS that does not meet the foregoing provisions is treated as a financial liability.
As of December 31, 2015 and 2014, the Bank has DFS recorded under liabilities amounting to nil and ₱47.50 million, respectively.

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

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

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

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

Standards Issued but not yet Effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are listed below. The Bank intends to adopt these standards when they become effective. Adoption of these standards and interpretations are not expected to have any significant impact on the financial statements of the Bank.

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

- Philippine Interpretation on International Financial Reporting Interpretations Committee (IFRIC) 15, *Agreements for the Construction of Real Estate.*

Effective January 1, 2016
- PFRS 10, *Consolidated Financial Statements, and* PAS 28, *Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception* (Amendments)
- PAS 27, *Separate Financial Statements* - *Equity Method in Separate Financial Statements* (Amendments)
- PFRS 11, *Joint Arrangements* - *Accounting for Acquisitions of Interests* (Amendments)
- PAS 1, *Presentation of Financial Statements - Disclosure Initiative* (Amendments)
- PFRS 14, *Regulatory Deferral Accounts*
- PAS 16, *Property, Plant and Equipment,* and PAS 38, *Intangible Assets* - *Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)
- PAS 16, *Property, Plant and Equipment,* and PAS 41, *Agriculture - Bearer Plants*
- Annual Improvements to PFRSs (2012-2014 Cycle)
  - PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*
  - PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*
  - PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  - PAS 19, *Employee Benefits - Regional Market Issue Regarding Discount Rate*
  - PAS 34, *Interim Financial Reporting - Disclosures of Information 'Elsewhere in the Interim Financial Report'*

<u>Effective January 1, 2018</u>
PFRS 9, *Financial Instruments*
In July 2014, the International Accounting Standards Board (IASB) issued the final version of PFRS 9, *Financial Instruments*. The new standard (renamed as PFRS 9) reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. Early application of previous versions of PFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. The Bank did not early adopt PFRS 9.

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

The following new standards issued by the IASB has not yet been locally adopted by the Financial Reporting Standard Council, Board of Accountancy and Professional Regulation Commission.

International Financial Reporting Standard (IFRS) 15, *Revenue from Contracts with Customers*
IFRS 15 was issued in May 2014 by IASB and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required. Early adoption is permitted. The Bank is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

IFRS 16, *Leases*
On January 13, 2016, the IASB issued its new standard, IFRS 16, *Leases*, which replaces International Accounting Standard (IAS) 17, the current leases standard, and the related Interpretations.

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

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

Entities may early adopt IFRS 16 but only if they have also adopted, IFRS 15, *Revenue from Contracts with Customers*. When adopting IFRS 16, an entity is permitted to use whether a full retrospective of a modified retrospective approach, with options to use certain transition reliefs. The Bank is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date once adopted locally.

3. Significant Accounting Judgments and Estimates

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

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

Judgments

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

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

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

(c) *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 a financial 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.

Estimates

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

(a) Credit losses on loans and receivables

The Bank reviews its loans and receivables to assess impairment annually. In determining whether an impairment loss should be recorded in the statement of income, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of customers or national or local economic conditions that correlate with defaults on the loans and receivables. Past-due accounts and loans wherein the borrower requested moratorium but no subsequent collection is made after the moratorium ends at year-end, fall under specific loan loss provision. As at December 31, 2015 and 2014, the carrying value of loans and receivables and related allowance for credit losses are disclosed in Note 7.

(b) Recognition of deferred tax assets

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

The Bank reviews the carrying amount of deferred tax asset at each reporting date and reduces this to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized. The recognized and unrecognized deferred tax assets for the Bank are disclosed in Note 20.

(c) Impairment of HTM investments

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

As at December 31, 2015 and 2014, no impairment losses were recognized on HTM investments, which comprised of government securities issued by the Philippine Government. The carrying value of HTM investments is disclosed in Note 8.

(d) Present value of defined benefit 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, and mortality rates. Due to the complexity of the valuation, the underlying assumptions and long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout at reporting date, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. Future salary increases are based on expected future inflation rates for the specific country. The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. The present value of the retirement liability and fair value of plan assets are disclosed in Note 17.

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

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

The Bank recognizes an impairment loss whenever the carrying amounts of non-financial assets exceed their recoverable amounts. The carrying values of the Bank's property and equipment, investment property and software costs are disclosed in Notes 9, 10 and 11, respectively. As at December 31, 2015 and 2014, no impairment losses were provided on non-financial assets.

(f) *Estimated useful lives of property and equipment, investment properties and software costs*
The Bank estimates the useful lives of its property and equipment, investment properties and software costs. 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, investment properties and software costs. Refer to accounting policy of property and equipment, investment properties and software costs in Note 2 for the assets' EUL.

4. **Fair Value Measurement**

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

The fair values of HTM investments is generally based on quoted market prices. When these are not available, the fair value is determined using interpolated market rates of benchmark securities. HTM investments of the Bank are categorized as Level 2 due to the low volume of funding and absence of bid-offer rates as at reporting date.

The fair values of unquoted debt securities classified as loans (UDSCL) are estimated based on the discounted cash flow methodology, using current incremental lending rates for similar types of loans or instruments ranging from 1.71% to 7.70% in 2015 and 1.71% to 7.30% in 2014.

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

Refundable rental deposits
The Bank's financial instruments where the carrying values do not approximate fair value pertain to the refundable rental deposits recorded under 'Other Assets.' These are reported at cost and are not significant in relation to the Bank's financial asset portfolio.

Fair Value Hierarchy
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 following tables summarize the carrying amounts and the fair values by level of the fair value hierarchy of the Bank's assets and liabilities as at December 31, 2015 and 2014:

	2015				
	Carrying Value	**(Level 1)**	**(Level 2)**	**(Level 3)**	**Total Fair Value**
Assets and liability for which fair values are disclosed:					
Financial assets					
UDSCL	**₱10,143,831**	**₱–**	**₱–**	**₱10,884,338**	**₱10,884,338**
HTM investments	**2,000,924**	**–**	**2,008,234**	**–**	**2,008,234**

	2014				
	Carrying Value	(Level 1)	(Level 2)	(Level 3)	Total Fair Value
Assets and liability for which fair values are disclosed:					
Financial assets					
UDSCL	₱5,179,788	₱–	₱–	₱4,404,514	₱4,404,514
HTM investments	2,006,130	–	2,069,757	–	2,069,757
Nonfinancial asset					
Investment property	490,160	–	–	490,160	490,160

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

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

As at December 31, 2015 and 2014, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

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

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

The BOD through its Risk Oversight Committee (ROC) is responsible for monitoring the Bank's implementation of risk management policies and procedures, and for reviewing the adequacy of risk management framework in relation to the risks faced by the Bank. The ROC regularly reports to the BOD the results of reviews of actual implementation of risk management policies. Risk management of the Bank is strengthened in conjunction with Audit Committee (AC) and Internal Audit (IA) functions. IA undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the AC. In addition, an Asset Liability Committee (ALCO) with members from Executive Committee and Management Committee of the Bank regularly performs analysis of the operating and financial risk management.

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

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

The Bank manages credit risks by instilling credit discipline both among the staff and the borrowers. Close-monitoring and assessment of account throughout the borrowing period is being done. Moreover, on-time and quality service delivery increase motivation of the borrowers to fulfill their financial obligation. Instilling good credit discipline and commitment are always considered through regular orientation and training. Consequently, their savings balances are pledged and serve as guarantee to their loans, which increase their borrowing capacity. Each business unit has a designated Unit Manager, who reports on all credit-related matters to Area Manager and Regional Director. Each business unit is responsible for the quality and performance of its credit portfolio and monitoring and controlling risks associated with it. Regular audits of business units and credit processes are undertaken by IA. In addition, Executive Committee and Management Committee members of the Bank regularly conduct monitoring based on their respective target per month. This strategy further ensures that business unit's implementation is within the credit policy and regulation of the Bank. Regular capacity building program through provisions of banking-related trainings such as but not limited to credit risk management, managing business, and delinquency management are regularly run. Availability of operations manual as reference, assist personnel in handling daily transaction. The manual is customized for microfinance clients and is being updated as often as new policies and procedures are finalized and approved by the BOD, based on client and staff satisfaction surveys, staff and management program review and planning meetings and workshops. A codified signing authority is in place for every level of loan processing and approval.

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

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

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, 2015 and 2014:

	2015			
	Maximum Exposure	**Fair Value of Collateral**	**Financial Effect of Collateral**	**Net Exposure**
Receivable from customers	**₱785,327,757**	**₱177,667,059**	**₱177,667,059**	**₱607,660,698**

	2014			
	Maximum Exposure	Fair Value of Collateral	Financial Effect of Collateral	Net Exposure
Receivable from customers	₱472,616,418	₱98,706,518	₱97,947,083	₱374,669,335

As at December 31, 2015 and 2014, the Bank does not hold any collateral or other credit enhancements to cover the credit risks associated with its due from BSP and other banks, other receivables, HTM investments and other financial assets. Hence, the carrying values of those financial assets best represent the maximum exposure to credit risk.

Credit enhancement for receivable from customers pertains to deposit hold-out from pledge savings equivalent to 15.00% of the original amount of the loan to the member as at December 31, 2015 and 2014.

The Bank has no financial instruments with rights of set-off in accordance to PAS 32 as at December 31, 2015 and 2014. There are also no financial instruments that are subject to an enforceable master netting arrangements or similar agreements which require disclosure in the financial statements in accordance with amendments to PFRS 7.

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

	2015				
	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	**₱225,966,623**	**₱–**	**₱–**	**₱–**	**₱225,966,623**
Agriculture, hunting and forestry	**185,121,680**	**–**	**–**	**–**	**185,121,680**
Financial institutions	**10,000,000**	**106,915,833**	**–**	**–**	**116,915,833**
Construction	**98,211,166**	**–**	**–**	**–**	**98,211,166**
Government	**143,831**	**83,476,048**	**2,000,924**	**–**	**85,620,803**
Manufacturing	**81,440,749**	**–**	**–**	**–**	**81,440,749**
Information and communication	**43,158,969**	**–**	**–**	**–**	**43,158,969**
Accommodation and food service activities	**38,993,811**	**–**	**–**	**–**	**38,993,811**
Education	**36,845,213**	**–**	**–**	**–**	**36,845,213**
Fishing	**32,033,404**	**–**	**–**	**–**	**32,033,404**
Transportation and storage	**21,833,932**	**–**	**–**	**–**	**21,833,932**
Administrative and support service activities	**8,916,580**	**–**	**–**	**–**	**8,916,580**
Water supply, sewerage, waste management, and remediation activities	**7,117,179**	**–**	**–**	**–**	**7,117,179**
Real estate activities	**4,983,123**	**–**	**–**	**–**	**4,983,123**
Human health and social work activities	**4,536,451**	**–**	**–**	**–**	**4,536,451**
Professional, scientific and technical services	**2,684,478**	**–**	**–**	**–**	**2,684,478**
Arts, entertainment and recreation	**2,029,854**	**–**	**–**	**–**	**2,029,854**
Other community, social and personal service activities	**–**	**–**	**–**	**671,216**	**671,216**
Electricity, gas and water supply	**464,612**	**–**	**–**	**–**	**464,612**
Mining and quarrying	**268,008**	**–**	**–**	**–**	**268,008**
Other service activities	**19,061,827**	**–**	**–**	**–**	**19,061,827**
	823,811,490	**190,391,881**	**2,000,924**	**671,216**	**1,016,875,511**
Less allowance for credit losses	**17,517,303**	**–**	**–**	**–**	**17,517,303**
Total	**₱806,294,187**	**₱190,391,881**	**₱2,000,924**	**₱671,216**	**₱999,358,208**

**Pertains to refundable rental deposits*

	2014				
	Loans and Receivables	Due from BSP and Other Banks	HTM Investments	Other Assets*	Total
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	₱186,190,359	₱–	₱–	₱–	₱186,190,359
Agriculture, hunting and forestry	108,715,602	–	–	–	108,715,602
Financial institutions	5,000,000	85,021,956	–	–	90,021,956
Real estate activities	42,335,123	–	–	–	42,335,123
Manufacturing	41,438,769	–	–	–	41,438,769
Fishing	21,715,929	–	–	–	21,715,929
Information and communication	19,290,279	–	–	–	19,290,279
Accommodation and food service activities	16,081,452	–	–	–	16,081,452
Education	14,187,487	–	–	–	14,187,487
Government	179,788	11,071,066	2,006,130	–	13,256,984
Transportation and storage	10,801,355	–	–	–	10,801,355
Other community, social and personal service activities	6,663,321	–	–	440,133	7,103,454
Administrative and support service activities	4,999,645	–	–	–	4,999,645
Water supply, sewerage, waste management and remediation activities	₱4,622,088	–	–	–	4,622,088
Construction	2,051,632	–	–	–	2,051,632
Human health and social work activities	1,650,583	–	–	–	1,650,583
Professional, scientific and technical services	884,031	–	–	–	884,031
Arts, entertainment and recreation	809,845	–	–	–	809,845
Electricity, gas and water supply	605,802	–	–	–	605,802
Mining and quarrying	52,400	–	–	–	52,400
Other services activities	2,960,778	–	–	–	2,960,778
	491,236,268	96,093,022	2,006,130	440,133	589,775,553
Less allowance for credit losses	6,776,740	–	–	–	6,776,740
Total	₱484,459,528	₱96,093,022	₱2,006,130	₱440,133	₱582,998,813

**Pertains to refundable rental deposits*

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

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

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

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

	2015				
	High grade	**Standard grade**	**Past due but not impaired**	**Impaired**	**Total**
Due from BSP	**₱20,674,211**	**₱–**	**₱–**	**₱–**	**₱20,674,211**
Due from other banks	**169,717,670**	–	–	–	**169,717,670**
Receivable from customers:					
Microfinance loans	–	**721,799,273**	**2,416,224**	**4,642,522**	**728,858,019**
Other loans	–	**73,384,085**	**258,007**	**344,949**	**73,987,041**
Other receivables:					
Accrued interest receivable	**102,407**	**10,643,764**	–	–	**10,746,171**
Accounts receivable	–	**76,428**	–	–	**76,428**
Unquoted debt securities classified as loans	–	**10,143,831**	–	–	**10,143,831**
HTM investments	**2,000,924**	–	–	–	**2,000,924**
Other assets:					
Refundable rental deposits	–	**671,216**	–	–	**671,216**
	₱192,495,212	**₱816,718,597**	**₱2,674,231**	**₱4,987,471**	**₱1,016,875,511**

	2014				
	High grade	Standard grade	Past due but not impaired	Impaired	Total
Due from BSP	₱11,071,066	₱–	₱–	₱–	₱11,071,066
Due from other banks	85,021,956	–	–	–	85,021,956
Receivable from customers:					
Microfinance loans	–	400,753,582	250,953	1,834,524	402,839,059
Other loans	–	76,338,585	61,821	153,693	76,554,099
Other receivables:					
Accrued interest receivable	22,278	6,119,705	–	–	6,141,983
Unquoted debt securities classified as loans	–	5,179,788	–	–	5,179,788
Accounts receivable	–	521,339	–	–	521,339
HTM investments	2,006,130	–	–	–	2,006,130
Other assets:					
Refundable rental deposits	–	440,133	–	–	440,133
	₱98,121,430	₱489,353,132	₱312,774	₱1,988,217	₱589,775,553

As at December 31, 2015 and 2014, the Bank's microfinance loans 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 tables show 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, 2015 and 2014.

	2015			
	Less than 30 Days	**31 to 60 Days**	**61 to 90 Days**	**Total**
Microfinance loans	**₱920,768**	**₱867,130**	**₱628,326**	**₱2,416,224**
Other loans	**106,137**	**100,034**	**51,836**	**258,007**
	₱1,026,905	**₱967,164**	**₱680,162**	**₱2,674,231**

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

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, 2015 and 2014.

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

Interest rate risk
The Bank's receivables earn effective interest rates ranging from 32.00% to 58.80% and 33.47% to 50.74% in 2015 and 2014. The shortest term of loan is one month while the longest term is one year.

The Bank's savings deposit liabilities include compulsory and voluntary savings that earn 2.00% per annum in 2015 and 2014. Other regular savings accounts earn 1.50% and 5.00% in 2015 and 2014. Special savings deposits have interest rates of 2.00% to 4.25% in 2015 and 2014.

Bills payable pays fixed interest rates to the Bank's creditors ranging from 3.50% to 5.00% in 2015 and from 4.85% to 5.00% in 2014.

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

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

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

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

The Finance 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 based on contractual undiscounted cash flows of the Bank's financial liabilities and related financial assets used for liquidity purposes:

	2015					
	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	₱2,614,949	₱–	₱–	₱–	₱–	₱2,614,949
Due from BSP	20,674,211	–	–	–	–	20,674,211
Due from other banks	24,507,816	71,902,787	73,381,693			169,792,296
Loans and receivable	307,017	29,335,521	157,407,769	621,403,453	150,000	808,603,760
Total Financial Assets	48,103,993	101,238,308	230,789,462	621,403,453	150,000	1,001,685,216
Financial Liabilities						
Deposit liabilities	322,124,579	6,170,176	52,294,657	154,919,435	–	535,508,847
Bills payable	–	4,821,150	82,610,117	213,917,949	–	301,349,216
Other liabilities:						
Accrued expenses	2,958,153	880,675	878,260		3,640,169	8,357,257
Accrued interest payable	13,304	13,593	1,193,930	620,959	–	1,841,786
Accounts payable	1,371,725	–	–	–	–	1,371,725
Total Financial Liabilities	326,467,761	11,885,594	136,976,964	369,458,343	3,640,169	848,428,831
Net	(₱278,363,768)	₱89,352,714	₱93,812,498	₱251,945,110	₱3,490,169	₱153,256,385

	2014					
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	Total
Financial Assets						
Cash and other cash items	₱1,973,592	₱–	₱–	₱–	₱–	₱1,973,592
Due from BSP	11,071,066	–	–	–	–	11,071,066
Due from other banks	29,911,633	–	151,553,390			181,465,023
Loans and receivable	445,873	15,794,725	92,423,043	374,996,381	4,493,873	488,153,895
Total Financial Assets	43,402,164	15,794,725	243,976,433	374,996,381	4,493,873	682,663,576
Financial Liabilities						
Deposit liabilities	188,496,440	41,746,422	6,665,927	72,584,138	–	309,492,927
Bills payable	–	–	46,234,744	134,991,813	–	181,226,557
Other liabilities:						
Accrued expenses	672,000	2,322,516	300,000	598,969	2,882,099	6,775,584
Accrued interest payable	–	201,128	35,982	1,015,825	–	1,252,935
Accounts payable	1,846,141	–	–	–	–	1,846,141
Total Financial Liabilities	191,014,581	44,270,066	53,236,653	209,190,745	2,882,099	500,594,144
Net	(₱147,612,417)	(₱28,475,341)	₱190,739,780	₱165,805,636	₱1,611,774	₱182,069,432

6. Due from BSP and Other Banks

The 'Due from BSP' account represents the aggregate balance of non-interest-bearing peso deposit accounts with the BSP which the Bank maintains primarily to meet reserve requirements and to serve as a clearing account for interbank claims. As at December 31, 2015 and 2014, the Bank was able to meet the reserve requirements set by the BSP.

Due from other banks represent funds deposited with domestic banks which are used by the Bank as part of its working funds. The deposits earn interest at annual rates ranging from 0.25% to 1.75% in 2015 and 2014.

Interest income on 'Due from other banks' amounted to ₱1.85 million and ₱0.52 million in 2015 and 2014, respectively.

7. Loans and Receivables

This account consists of:

	2015	2014
Receivable from customers		
Microfinance loans	**₱728,858,019**	₱402,839,059
Other loans	**73,987,041**	76,554,099
	802,845,060	479,393,158
Accrued interest receivable	**10,746,171**	6,141,983
Unquoted debt securities classified as loans (UDSCL)	**10,143,831**	5,179,788
Accounts receivable (Note 21)	**76,428**	521,339
	823,811,490	491,236,268
Less allowance for credit losses	**17,517,303**	6,776,740
	₱806,294,187	₱484,459,528

Interest income on loans and receivables follow:

	2015	2014
Receivable from customers	**₱308,342,450**	₱147,380,855
UDSCL	**122,427**	18,517
	₱308,464,877	₱147,399,372

BSP Reporting

In accordance with BSP regulations, the Bank considers a loan as part of portfolio-at-risk (PAR) when an installment payment is past due for one day. As at December 31, 2015 and 2014, the Bank's PAR amounted to ₱7.66 million and ₱2.30 million, respectively. The allowance for credit losses recognized for past due loans amounted to ₱5.59 million and ₱2.01 million as at December 31, 2015 and 2014, respectively.

As at December 31, 2015 and 2014, based on the revised definition of nonperforming loans (NPLs) under Circular No. 722, NPLs reported to the BSP amounted to ₱7.56 million and ₱2.28 million, respectively.

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

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

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

In the case of microfinance loans, past due/ PAR accounts shall be considered as NPL. Loans are classified as nonperforming in accordance with BSP regulations, or when, in the opinion of management, collection of interest is doubtful. Loans are not reclassified as performing until interest and principal payments are brought to 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, 2015 and 2014 (at gross amount):

	2015	2014
Secured portion		
Deposit hold-out	**₱202,194,492**	₱132,930,973
Unsecured portion	**600,650,568**	346,462,185
	₱802,845,060	₱479,393,158

Collateral of loans includes deposit hold-out at 15.00% of loan disbursed (Note 12).

As at December 31, 2015 and 2014, information on the concentration of loans and receivables as to industry follows (at gross amount):

	2015		2014	
	Amount	**%**	Amount	%
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	**₱225,966,623**	**28.15%**	₱183,835,065	38.35%
Agriculture, hunting and forestry	**185,121,680**	**23.06%**	107,340,358	22.39%
Construction	**98,211,166**	**12.23%**	2,025,679	0.42%
Manufacturing	**81,440,749**	**10.14%**	40,914,572	8.53%
Information and communication	**43,158,969**	**5.38%**	19,046,258	3.97%
Accommodation and food service activities	**38,993,811**	**4.86%**	15,878,023	3.31%
Education	**36,845,213**	**4.59%**	14,008,016	2.92%
Fishing	**32,033,404**	**3.99%**	21,441,224	4.47%
Transportation and storage	**21,833,932**	**2.72%**	10,664,719	2.23%
Administrative and support service activities	**8,916,580**	**1.11%**	4,863,577	1.02%
Water supply, sewerage, waste management and remediation activities	**7,117,179**	**0.89%**	4,563,619	0.95%
Real estate activities	**4,983,123**	**0.62%**	41,799,587	8.72%
Human health and social work activities	**4,536,451**	**0.57%**	1,629,703	0.34%
Professional, scientific and technical services	**2,684,478**	**0.33%**	871,155	0.18%
Arts, entertainment and recreation	**2,029,854**	**0.25%**	799,600	0.17%
Electricity, gas and water supply	**464,612**	**0.06%**	598,139	0.13%

(Forward)

	2015		2014	
	Amount	**%**	Amount	%
Mining and quarrying	**₱268,008**	**0.03%**	₱51,737	0.01%
Community, social and personal service activities	–	–	6,138,802	1.28%
Other services activities	**8,239,228**	**1.02%**	2,923,325	0.61%
	₱802,845,060	**100.00%**	₱479,393,158	100.00%

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

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

	2015	2014
Balance at beginning of year	**₱6,776,740**	₱2,326,096
Provision for credit losses	**10,740,563**	4,671,862
Write-off	–	(310,328)
Other credits	–	89,110
Balance at end of year	**₱17,517,303**	₱6,776,740
Collective impairment	**₱11,927,422**	₱4,770,922
Individual impairment	**5,589,881**	2,005,818
	₱17,517,303	₱6,776,740
Gross amounts of loans individually determined to be impaired, before deducting any individually assessed impairment losses	**₱4,987,471**	₱1,988,217

<u>Unquoted debt securities</u>
As at December 31, 2015 and 2014, unquoted debt securities consist of the following:

	2015	2014
Small Business Corporation (SBC)	**₱10,000,000**	₱5,000,000
Agrarian Reform 10-year bond	**143,831**	179,788
	₱10,143,831	₱5,179,788

Investments in SBC pertain to non-negotiable Micro, Small and Medium Enterprise Notes with annual interest rate ranging from 1.71% to 2.57% in 2015 and 1.67% to 2.57 in 2014, subject to annual repricing.

8. Held-to-maturity Investments

This account pertains to investments in treasury bonds issued in 2011 with a 6.00% annual coupon interest rate and EIR of 5.46% to 6.00%. The investments will mature in March 2016. Amortization of premium on these investments amounted to ₱5,206 in 2015 and ₱5,021 in 2014. The Bank recognized interest income on its HTM investments amounting to ₱0.11 million in 2015 and 2014.

9. Property and Equipment

The composition of and movements in this account follow:

	Land	**Building**	**Furniture, Fixtures and Equipment**	**Information Technology Equipment**	**Transportation Equipment**	**Leasehold Improvements**	**Construction in Progress**	**Total**
Cost								
Balance at beginning of year	**₱13,345,742**	**₱10,826,042**	**₱7,311,570**	**₱764,851**	**₱597,559**	**₱3,238,010**	**₱–**	**₱36,083,774**
Additions	**6,605,020**	**9,928,000**	**5,685,776**	**303,989**	**–**	**2,572,000**	**4,070,000**	**29,164,785**
Disposals	**–**	**–**	**–**	**(183,912)**	**(383,142)**	**–**	**–**	**(567,054)**
Balance at end of year	**19,950,762**	**20,754,042**	**12,997,346**	**884,928**	**214,417**	**5,810,010**	**4,070,000**	**64,681,505**
Accumulated Depreciation and Amortization								
Balance at beginning of year	**–**	**772,717**	**1,523,302**	**284,694**	**283,495**	**1,879,413**	**–**	**4,743,621**
Depreciation and amortization	**–**	**1,660,104**	**3,146,226**	**230,702**	**240,309**	**557,460**	**–**	**5,834,801**
Disposals	**–**	**–**	**–**	**(6,131)**	**(309,388)**	**–**	**–**	**(315,519)**
Balance at end of year	**–**	**2,432,821**	**4,669,528**	**509,265**	**214,416**	**2,436,873**	**–**	**10,262,903**
Net Book Value	**₱19,950,762**	**₱18,321,221**	**₱8,327,818**	**₱375,663**	**₱1**	**₱3,373,137**	**₱4,070,000**	**₱54,418,602**

	2014						
	Land	Building	Furniture, Fixtures and Equipment	Information Technology Equipment	Transportation Equipment	Leasehold Improvements	Total
Cost							
Balance at beginning of year	₱12,957,419	₱6,300,000	₱3,742,988	₱515,262	₱382,498	₱3,238,010	₱27,136,177
Additions	388,323	4,526,042	3,994,657	461,511	329,223	–	9,699,756
Disposals	–	–	(426,075)	(211,922)	(114,162)	–	(752,159)
Balance at end of year	13,345,742	10,826,042	7,311,570	764,851	597,559	3,238,010	36,083,774
Accumulated Depreciation and Amortization							
Balance at beginning of year	–	105,000	731,563	330,870	175,696	1,508,887	2,852,016
Depreciation and amortization	–	667,717	1,217,814	165,746	221,961	370,526	2,643,764
Disposals	–	–	(426,075)	(211,922)	(114,162)	–	(752,159)
Balance at end of year	–	772,717	1,523,302	284,694	283,495	1,879,413	4,743,621
Net Book Value	₱13,345,742	₱10,053,325	₱5,788,268	₱480,157	₱314,064	₱1,358,597	₱31,340,153

10. **Investment Property**

The movements of this account follow:

	2015	2014
Cost		
Balance at beginning of year	**₱490,160**	₱490,160
Disposals	**(490,160)**	–
Balance at end of year	**₱–**	₱490,160

The investment property pertains to land located in Brgy. Lagundi, Morong, Rizal. This was foreclosed in 2013.

In 2015, the investment property was sold for ₱0.40 million resulting in recognition of loss of ₱90,160 (Note 19).

11. **Other Assets**

This account consists of:

	2015	2014
Financial assets		
Refundable rental deposits	**₱671,216**	₱440,133
Nonfinancial assets		
Stationery and supplies on hand	**5,883,328**	5,732,539
Prepaid rent	**1,897,594**	549,067
Software costs	**1,314,176**	902,695
Prepaid expenses	**1,127,668**	589,526
	10,222,766	7,773,827
	₱10,893,982	₱8,213,960

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

The movements of software costs follow:

	2015	2014
Cost		
Balance at beginning of year	**₱1,002,785**	₱–
Additions	**667,952**	1,002,785
Balance at end of year	**1,670,737**	1,002,785
Accumulated Amortization		
Balance at beginning of year	**100,090**	–
Amortization	**256,471**	100,090
Balance at end of year	**356,561**	100,090
Net Book Value	**₱1,314,176**	₱902,695

No impairment loss was recognized on other assets in 2015 and 2014.

12. **Deposit Liabilities**

The Bank's deposit liabilities include regular savings amounting to ₱322.12 million and ₱188.50 million as at December 31, 2015 and 2014, respectively. These represent the ₱50.00 per week aggregate compulsory savings collected from each member/nonmember/borrower plus any voluntary deposit. Under an assignment agreement, the "pledge" savings balances serve as security for loans granted by the Bank to its members. The "pledge" savings earn annual interest of 2.00%. A member/borrower is required to maintain a pledge savings balance equivalent to 15.00% of the original loan amount (Note 7). Other regular savings accounts are "Kayang-kaya" and "Tagumpay" savings deposit accounts which cater to non-members and Bank employees, and carry interest rates of 1.50% and 5.00%, respectively.

Special savings deposits have interest rates of 2.00% to 4.25% in 2015 and 2014.

Interest expense on deposit liabilities are as follows:

	2015	**2014**
Special savings deposit	**₱10,597,969**	₱6,176,031
Regular savings deposits	**5,174,044**	2,820,058
Balance at end of year	**₱15,772,013**	₱8,996,089

On April 3, 2014, the BSP issued Circular No. 830 which took effect on April 11, 2014. Circular No. 830 which superseded Circular No. 7053, issued on March 29, 2012, increased the reserve requirements from 4.0% to 5.0% for demand deposits and from 2.0% to 3.0% for savings and special savings deposits.

As at December 31, 2015 and 2014, available reserves pertain to Due from BSP of ₱20.67 million and ₱11.07 million for 2015 and 2014, respectively. The Bank is compliant with applicable reserve requirements.

13. **Bills Payable and Other Liabilities**

Bills Payable
Bills payable represents borrowings from financing institutions which are subject to certain terms and conditions and bears annual nominal interest rates ranging from 3.50% to 5.00% in 2015 and from 4.85% to 5.00% in 2014. Maturity period for the outstanding bills payable ranges from six months to one year in 2015 and one year in 2014.

Other Liabilities
This account consists of the following:

	2015	2014
Financial liabilities:		
Accrued expenses	**₱4,717,088**	₱3,745,027
Accrued interest payable	**1,841,786**	1,252,935
Accounts payable (Notes 18 and 21)	**1,371,725**	1,846,140
	7,930,599	6,844,102

(Forward)

	2015	2014
Nonfinancial liabilities:		
Accumulated vacation leaves	**₱3,640,169**	₱3,032,157
Gross receipt taxes payable	**1,774,407**	1,195,635
Documentary stamp taxes payable	**330,146**	168,363
Withholding taxes payable	**717,055**	434,657
	₱14,392,376	₱11,674,914

Accounts payable include due to suppliers and contractors, employees and related parties.

Accrued expenses include accrued rent and other operating expenses.

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 balance sheet dates:

	2015			2014		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Financial Assets						
Cash and other cash items	**₱2,614,949**	**₱–**	**₱2,614,949**	₱1,973,592	₱–	₱1,973,592
Due from BSP	**20,674,211**	**–**	**20,674,211**	11,071,066	–	11,071,066
Due from other banks	**169,717,670**	**–**	**169,717,670**	85,021,956	–	85,021,956
Loans and receivables	**813,667,659**	**10,143,831**	**823,811,490**	486,056,480	5,179,788	491,236,268
HTM investments	**2,000,924**	**–**	**2,000,924**	–	2,006,130	2,006,130
Other assets	**–**	**1,798,884**	**1,798,884**	61,600	378,533	440,133
Nonfinancial Assets						
Property and equipment	**–**	**64,681,504**	**64,681,504**	–	37,086,559	37,086,559
Investment properties	**–**	**–**	**–**	–	490,160	490,160
Retirement asset	**–**	**6,902,974**	**6,902,974**	–	3,386,708	3,386,708
Deferred tax assets	**–**	**5,767,580**	**5,767,580**	–	1,947,578	1,947,578
Other assets	**7,780,922**	**1,670,737**	**9,451,659**	6,367,365	503,767	6,871,132
Total Assets	**₱1,016,456,335**	**₱90,965,510**	**₱1,107,421,845**	₱590,552,059	₱50,979,223	₱641,531,282
Less: Allowance for credit and impairment losses			**(17,517,303)**			(6,776,740)
Accumulated depreciation and amortization			**(10,619,463)**			(4,843,711)
			₱1,079,285,079			₱629,910,831
Financial Liabilities						
Deposit liabilities	**₱530,987,593**	**₱–**	**₱530,987,593**	₱307,350,239	₱–	₱307,350,239
Bills payable	**291,730,252**	**–**	**291,730,252**	175,000,000	–	175,000,000
Other liabilities	**11,570,768**		**11,570,768**	6,994,160	2,882,099	9,876,259
Nonfinancial Liabilities						
Income tax payable	**13,812,525**	**–**	**13,812,525**	6,501,183	–	6,501,183
Deposit for future stock subscription	**–**	**–**	**–**	47,500,000	–	47,500,000
Retirement liability	**–**	**–**	**–**	–	–	–
Other liabilities	**2,821,608**	**–**	**2,821,608**	1,798,655	–	1,798,655
Total Liabilities	**₱850,922,746**	**₱–**	**₱850,922,746**	₱545,144,237	₱2,882,099	₱548,026,336

15. Equity

Capital Stock

The Bank's authorized capital stock amounted to ₱250.00 million, consisting of 2,000,000 shares of common stock with par value of ₱100 per share and 250,000 private preferred shares with par value of ₱200 per share.

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

	2015		2014	
	Shares	**Amount**	Shares	Amount
Common stock - ₱100 par value, 2,000,000 authorized shares				
Common stock at the beginning of the year	**490,000**	**₱49,000,000**	7,500	₱750,000
Issuance of shares of stocks from settlement of subscriptions receivable	**480,750**	**48,075,000**	482,500	48,250,000
Common stock at the end of the year	**970,750**	**97,075,000**	490,000	49,000,000
Subscribed	**1,029,250**	**102,925,000**	–	–
Subscription receivable	–	**(76,797,200)**	–	–
	2,000,000	**₱123,202,800**	490,000	₱49,000,000
Preferred stock				
Issued and Outstanding	**49,138**	**₱9,827,600**	–	₱–

Preferred shares have the following features: (a) cumulative, (b) non-voting, and (c) non-redeemable. Preferred shareholders shall be entitled to a dividend rate of eight percent (8%) per annum or whatever is determined by the BOD.

In 2013, the BOD approved the increase in the Bank's authorized capital stock from ₱50.00 million consisting of 490,000 common stocks and 10,000 preferred stocks to ₱250.00 million consisting of 2.00 million common stocks and 0.25 million preferred stocks, with par values of ₱100.00 and ₱200.00, respectively. The BSP approved the Bank's application for increase in authorized capital stock on November 18, 2014 and the Bank applied for the increase in SEC. The SEC approved the increase in authorized capital stock on April 15, 2015.

During the last quarter of 2015, the Bank issued 49,138 preferred shares at par amounting to ₱9.83 million. In addition, the Bank received proceeds from subscriptions of common shares amounting to ₱26.70 million.

Application of DFS amounted to ₱47.50 million and ₱31.50 million in 2015 and 2014, respectively.

Dividends

On March 14, 2015, the BOD declared cash dividends of P5.00 per share to common stockholders. These were approved by the BSP on June 19, 2015. The cash dividend amounting to ₱10.00 million were paid on July 27, 2015 to common stockholders of record as at March 31, 2015.

On August 8, 2015, the BOD declared another cash dividend of P8.00 per share to common stockholders which were approved by the BSP on November 27, 2015. The cash dividend amounting to ₱16.00 million were paid on December 16, 2015 to common stockholders of record as at August 31, 2015.

Capital Management

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

The Bank manages its capital structure and appropriately effect adjustment according to the changes in economic conditions and the risk level it recognizes at every point of time in the course of its business operations.

In order to maintain or adjust for good capital structure, the Bank carefully measures the amount of dividend payment to shareholders, call payment due from the capital subscribers or issue capital securities as necessary. No changes were made on the capital management objectives, policies and processes from previous years.

Regulatory Qualifying Capital

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

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

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

- unbooked valuation reserves and other capital adjustments as may be required by the BSP;
- total outstanding unsecured credit accommodations to directors, officers, stakeholders and 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 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 risk-based capital adequacy ratio (CAR) is to be inclusive of a market risk charge. BSP Circular No. 560 dated January 31, 2007, which took effect on February 22, 2007, requires the deduction of unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates from capital accounts for purposes of computing CAR.

On October 9, 2014, BSP issued the Circular No. 854, which states that rural banks with head offices in areas outside the National Capital Region and with up to ten branches are required to comply with the minimum capital requirement of ₱30.00 million. As at December 31, 2015 and 2014, the Bank is in compliance with the capitalization requirement.

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

	2015	2014
Tier 1 capital	**₱217.44**	₱118.80
Tier 2 capital	**9.39**	4.77
Total qualifying capital	**₱226.83**	₱123.57
Risk weighted assets	**₱1,027.79**	₱571.78
Tier 1 capital ratio	**21.16%**	20.77%
Tier 2 capital ratio	**0.91%**	0.83%
Total CAR	**22.07%**	21.60%

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.

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments. As at December 31, 2015 and 2014, the Bank was in compliance with CAR requirement.

Financial Performance

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

	2015	2014
Return on average equity	**59.79%**	72.75%
Return on average assets	**10.85%**	7.47%
Net interest margin	**37.22%**	35.36%

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:

	2015	2014
Salaries and wages	**₱32,953,308**	₱19,897,971
Employee benefits	**26,610,558**	16,941,456
Retirement expense (Note 17)	**2,349,275**	4,071,087
Other short-term benefits	**3,560,206**	2,119,185
	₱65,473,347	₱43,029,699

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

17. **Retirement Plan**

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

Changes in retirement liability (asset) in 2015 and 2014 are as follow:

						2015						
		Net benefit cost in statement of income*				**Remeasurements in other comprehensive income**						
	January 1, 2015	**Current service cost**	**Net interest**	**Subtotal**	**Transfer to the Plan net of benefits paid**	**Return on plan assets (excluding amount included in net interest)**	**Actuarial changes arising from changes in the effect of asset ceiling**	**Actuarial changes arising from changes in demographic assumptions**	**Actuarial changes arising from changes in financial assumptions**	**Subtotal**	**Contribution by employer**	**December 31, 2015**
Present value of defined benefit obligation	**₱25,073,762**	**₱2,812,216**	**₱1,118,290**	**₱3,930,506**	**₱1,986,301**	**₱7,541,502**	**₱–**	**₱870,951**	**(₱3,346,821)**	**₱5,065,632**	**₱–**	**₱36,056,201**
Fair value of plan assets	**(28,643,876)**	**–**	**(1,589,411)**	**(1,589,411)**	**(₱1,986,301)**	**756,491**	**–**	**–**	**–**	**756,491**	**(12,000,000)**	**(43,463,097)**
Asset ceiling	**183,406**	**–**	**8,180**	**8,180**	**–**	**–**	**312,336**	**–**	**–**	**312,336**	**–**	**503,922**
Net defined benefit liability (asset)	**(₱3,386,708)**	**₱2,812,216**	**₱462,941**	**₱2,349,275**	**₱–**	**₱8,297,993**	**₱312,336**	**₱870,951**	**(₱3,346,821)**	**₱6,134,459**	**(₱12,000,000)**	**(₱6,902,974)**

						2014						
		Net benefit cost in statement of income*				Remeasurements in other comprehensive income						
	January 1, 2014	Current service cost	Net interest	Subtotal	Transfer to the Plan net of benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from changes in the effect of asset ceiling	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Subtotal	Contribution by employer	December 31, 2014
Present value of defined benefit obligation	₱24,305,040	₱3,596,184	₱1,550,662	₱5,146,846	₱6,706,275	₱17,768,279	₱–	(₱6,574,956)	(₱22,277,722)	(₱11,084,399)	₱–	₱25,073,762
Fair value of plan assets	(8,699,470)	–	(1,075,759)	(1,075,759)	(6,706,275)	(2,544,749)	–	–	–	(2,544,749)	(9,617,623)	(28,643,876)
Asset ceiling	–	–	–	–	–	–	183,406	–	–	183,406	–	183,406
Net defined benefit liability (asset)	₱15,605,570	₱3,596,184	₱474,903	₱4,071,087	₱–	₱15,223,530	₱183,406	(₱6,574,956)	(₱22,277,722)	(₱13,445,742)	(₱9,617,623)	(₱3,386,708)

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

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions. The fair value of plan assets by each class as at December 31, 2015 and 2014 follows:

	2015	2014
Cash and cash equivalents	**₱17,693,827**	₱11,262,772
Debt instruments – government bonds	**19,866,982**	13,138,946
Loans	**4,589,703**	3,173,741
Mutual fund	**339,012**	269,252
Other assets	**973,573**	799,165
Fair value of plan assets	**₱43,463,097**	₱28,643,876

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. 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 latest actuarial report is for the period ended December 31, 2015. The principal assumptions used in determining pension for the defined benefit plans are shown below:

	2015	2014
Discount rate		
January 1	**4.46%**	6.38%
December 31	**4.86%**	4.46%
Future salary increases	**7.00%**	7.00%

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

	2015		2014	
	Increase (decrease) in basis points	**Increase (decrease) in present value of obligation**	Increase (decrease) in basis points	Increase (decrease) in present value of obligation
Discount rates	**+100**	**(₱7,019,317)**	+100	(₱5,051,187)
	-100	**9,061,438**	-100	6,578,526
Future salary increases	**+100**	**8,371,596**	+100	6,058,901
	-100	**(6,695,242)**	-100	(4,808,817)

The Bank expects to contribute ₱12.50 million to the defined benefit retirement plan in 2016.

The average duration of the defined benefit obligation is 26.4 years and 27.1 years as at December 31, 2015 and 2014, respectively.

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

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

	2015	2014
More than 5 years to 10 years	**₱5,129,526**	₱5,170,841
More than 10 years to 15 years	**9,020,236**	–
More than 15 years to 20 years	**33,913,559**	11,086,089
More than 20 years to 25 years	**141,399,397**	55,045,592
More than 25 years	**2,381,906,703**	672,899,056

18. Leases

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

Rent expense amounted to ₱7.72 million and ₱3.37 million in 2015 and 2014, respectively.

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

	2015	2014
Within one year	**₱7,037,940**	₱5,569,106
Beyond one year but not beyond five years	**9,405,899**	10,787,106
	₱16,443,839	₱16,356,212

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

Lease for transportation equipment recorded under 'Transportation and travel' in 2015 and 2014 amounted to ₱1.62 million and ₱1.36 million, respectively. Lease for IT equipment booked under 'IT expense' amounted to ₱0.78 million in 2015 and ₱0.27 million in 2014.

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

	2015	2014
Within one year	**₱2,368,219**	₱1,492,847
Beyond one year but not beyond five years	**692,701**	361,870
	₱3,060,920	₱1,854,717

19. Miscellaneous Expenses

This account consists of:

	2015	2014
Program and monitoring	**₱802,914**	₱722,893
Postage, telephone, cables and telegrams	**789,127**	336,905
Repairs and maintenance	**684,034**	579,193
Representation and entertainment	**343,642**	207,287
Advertising and publicity	**196,916**	161,416
Loss on retirement of property and equipment	**177,781**	–
Loss on sale of investment property	**90,160**	–
Other expenses	**1,280,629**	700,717
	₱4,365,203	₱2,708,411

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

20. Income Taxes

Under Philippine tax laws, the Bank is subject to percentage and other taxes presented as 'Taxes and licenses' in the statements of income as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax 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 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 ₱0.34 million and ₱0.21 million in 2015 and 2014, respectively. EAR expenses are presented under 'Miscellaneous expenses' in the statements of income.

Provision for income tax consists of:

	2015	2014
Current:		
RCIT	**₱41,317,617**	₱15,716,410
Final tax	**390,020**	124,495
	41,707,637	15,840,905
Deferred	**(1,979,664)**	(572,136)
	₱39,727,973	₱15,268,769

As at December 31, 2015 and 2014, net deferred tax assets are as follows:

	2015	2014
Deferred tax assets		
Allowance for credit and impairment losses	**₱5,255,191**	₱2,033,022
Unamortized past service cost	**2,583,281**	128,224
Accumulated vacation leave credits	**–**	864,630
	7,838,472	3,025,876
Deferred tax liabilities		
Retirement asset	**2,070,892**	1,016,012
Gain on foreclosure of investment property	**–**	62,286
	2,070,892	1,078,298
	₱5,767,580	₱1,947,578

Deferred tax recognized in OCI amounted to a benefit of ₱1.84 million and provision of ₱4.03 million for the years ended December 31, 2015 and 2014, respectively.

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

	2015	2014
Statutory income tax	**₱39,740,860**	₱14,411,331
Income tax effects of:		
Interest income subject to final tax	**(234,949)**	(72,820)
Nondeductible expenses	**222,062**	930,258
Provision for income tax	**₱39,727,973**	₱15,268,769

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 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 EMPC. The plan assets are invested in time deposits and special savings accounts and government bonds (Note 17). As at December 31, 2015 and 2014, the retirement funds do not hold or trade the Bank's shares of stock.

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

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

	2015	2014
Short-term employee benefits	**₱797,425**	₱578,122
Post-employment benefits	**430,111**	209,543
	₱1,227,536	₱787,665

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

Deposit liabilities, accounts receivable and accounts payable
Deposit liabilities, accounts receivable and accounts payable held by the Bank for key management personnel, shareholder and other related parties as at December 31, 2015 and 2014 follow:

	December 31, 2015		
Category	**Amount / Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Key management personnel			
Deposit liabilities		**₱674,653**	Consists of regular savings deposit account at an annual interest rate from 1.50% to 2.00%.
Deposits	**₱5,246,165**		
Withdrawals	**4,830,699**		
Interest expense	**4,416**		Pertains to interest on deposit liabilities.
Shareholders			
Deposit liabilities		**25,300,765**	Consists of regular savings deposit account which bears an annual interest rate of 1.5% and special savings deposit earning at annual rates of 2.75% to 4.75%.
Deposits	**33,289,988**		
Withdrawals	**8,320,875**		
Accounts receivable		**30,000**	Pertains to share of various expenses of shareholders that are still payable to the Bank.
Billings	**1,265,828**		
Collection	**1,491,483**		
Accounts payable		**–**	Pertains to share on various expenses.
Billings	**96,584**		
Payment	**96,960**		
Interest expense	**10,493**		Pertains to interest on deposit liabilities.
Affiliates*			
Deposit liabilities		**20,499,725**	These are checking, savings and special savings deposit accounts with annual interest rate ranging from 1.50% to 4.50%.
Deposits	**321,557,499**		
Withdrawal	**307,113,115**		

(Forward)

Category	Amount / Volume	Outstanding Balance	Nature, Terms and Conditions
	December 31, 2015		
Accounts receivable	**₱**	**₱3,333**	Training fees, seminars and meetings, and share of expenses shouldered by the Bank.
Billings	**117,154**		
Collections	**125,068**		
Accounts payable		**–**	Insurance premiums from members collected on behalf of CARD MBA and payments to CLFC for operating lease agreement (Note 18).
Billings	**85,799,881**		
Payments	**86,354,506**		
Interest expense	**5,102,188**		Pertains to interest on deposit liabilities.

**Includes CARD MRI Development Institute, Inc., CARD Leasing and Finance Corporation, CARD Mutual Benefit Association and CARD MRI Insurance Agency and Mga Likha ni Inay, Inc.*

Category	Amount / Volume	Outstanding Balance	Nature, Terms and Conditions
	December 31, 2014		
Key management personnel			
Deposit liabilities		₱259,187	Consists of regular savings deposit account which bears an annual interest rate of 1.5% and special savings deposit earning at annual rates of 2% to 3%.
Deposits	₱15,442,931		
Withdrawals	15,198,761		
Interest expense	49,353		Pertains to interest on deposit liabilities.
Shareholders			
Deposit liabilities		331,652	Consists of regular savings deposit account which bears an annual interest rate of 1.5% and special savings deposit earning at annual rates of 2% to 2.75%.
Deposits	12,294,181		
Withdrawals	24,812,858		
Accounts receivable		255,655	Share on expenses of transferred staff between the CARD-MRI entities.
Billings	1,277,869		
Collection	2,169,206		
Accounts payable		376	Pertains to share on various expenses.
Billings	1,287,115		
Payment	1,332,753		
Interest expense	4,568		Pertains to interest on deposit liabilities.
Affiliates*			
Deposit liabilities		6,055,341	These are checking, savings and special savings deposit accounts with annual interest rate ranging from 1.50% to 4.50%.
Deposits	380,860,668		
Withdrawal	271,933,778		
Accounts receivable		11,247	Pertains to refund to resigned members net of collection of loan redemption fund and provident and life insurance contributions on behalf of CARD MBA.
Billings	11,247		
Collections	43,180		
Accounts payable		554,625	Rent, supplies, training fees, seminars, and share of expenses shouldered by the affiliates.
Billings	26,681,170		
Payments	26,128,702		
Interest expense	3,672,473		Pertains to interest on deposit liabilities.

**Includes CARD MRI Development Institute, Inc., CARD Leasing and Finance Corporation, CARD Mutual Benefit Association and CARD MRI Insurance Agency and Mga Likha ni Inay, Inc.*

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, 2015 and 2014, the Bank is in compliance with the regulatory requirements.

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

There are no outstanding DOSRI accounts as at December 31, 2015 and 2014.

22. Notes to Statements of Cash Flows

The following is the summary of noncash activities in 2015 and 2014:

	2015	2014
Noncash financing activities:		
Application of deposit for future subscription to issued shares	**47,500,000**	31,500,000

23. Approval for the Release of Financial Statements

The BOD of the Bank has reviewed and approved the release of the accompanying financial statements on March 12, 2016.

24. Supplementary Information Required under RR 15-2010

On November 25, 2010, the BIR issued RR 15-2010 prescribing the manner of compliance in connection with the preparation and submission of financial statements accompanying the tax returns. It includes provisions for additional disclosure requirements in the notes to the financial statements, particularly on taxes and licenses paid or accrued during the year. The components of 'Taxes and licenses' recognized in the statement of income for the year ended December 31, 2015, follow:

Gross receipt tax (GRT)	₱15,586,099
Documentary stamp taxes	1,230,800
Business permits and licenses	1,019,386
Real property tax	55,919
	₱17,892,204

GRT in 2015 consists of taxes on:

Interest income on loans	₱15,417,122
Other income	168,977
	₱15,586,099

Withholding taxes in 2015 are categorized into:

Paid:	
Final withholding tax on interest expense	₱3,346,609
Withholding taxes on compensation and benefits	2,181,362
Expanded withholding tax	951,267
	6,479,238
Accrued:	
Expanded withholding tax	480,316
Final withholding tax on interest expense and dividends declared	236,739
	717,055
	₱7,196,293

Tax Assessments and Cases
As at December 31, 2015, the Company has no outstanding final assessment notice from the BIR or cases in court or bodies outside the BIR.