

Rizal Bank, Inc., A Microfinance- Oriented Rural Bank

Financial Statements
December 31, 2017 and 2016

and

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Rizal Bank, Inc., A Microfinance-Oriented Rural Bank (the Bank), which comprise the statements of financial position as of December 31, 2017 and 2016, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

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

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

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

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



Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

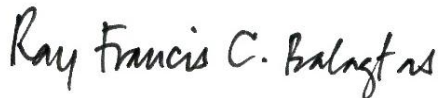
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Report on the Supplementary Information Required Under 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 22 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

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. 08-001998-107-2018,

February 14, 2018, valid until February 13, 2021

PTR No. 6621226, January 9, 2018, Makati City

March 10, 2018



RIZAL BANK, INC., A MICROFINANCE-ORIENTED RURAL BANK
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2017	2016
ASSETS		
Cash and other cash items	₱2,209,287	₱5,700,569
Due from Bangko Sentral ng Pilipinas (Note 10)	47,321,849	29,888,498
Due from other banks (Note 6)	395,614,336	403,954,915
Loans and receivables (Note 7)	2,122,101,566	1,333,575,812
Property and equipment (Note 8)	90,147,941	67,280,885
Retirement asset (Note 15)	30,213,290	17,159,973
Deferred tax assets (Note 18)	11,904,261	12,665,379
Other assets (Note 9)	24,572,618	18,230,705
	₱2,724,085,148	₱1,888,456,736
LIABILITIES AND EQUITY		
Liabilities		
Deposit liabilities (Notes 10 and 19)		
Regular savings	₱1,145,823,829	₱671,161,742
Special savings	380,607,794	302,588,550
	1,526,431,623	973,750,292
Bills payable (Note 11)	498,023,590	438,441,560
Income tax payable	35,986,373	21,017,255
Deposits for future stock subscriptions (Note 13)	51,592,800	4,080,000
Other liabilities (Note 11)	38,158,584	17,736,506
	2,150,192,970	1,455,025,613
Equity		
Capital stock (Note 13)		
Common stock	198,395,400	177,273,200
Preferred stock	50,000,000	37,003,400
Retained earnings	318,552,752	220,451,908
Remeasurement gain (loss) on retirement plan (Note 15)	6,944,026	(1,297,385)
	573,892,178	433,431,123
	₱2,724,085,148	₱1,888,456,736

See accompanying Notes to Financial Statements.



RIZAL BANK, INC., A MICROFINANCE-ORIENTED RURAL BANK
STATEMENTS OF INCOME

	Years Ended December 31	
	2017	2016
INTEREST INCOME		
Loans and receivables (Note 7)	₱789,109,822	₱513,862,577
Due from other banks (Note 6)	4,988,877	2,978,327
Held-to-maturity investments	–	19,743
	794,098,699	516,860,647
INTEREST EXPENSE		
Deposit liabilities (Notes 10 and 19)	28,561,461	21,676,565
Bills payable (Note 11)	12,376,863	9,781,669
	40,938,324	31,458,234
NET INTEREST INCOME	753,160,375	485,402,413
Miscellaneous	442,895	279,274
TOTAL OPERATING INCOME	753,603,270	485,681,687
OPERATING EXPENSES		
Compensation and benefits (Notes 14, 15 and 19)	180,299,412	100,666,212
Transportation and travel	47,175,135	30,350,564
Taxes and licenses (Note 18)	43,134,700	28,650,688
Rent (Note 16)	34,181,777	18,629,223
Stationeries and supplies	31,886,702	16,722,415
Training and development	20,612,538	10,750,111
Depreciation and amortization (Note 8)	14,491,280	10,208,867
Provision for credit and impairment losses (Note 7)	11,465,405	17,037,129
Security, messengerial, janitorial services	12,661,695	8,345,707
Information technology	8,018,149	7,340,583
Power, light and water	5,007,696	3,317,066
Seminars and meetings	3,693,586	2,620,166
Insurance	2,931,427	2,375,300
Professional fees	1,558,236	699,412
Fines, penalties and other charges	1,037,933	–
Miscellaneous (Notes 17 and 18)	8,529,973	7,149,996
	426,685,644	264,863,439
INCOME BEFORE INCOME TAX	326,917,626	220,818,248
PROVISION FOR INCOME TAX (Note 18)	98,532,653	65,217,822
NET INCOME	₱228,384,973	₱155,600,426

See accompanying Notes to Financial Statements.



RIZAL BANK, INC., A MICROFINANCE-ORIENTED RURAL BANK
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2017	2016
NET INCOME	₱228,384,973	₱155,600,426
OTHER COMPREHENSIVE INCOME (LOSS)		
<i>Other comprehensive income (loss) not recycled to profit or loss in subsequent periods:</i>		
Remeasurement gain (loss) on retirement plan (Note 15)	11,773,445	(1,322,463)
Income tax effect (Note 18)	(3,532,034)	396,739
	8,241,411	(925,724)
TOTAL COMPREHENSIVE INCOME	₱236,626,384	₱154,674,702

See accompanying Notes to Financial Statements.



RIZAL BANK, INC., A MICROFINANCE-ORIENTED RURAL BANK

STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 13)	Preferred Stock (Note 13)	Retained Earnings	Remeasurement Gain (Loss) on Retirement Plan (Note 15)	Total
Balances at January 1, 2017	₱177,273,200	₱37,003,400	₱220,451,908	(₱1,297,385)	₱433,431,123
Issuance of shares (Note 13)	21,122,200	12,996,600	–	–	34,118,800
Total comprehensive income for the year	–	–	228,384,973	8,241,411	236,626,384
Declaration of dividends (Note 13)	–	–	(130,284,129)	–	(130,284,129)
Balances at December 31, 2017	₱198,395,400	₱50,000,000	₱318,552,752	₱6,944,026	₱573,892,178
Balances at January 1, 2016	₱123,202,800	₱9,827,600	₱95,703,594	(₱371,661)	₱228,362,333
Issuance of shares (Note 13)	54,070,400	27,175,800	–	–	81,246,200
Total comprehensive income (loss) for the year	–	–	155,600,426	(925,724)	154,674,702
Declaration of dividends (Note 13)	–	–	(30,852,112)	–	(30,852,112)
Balances at December 31, 2016	₱177,273,200	₱37,003,400	₱220,451,908	(₱1,297,385)	₱433,431,123

See accompanying Notes to Financial Statements.



RIZAL BANK, INC., A MICROFINANCE-ORIENTED RURAL BANK
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱326,917,626	₱220,818,248
Adjustments for:		
Provision for credit and impairment losses (Note 7)	11,465,405	17,037,129
Depreciation and amortization (Note 8)	14,491,280	10,208,867
Net change in retirement asset (Note 15)	(1,279,872)	(11,579,462)
Amortization of documentary stamp tax on bills payable (Note 20)	2,436,550	1,790,304
Amortization of held-to-maturity investments	–	924
Operating income before changes in operating assets and liabilities:	354,030,989	238,276,010
Increase in the amounts of:		
Loans and receivables	(799,991,159)	(544,318,754)
Other assets	(6,341,913)	(8,650,899)
Deposit liabilities	552,681,331	442,762,699
Other liabilities	20,408,931	3,344,130
Net cash generated from operations	120,788,179	131,413,186
Income taxes paid	(86,334,451)	(64,514,152)
Net cash provided by operating activities	34,453,728	66,899,034
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property and equipment (Note 8)	(37,358,336)	(21,879,812)
Proceeds from:		
Maturity of held-to-maturity investments	–	2,000,000
Disposals of property and equipment	–	122,838
Net cash used in investing activities	(37,358,336)	(19,756,974)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Availment of bills payable (Note 20)	₱577,145,480	₱497,837,671
Deposit for future stock subscription (Notes 13 and 20)	47,512,800	4,080,000
Issuance of common stock (Note 13)	21,122,200	54,070,400
Issuance of preferred stock (Note 13)	12,996,600	27,175,800
Settlement of:		
Bills payable (Note 20)	(520,000,000)	(352,916,667)
Dividend distribution (Note 20)	(130,270,982)	(30,852,112)
Net cash provided by financing activities	8,506,098	199,395,092
NET INCREASE IN CASH AND CASH EQUIVALENTS	₱5,601,490	₱246,537,152

(Forward)



	Years Ended December 31	
	2017	2016
CASH AND CASH EQUIVALENTS		
AT BEGINNING OF YEAR		
Cash and other cash items	₱5,700,569	₱2,614,949
Due from Bangko Sentral ng Pilipinas	29,888,498	20,674,211
Due from other banks	403,954,915	169,717,670
	439,543,982	193,006,830
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and other cash items	2,209,287	5,700,569
Due from Bangko Sentral ng Pilipinas	47,321,849	29,888,498
Due from other banks	395,614,336	403,954,915
	₱445,145,472	₱439,543,982
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest received	₱784,731,408	₱509,641,287
Interest paid	36,482,698	28,223,922

See accompanying Notes to Financial Statements.



RIZAL BANK, INC., A MICROFINANCE-ORIENTED RURAL BANK

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.

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.

The Monetary Board, in its Resolution No. 272 dated February 16, 2017, approved the request of the Bank to transfer 10.00% of the stockholdings of Center for Agriculture and Rural Development, Inc. (CARD, Inc.), transferee-stockholder, to Bank of the Philippine Islands (BPI) through sale and purchase of 200,000 common shares of the former by the latter, in accordance with the agreement between CARD, Inc. and BPI, which also includes vesting to BPI the right to appoint one (1) non-independent director in the Board of Directors (BOD) of the Bank.

As of December 31, 2017 and 2016, the Bank's majority stockholder is CARD Bank, Inc.

The principal place of business of the Bank is at P. Guevarra St., Cor. Aguirre St., Brgy. Poblacion 2, Sta. Cruz, Laguna. As of December 31, 2017, the Bank consists of its head office and sixteen (16) branches.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared under the 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 of assets or settlement of liabilities within 12 months after the reporting date (current) and more than 12 months after the reporting date (noncurrent) are disclosed in Note 12.

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.



The Bank has no offsetting arrangements with its 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 and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Bank has adopted the following new accounting pronouncements starting January 1, 2017. Adoption of these pronouncements did not have any significant impact on the Bank's financial position or performance, unless otherwise stated.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)
- Amendments to Philippine Accounting Standard (PAS) 7, *Statement of Cash Flows, Disclosure Initiative*

On January 1, 2017, the Bank adopted the amendments to PAS 7. The amendments require to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financial activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information to preceding periods.

The reconciliation analysis of liabilities arising from financing activities is presented in Note 20.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses - Clarification on the accounting for deferred tax assets on debt instruments measured at fair value*

Summary of Significant Accounting Policies

Fair Value Measurement

The Bank initially measures its 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 as follows, based on the lowest level input that is significant to the fair value measurement as a whole.

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

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at every reporting date (Note 4).

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

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, and 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 of December 31, 2017 and 2016, the Bank has no financial instruments at FVPL, AFS and HTM 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 when the fair value is determined using data which are not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the 'Day 1' difference amount.

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.

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 the statement of the financial position captions 'Deposit liabilities' and 'Bills payable', and financial liabilities presented under



‘Other liabilities’. 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. In this case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of 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 financial assets carried at amortized cost, which includes 'Loans and receivables', 'Due from BSP', 'Due from other banks', 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 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.

Prepayments

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



Property and Equipment

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.

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 statements 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.

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. Capital stock consists of common and preferred. Preferred stocks are: (a) cumulative, (b) non-voting, and (c) non-redeemable.

Common stock is recognized at subscribed amount net of any subscription receivable. This will be credited upon full payment of the subscription and issuance of the shares of stock.

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 BOD while stock dividends are deducted from equity when approved by BOD and ratified by 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 (DFS)

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.

Following SEC Financial Reporting Bulletin No. 006 issued in 2012 and amended in 2013, the Bank does not 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;
3. An application for the approval of the increase in capital stock has been filed with the BSP; and
4. An application for the approval of the increase in capital stock has been presented for filing or has been filed with the SEC.



DFS that does not meet the foregoing provisions is treated as a financial liability.

As of December 31, 2017 and 2016, the Bank has DFS recorded under liabilities amounting to ₱51.59 million and ₱4.08 million, respectively (Note 13).

Retirement Benefits

The Bank operates a defined benefit retirement plan and a defined contribution plan, which require contributions to be made to a separately administered fund.

Defined benefit retirement plan

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the reporting date reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling (if any). The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit 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 expenses in the statements 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 statements of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in the statement of financial position with a corresponding debit or credit to 'Remeasurement gains (losses) on retirement liabilities' under 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.



Defined contribution plan

The Bank also operates defined contribution plan referred to as “Hybrid Plan” which provides a retirement benefit equal to 100.00% of the member’s employer accumulated value, if any, provided that in no case shall 100.00% of the employee accumulated value in Fund A be less than 100.00% of plan salary for every year of credited service. As of December 2017 and 2016, the Bank does not value its defined benefit assets (liability) for the contributions made to the Hybrid Plan.

Leases

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

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

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

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

Bank as a 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 statements of income on a straight-line basis over the lease term.

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 on all its revenue arrangements.

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

Interest income

For all financial assets measured at amortized cost, interest income is recorded at 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.



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 are recognized as incurred.

Interest expense

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

Other expenses

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

Employee leave entitlement

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period. For leave entitlements expected to be settled for more than twelve months after the reporting date, the estimated liability is reported under 'Accrued Other Expenses' in the statement of financial position.

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, carry forward 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 carry forward 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.

Provisions and Contingencies

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

Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of resources embodying benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed 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. Unless otherwise stated, adoption of these standards and interpretations are not expected to have any significant impact on the financial statements of the Bank.

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*
- PFRS 15, *Revenue from Contracts with Customers*
- Amendments to PAS 28, *Investment in Associate and Joint Venture - Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014-2016 Cycle)*
- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*



Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*

Deferred effectivity

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

Pronouncements that are deemed to have significant impact on the financial statements of the Bank are described below:

Effective beginning on or after January 1, 2018

PFRS 9, Financial Instruments

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. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Bank plans to adopt the new standard on the mandatory effective date and will not restate comparative information. The Bank is currently assessing the impact of adopting PFRS 9.

Effective beginning on or after January 1, 2019

PFRS 16, Leases

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Bank is currently assessing the impact of adopting PFRS 16.



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.

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 statements 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 of December 31, 2017 and 2016, the carrying value of loans and receivables and related allowance for credit losses are disclosed in Note 7.

(b) 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 15.



Aside from the determination of the amount of recognized deferred tax assets, as of December 31, 2017 and 2016, management assessed that there are no significant accounting judgment exercised in respect to the preparation of the financial statements.

4. Fair Value Measurement

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

The fair value of UDSCL, refundable rental deposits and bills payable is estimated based on the discounted cash flow methodology, using current incremental lending rates for similar types of loans or instruments ranging from 2.29% to 6.15% in 2017 and 1.88% to 5.38% in 2016.

The following tables summarize the carrying amounts and the fair values by level of the fair value hierarchy of the Bank's financial assets and liabilities as of December 31, 2017 and 2016:

	Carrying Value	2017			Total Fair Value
		Level 1	Level 2	Level 3	
Assets for which fair values are disclosed:					
UDSCL	₱53,266,902	₱-	₱-	₱52,927,232	₱52,927,232
Other assets					
Refundable rental deposits	8,875,290	-	-	8,624,775	8,624,775
Liabilities for which fair values are disclosed:					
Bills payable	498,023,590	-	-	491,333,128	491,333,128
2016					
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets for which fair values are disclosed:					
UDSCL	₱13,107,873	₱-	₱-	₱12,050,944	₱12,050,944
Other assets					
Refundable rental deposits	5,380,466	-	-	5,179,745	5,179,745
Liabilities for which fair values are disclosed:					
Bills payable	438,441,560	-	-	434,001,940	434,001,940

There were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements in 2017 and 2016.



5. Financial Risk Management Objectives and Policies

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

- Credit risk
- Market risk
- Liquidity risk

The Bank has instituted the Risk Management Committee (RMC), composed of three members of the Board of Directors majority of whom shall be independent directors including the chairperson. The chairperson of the RMC shall not be the Chairperson of the Board of Directors or any of the other board-level committees. The RMC shall advise the board of directors on the Bank's overall current and future risk appetite, oversee senior management adherence to the risk appetite statement, and report on the state of risk culture of the Bank. The RMC is responsible for the comprehensive development of financial risk strategies, principles, frameworks, policies and limits purposely to eliminate or at least reduce the risk the Bank faces in banking activities and thus optimize returns on the capital or equity.

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

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

The BOD through its RMC 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 RMC regularly reports to the BOD the results of reviews of actual implementation of risk management policies. Internal Audit (IA) undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee (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.

Credit Risk

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

Management of credit risk

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



The Bank manages credit 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, assists 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 accounts 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 RMC 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 of December 31, 2017 and 2016:

	2017			
	Maximum Exposure*	Fair Value of Collateral	Financial Effect of Collateral	Net Exposure
Receivable from customers	P2,068,644,957	P495,146,778	P484,561,122	P1,584,083,835

**Includes accrued interest receivable, net of allowance for credit losses*

	2016			
	Maximum Exposure*	Fair Value of Collateral	Financial Effect of Collateral	Net Exposure
Receivable from customers	P1,320,354,475	P311,575,927	P304,743,693	P1,015,610,782

**Includes accrued interest receivable, net of allowance for credit losses*

As of December 31, 2017 and 2016, 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 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 of December 31, 2017 and 2016.



The Bank has no financial instruments with rights of set-off in accordance to PAS 32 as of December 31, 2017 and 2016. 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 of December 31, 2017 and 2016:

2017				
	Loans and Receivables	Due from BSP and Other Banks	Other Assets*	Total
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	P833,698,956	P-	P-	P833,698,956
Agriculture, hunting and forestry	361,255,088	-	-	361,255,088
Real estate activities	277,834,705	-	-	277,834,705
Government	40,370,329	221,282,069	-	261,652,398
Financial institutions	13,324,940	221,654,116	-	234,979,056
Manufacturing	151,063,513	-	-	151,063,513
Accommodation and food service activities	126,533,647	-	-	126,533,647
Education	99,775,637	-	-	99,775,637
Fishing	85,805,525	-	-	85,805,525
Transportation and storage	58,969,570	-	-	58,969,570
Information and communication	34,874,643	-	-	34,874,643
Human health and social work activities	27,706,342	-	-	27,706,342
Water supply, sewerage, waste management, and remediation activities	16,008,077	-	-	16,008,077
Administrative and support service activities	14,911,818	-	-	14,911,818
Other community, social and personal service activities	-	-	8,875,290	8,875,290
Professional, scientific and technical services	5,950,537	-	-	5,950,537
Arts, entertainment and recreation	4,671,987	-	-	4,671,987
Construction	3,051,136	-	-	3,051,136
Mining and quarrying	88,508	-	-	88,508
Electricity, gas and water supply	35,645	-	-	35,645
Other service activities	10,409,346	-	-	10,409,346
	2,166,339,949	442,936,185	8,875,290	2,618,151,424
Less allowance for credit losses	44,238,383	-	-	44,238,383
Total	P2,122,101,566	P442,936,185	P8,875,290	P2,573,913,041

*Pertains to refundable rental deposits

2016				
	Loans and Receivables	Due from BSP and Other Banks	Other Assets*	Total
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	P574,037,277	P-	P-	P574,037,277
Agriculture, hunting and forestry	180,620,397	-	-	180,620,397
Real estate activities	151,591,308	-	-	151,591,308
Government	2,667,431	262,945,508	-	265,612,939
Financial institutions	13,000,000	170,897,905	-	183,897,905
Manufacturing	109,001,106	-	-	109,001,106
Accommodation and food service activities	71,832,735	-	-	71,832,735
Education	59,374,337	-	-	59,374,337
Fishing	58,064,951	-	-	58,064,951
Transportation and storage	37,198,610	-	-	37,198,610
Information and communication	28,371,695	-	-	28,371,695
Water supply, sewerage, waste management, and remediation activities	11,902,892	-	-	11,902,892
Administrative and support service activities	11,444,005	-	-	11,444,005
Other community, social and personal service activities	-	-	5,380,466	5,380,466
Professional, scientific and technical services	11,075,611	-	-	11,075,611
Arts, entertainment and recreation	3,853,571	-	-	3,853,571
Construction	37,252,115	-	-	37,252,115
Mining and quarrying	47,184	-	-	47,184
Electricity, gas and water supply	80,840	-	-	80,840
Other service activities	6,714,179	-	-	6,714,179
	1,368,130,244	433,843,413	5,380,466	1,807,354,123
Less allowance for credit losses	34,554,432	-	-	34,554,432
Total	P1,333,575,812	P433,843,413	P5,380,466	P1,772,799,691

*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 of December 31, 2017 and 2016:

	2017				
	High grade	Standard Grade	Past due but not impaired	Impaired	Total
Due from BSP	₱47,321,849	₱-	₱-	₱-	₱47,321,849
Due from other banks	395,614,336	-	-	-	395,614,336
Receivable from customers:					
Microfinance loans	-	1,840,062,997	3,458,360	19,919,250	1,863,440,607
Other loans	-	219,049,140	544,628	2,515,219	222,108,987
Other receivables:					
Accrued interest receivable	-	27,333,746	-	-	27,333,746
UDSCL	-	53,266,902	-	-	53,266,902
Accounts receivable	-	189,707	-	-	189,707
Other assets:					
Refundable rental deposits	-	8,875,290	-	-	8,875,290
	₱442,936,185	₱2,148,777,782	₱4,002,988	₱22,434,469	₱2,618,151,424

	2016				
	High grade	Standard Grade	Past due but not impaired	Impaired	Total
Due from BSP	₱29,888,498	₱-	₱-	₱-	₱29,888,498
Due from other banks	403,954,915	-	-	-	403,954,915
Receivable from customers:					
Microfinance loans	-	1,173,183,245	3,230,573	12,088,041	1,188,501,859
Other loans	-	146,308,289	685,777	1,446,527	148,440,593
Other receivables:					
Accrued interest receivable	-	17,966,455	-	-	17,966,455
UDSCL	-	13,107,873	-	-	13,107,873
Accounts receivable	-	113,464	-	-	113,464
Other assets:					
Refundable rental deposits	-	5,380,466	-	-	5,380,466
	₱433,843,413	₱1,356,059,792	₱3,916,350	₱13,534,568	₱1,807,354,123

As of December 31, 2017 and 2016, 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 of December 31, 2017 and 2016:

2017				
	Less than 30 Days	31 to 60 Days	61 to 90 Days	Total
Microfinance loans	₱717,780	₱1,382,831	₱1,357,749	₱3,458,360
Other loans	91,860	218,336	234,432	544,628
	₱809,640	₱1,601,167	₱1,592,181	₱4,002,988
2016				
	Less than 30 Days	31 to 60 Days	61 to 90 Days	Total
Microfinance loans	₱358,534	₱1,658,183	₱1,213,856	₱3,230,573
Other loans	130,404	324,460	230,913	685,777
	₱488,938	₱1,982,643	₱1,444,769	₱3,916,350

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 of December 31, 2017 and 2016.

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 has floating or variable interest rates from UDSCL, however, management assessed that the Bank's exposure to changes in interest rate risk is immaterial.

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

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

	2017					Total
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	
Financial Assets						
Cash and other cash items	₱2,209,287	₱-	₱-	₱-	₱-	₱2,209,287
Due from BSP	47,321,849	-	-	-	-	47,321,849
Due from other banks	181,484,046	115,078,025	99,379,623	-	-	395,941,694
Loans and receivables	24,538,911	57,936,845	405,046,082	1,609,593,936	46,647,434	2,143,763,208
Other assets*	-	-	-	-	8,875,290	8,875,290
Total Financial Assets	255,554,093	173,014,870	504,425,705	1,609,593,936	55,522,724	2,598,111,328
Financial Liabilities						
Deposit liabilities	945,663,224	12,221,160	60,166,179	63,493,455	467,457,523	1,549,001,541
Bills payable	-	12,691,667	202,403,845	293,538,550	-	508,634,062
Other liabilities:						
Accrued other expenses	-	13,214,780	-	-	-	13,214,780
Accrued interest payable	-	-	5,304,870	-	-	5,304,870
Accounts payable	4,441,514	-	-	-	-	4,441,514
Dividends payable	13,147	-	-	-	-	13,147
Total Financial Liabilities	950,117,885	38,127,607	267,874,894	357,032,005	467,457,523	2,080,609,914
Net	(₱694,563,792)	₱134,887,263	₱236,550,811	₱1,252,561,931	(₱411,934,799)	₱517,501,414

*Pertains to refundable rental deposits

	2016					Total
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	
Financial Assets						
Cash and other cash items	₱5,700,569	₱-	₱-	₱-	₱-	₱5,700,569
Due from BSP	29,888,498	-	-	-	-	29,888,498
Due from other banks	83,624,386	181,866,362	139,014,293	-	-	404,505,041
Loans and receivables	6,294,410	34,523,577	242,458,139	1,178,321,925	13,003,898	1,474,601,949
Other assets*	-	-	-	-	2,647,288	2,647,288
Total Financial Assets	125,507,863	216,389,939	381,472,432	1,178,321,925	15,651,186	1,917,343,345
Financial Liabilities						
Deposit liabilities	671,161,742	14,444,933	91,867,098	203,137,949	-	980,611,722
Bills payable	-	26,666,667	158,333,333	255,000,000	-	440,000,000
Other liabilities:						
Accrued other expenses	2,924,010	581,845	-	-	-	3,505,855
Accrued interest payable	-	121,721	1,400,080	1,763,993	-	3,285,794
Accounts payable	1,122,270	-	-	-	-	1,122,270
Total Financial Liabilities	675,208,022	41,815,166	251,600,511	459,901,942	-	1,428,525,641
Net	(₱549,700,159)	₱174,574,773	₱129,871,921	₱718,419,983	₱15,651,186	₱488,817,704

*Pertains to refundable rental deposits

6. Due from Other Banks

Due from other banks represent funds deposited with domestic banks which are used by the Bank as part of its working funds. These deposits earn interest at annual rates ranging from 0.10% to 2.00% and from 0.25% to 1.75% in 2017 and 2016, respectively.



7. Loans and Receivables

This account consists of:

	2017	2016
Receivables from customers		
Microfinance loans	₱1,863,440,606	₱1,188,501,859
Other loans	222,108,988	148,440,593
	2,085,549,594	1,336,942,452
UDSCL	53,266,902	13,107,873
Accrued interest receivable	27,333,746	17,966,455
Accounts receivable (Note 19)	189,707	113,464
	2,166,339,949	1,368,130,244
Less allowance for credit losses	44,238,383	34,554,432
	₱2,122,101,566	₱1,333,575,812

Interest income on loans and receivables follow:

	2017	2016
Receivables from customers	₱788,425,094	₱513,517,112
UDSCL	684,728	345,465
	₱789,109,822	₱513,862,577

Microfinance loans and other receivables carry annual effective interest rates ranging from 33.47% to 50.47% in 2017 and 2016, while UDSCL carries annual interest rates ranging from 1.59% to 2.75% in 2017 and 2016.

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 of December 31, 2017 and 2016, the Bank's PAR amounted to ₱26.44 million and ₱17.45 million, respectively. The allowance for credit losses recognized for past due loans amounted to ₱23.65 million and ₱14.76 million as of December 31, 2017 and 2016, respectively.

As of December 31, 2017 and 2016, nonperforming loans (NPLs) based on Circular No. 772 and as reported to the BSP amounted to ₱26.44 million and ₱17.45 million, respectively.

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 receivable from customers as of December 31, 2017 and 2016 (at gross amount):

	2017	2016
Secured	₱1,863,440,606	₱1,188,501,859
Unsecured	222,108,988	148,440,594
	₱2,085,549,594	₱1,336,942,453



Collateral of loans includes deposit hold-out at 15.00% of loan disbursed (Note 10).

As of December 31, 2017 and 2016, information on the concentration of receivables from customers as to industry follows (at gross amount):

	2017		2016	
	Amount	%	Amount	%
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	₱824,843,001	39.55%	₱566,425,389	42.37%
Agriculture, hunting and forestry	355,118,846	17.03%	178,225,322	13.33%
Real estate activities	274,737,316	13.17%	149,581,167	11.19%
Manufacturing	149,465,343	7.17%	107,555,722	8.04%
Accommodation and food service activities	125,197,796	6.00%	70,880,214	5.30%
Education	98,033,357	4.70%	58,587,017	4.38%
Fishing	84,901,134	4.07%	57,294,994	4.29%
Transportation and storage	58,338,796	2.80%	36,705,346	2.75%
Information and communication	33,411,940	1.60%	27,995,479	2.09%
Human health and social work activities	27,152,807	1.30%	11,292,254	0.84%
Water supply, sewerage, waste management and remediation activities	15,836,867	0.76%	11,745,056	0.88%
Administrative and support service activities	14,751,872	0.71%	10,928,745	0.82%
Professional, scientific and technical services	5,887,460	0.28%	3,807,991	0.28%
Arts, entertainment and recreation	4,622,426	0.22%	2,632,060	0.20%
Construction	3,019,597	0.14%	36,758,142	2.75%
Other services activities	10,231,036	0.49%	6,527,554	0.49%
	₱2,085,549,594	100.00%	₱1,336,942,452	100.00%

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

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

	2017	2016
Balance at beginning of year	₱34,554,432	₱17,517,303
Provision for credit and impairment losses, net of reversal	11,465,405	17,037,129
Write-offs	(1,781,454)	–
Balance at end of year	₱44,238,383	₱34,554,432
Individual impairment	₱22,434,469	₱13,534,568
Collective impairment	21,803,914	21,019,864
	₱44,238,383	₱34,554,432
Gross amounts of loans individually determined to be impaired, before deducting any individually assessed impairment losses	₱22,434,469	₱13,534,568

UDSCL

As of December 31, 2017 and 2016, UDSCL consist of the following:

	2017	2016
Agrarian Reform 10-year bond	₱40,266,902	₱107,873
Small Business Corporation (SBC)	13,000,000	13,000,000
	₱53,266,902	₱13,107,873

Investments in SBC pertain to non-negotiable Micro, Small and Medium Enterprise Notes with annual interest rate ranging from 1.98% to 2.57% and 1.71% to 2.57% in 2017 and 2016, subject to annual repricing.



8. Property and Equipment

The composition of and movements in this account follow:

	2017							
	Land	Building	Furniture, Fixtures and Equipment	Information Technology Equipment	Transportation Equipment	Leasehold Improvements	Construction in Progress	Total
Cost								
Balance at beginning of year	₱20,030,959	₱28,881,083	₱21,061,413	₱4,143,427	₱214,417	₱12,267,539	₱-	₱86,598,838
Additions	-	-	9,660,707	2,034,565	-	240,000	25,423,064	37,358,336
Reclassification	-	1,100,000	-	-	-	23,785,248	(24,885,248)	-
Disposals	-	-	(155,126)	(64,000)	-	-	-	(219,126)
Balance at end of year	20,030,959	29,981,083	30,566,994	6,113,992	214,417	36,292,787	537,816	123,738,048
Accumulated Depreciation								
Balance at beginning of year	-	5,228,813	9,901,487	1,572,216	214,416	2,401,021	-	19,317,953
Depreciation	-	2,975,781	6,680,737	1,100,675	-	3,734,087	-	14,491,280
Reclassification	-	-	-	-	-	-	-	-
Disposals	-	-	(154,473)	(64,653)	-	-	-	(219,126)
Balance at end of year	-	8,204,594	16,427,751	2,608,238	214,416	6,135,108	-	33,590,107
Net Book Value	₱20,030,959	₱21,776,489	₱14,139,243	₱3,505,754	₱1	₱30,157,679	₱537,816	₱90,147,941
	2016							
	Land	Building	Furniture, Fixtures and Equipment	Information Technology Equipment	Transportation Equipment	Leasehold Improvements	Construction in Progress	Total
Cost								
Balance at beginning of year	₱19,950,762	₱20,754,042	₱12,997,346	₱884,928	₱214,417	₱5,810,010	₱4,070,000	₱64,681,505
Additions	80,197	727,041	8,114,017	1,693,018	-	1,018,333	10,247,206	21,879,812
Reclassification	-	7,400,000	-	1,670,737	-	6,917,206	(14,317,206)	1,670,737
Disposals	-	-	(49,950)	(105,256)	-	(1,478,010)	-	(1,633,216)
Balance at end of year	20,030,959	28,881,083	21,061,413	4,143,427	214,417	12,267,539	-	86,598,838
Accumulated Depreciation								
Balance at beginning of year	-	2,432,821	4,669,528	509,265	214,416	2,436,873	-	10,262,903
Depreciation	-	2,795,992	5,251,926	718,791	-	1,442,158	-	10,208,867
Reclassification	-	-	-	356,561	-	-	-	356,561
Disposals	-	-	(19,967)	(12,401)	-	(1,478,010)	-	(1,510,378)
Balance at end of year	-	5,228,813	9,901,487	1,572,216	214,416	2,401,021	-	19,317,953
Net Book Value	₱20,030,959	₱23,652,270	₱11,159,926	₱2,571,211	₱1	₱9,866,518	₱-	₱67,280,885



As of December 31, 2017 and 2016, the cost of fully depreciated property and equipment that are still in use amounted to ₱6.23 million and ₱3.00 million, respectively. The Bank incurred losses on retirement of property and equipment amounting to nil and ₱0.18 million in 2017 and 2016, respectively.

In 2016, the Bank reclassified software cost with cost and accumulated amortization amounting to ₱1.67 million and ₱0.36 million, respectively from other assets to IT equipment.

9. Other Assets

This account consists of:

	2017	2016
Financial assets		
Refundable rental deposits	₱8,875,290	₱5,380,466
Nonfinancial assets		
Stationery and supplies on hand	11,375,485	10,581,387
Prepaid rent	2,974,628	1,478,824
Prepaid expenses (Note 19)	1,347,215	790,028
	15,697,328	12,850,239
	₱24,572,618	₱18,230,705

Prepaid expenses include advance lease payments of IT equipment from CARD Leasing and Finance Corporation (CLFC), as well as IT services from CARD MRI Information Technology, Inc. Prepaid rent pertains to advances paid on lease of offices. As of December 31, 2017 and 2016, other assets are unimpaired.

10. Deposit Liabilities

The Bank's deposit liabilities include regular savings amounting to ₱1.15 billion and ₱0.67 billion as of December 31, 2017 and 2016, respectively. These mostly comprise of 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% in 2017 and 2016. In 2017 and 2016, a member/borrower is required to maintain a pledge savings balance equivalent to 15.00% of the original loan amount (Note 7).

In 2017 and 2016, other regular savings accounts are "Kayang-kaya", "Tagumpay" and "Agap-ipon" savings deposit accounts which cater to non-members and Bank employees, and carry interest rates ranging from 1.50% to 5.00%.

Special savings deposits have interest rates ranging from 2.00% to 4.25% in 2017 and 2016.

Interest expense on deposit liabilities are as follows:

	2017	2016
Regular savings deposits	₱15,733,102	₱8,698,203
Special savings deposit	12,828,359	12,978,362
	₱28,561,461	₱21,676,565



Circular No. 830 of the BSP prescribes 5.00% and 3.00% reserve requirements on demand and savings deposits, respectively.

As of December 31, 2017 and 2016, available reserves pertain to Due from BSP of ₱47.32 million and ₱29.89 million, respectively. The Due from BSP account is a non-interest bearing account that also serves as clearing account for interbank claims. The Bank is compliant with the applicable reserve requirements on demand and savings deposits, respectively.

11. Bills Payable and Other Liabilities

Bills Payable

Bills payable represents borrowings from financial institutions bearing annual nominal interest rates ranging from 2.88% to 3.75% in 2017 and from 3.00% to 3.75% in 2016 and effective interest rates ranging from 3.72% to 4.62% in 2017 and 3.84% and 4.62% in 2016. Maturity period for the outstanding bills payable ranges from three months to one year and six months to one year in 2017 and 2016, respectively.

The Bank capitalized documentary taxes on bills payable amounting ₱2.85 million and ₱2.16 million during 2017 and 2016, respectively. As of December 31, 2017 and 2016, unamortized discount on capitalized transaction costs on bills payable amounted to ₱1.97 million and ₱1.56 million, respectively.

Other Liabilities

This account consists of the following:

	2017	2016
Financial liabilities:		
Accrued interest payable	₱5,304,870	₱3,285,794
Accounts payable (Note 19)	4,441,514	1,122,270
Dividends payable (Note 20)	13,147	-
Accrued other expenses	13,214,780	3,505,855
	<u>22,974,311</u>	<u>7,913,919</u>
Nonfinancial liabilities:		
Accrued leaves	8,982,410	6,133,297
Gross receipt taxes payable	3,570,100	2,468,786
Withholding taxes payable (Note 22)	2,418,208	1,063,004
Documentary stamp taxes payable	213,555	157,500
	<u>15,184,273</u>	<u>9,822,587</u>
	<u>₱38,158,584</u>	<u>₱17,736,506</u>

Accounts payable includes due to suppliers and contractors, regulatory bodies, employees and related parties.

Accrued other expenses include accrued rent and other operating expenses.



12. Maturity Analysis of Assets and Liabilities

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

	2017			2016		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Assets						
Cash and other cash items	₱2,209,287	–	₱2,209,287	₱5,700,569	–	₱5,700,569
Due from BSP	47,321,849	–	47,321,849	29,888,498	–	29,888,498
Due from other banks	395,614,336	–	395,614,336	403,954,915	–	403,954,915
Loans and receivables (Note 7)	2,118,760,476	47,579,473	2,166,339,949	1,356,058,329	12,071,915	1,368,130,244
Other assets (Note 9)	–	8,875,290	8,875,290	–	5,380,466	5,380,466
Nonfinancial Assets						
Property and equipment (Note 8)	–	123,738,048	123,738,048	–	86,598,838	86,598,838
Retirement asset	–	30,213,290	30,213,290	–	17,159,973	17,159,973
Deferred tax assets	–	11,904,261	11,904,261	–	12,665,379	12,665,379
Other assets (Note 9)	15,697,328	–	15,697,328	12,850,239	–	12,850,239
Total Assets	₱2,579,603,276	₱222,310,362	₱2,801,913,638	₱1,808,452,550	₱133,876,571	₱1,942,329,121
Allowance for credit and impairment losses (Note 7)			(44,238,383)			(34,554,432)
Accumulated depreciation and Amortization (Note 8)			(33,590,107)			(19,317,953)
			₱2,724,085,148			₱1,888,456,736
Financial Liabilities						
Deposit liabilities	₱1,325,492,147	₱200,939,476	₱1,526,431,623	₱973,750,292	₱–	₱973,750,292
Bills payable	498,023,590	–	498,023,590	438,441,560	–	438,441,560
Other liabilities (Note 11)	21,424,794	1,549,517	22,974,311	7,913,919	–	7,913,919
Deposit for future stock subscription	51,592,800	–	51,592,800	4,080,000	–	4,080,000
Nonfinancial Liabilities						
Income tax payable	35,986,373	–	35,986,373	21,017,255	–	21,017,255
Other liabilities (Note 11)	6,201,863	8,982,410	15,184,273	3,689,290	6,133,297	9,822,587
Total Liabilities	₱1,938,721,567	₱211,471,403	₱2,150,192,970	₱1,448,892,316	₱6,133,297	₱1,455,025,613

13. 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 ₱100.00 per share and 250,000 private preferred shares with par value of ₱200.00 per share.

As of December 31, 2017 and 2016, the Bank's capital stock consists of:

	2017		2016	
	Shares	Amount	Shares	Amount
Common stock - ₱100.00 par value, 2,000,000 authorized shares				
Common stock at the beginning of the year	1,772,732	₱177,273,200	1,232,028	₱123,202,800
Issuance of shares of stocks from settlement of subscriptions receivable	211,222	21,122,200	540,704	54,070,400
Common stock at the end of the year	1,983,954	198,395,400	1,772,732	177,273,200
Subscribed	16,046	1,604,600	227,268	22,726,800
Subscription receivable	–	(1,604,600)	–	(22,726,800)
	2,000,000	₱198,395,400	2,000,000	₱177,273,200
Preferred stock - ₱200.00 par value, 250,000 authorized shares				
Preferred stock at the beginning of the year	185,017	₱37,003,400	49,138	₱9,827,600
Issuance of preferred shares	64,983	12,996,600	135,879	27,175,800
Preferred stock at the end of the year	250,000	₱50,000,000	185,017	₱37,003,400



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 (8.00%) per annum or whatever is determined by the BOD.

In 2017 and 2016, the Bank issued 64,983 and 135,879 preferred shares at par amounting to ₱13.00 million and ₱27.18 million, respectively. In addition, the Bank's collections from subscriptions receivable on common shares amounted to ₱21.12 million and ₱54.07 million in 2017 and 2016, respectively.

On May 14, 2016, the BOD and the stockholders approved and ratified the increase in the Bank's capitalization from ₱250.00 million to ₱500.00 million by increasing its authorized common and preferred stock by 2.00 million shares and 0.25 million shares, respectively. As of March 10, 2018, the Bank has yet to file its application for increase in authorized capital stock with the SEC, since the BSP has not yet approved the Bank's application.

Deposit for Future Stock Subscriptions

Deposit for future stock subscriptions pertains to total consideration received in excess of the authorized capital of the Bank with the purpose of applying the same as payment for future issuance of shares. As of December 31, 2017, the Bank has filed its application for increase in authorized capital with BSP. Deposit for future stock subscriptions of ₱51.59 million and ₱4.08 million was classified under liabilities as of December 31, 2017 and 2016 respectively, in accordance with the requirement of SEC Financial Reporting Bulletin No. 006, as discussed in Note 2 to the financial statements.

Dividends

On March 11, 2017, the BOD declared cash dividends of 8.00% of outstanding preferred stock balance and ₱15.00 per share to common stockholders. Cash dividends declared amounting to ₱30.00 million and ₱3.03 million for common stockholders and preferred stockholders, respectively, were paid starting March 22, 2017 to stockholders of record as of February 28, 2017.

On June 10, 2017, the BOD declared another cash dividend of 8.00% of outstanding preferred stock balance and ₱20.00 per share to common stockholders. Cash dividends declared amounting to ₱40.00 million and ₱3.25 million for common stockholders and preferred stockholders, respectively, were paid starting June 13, 2017 to stockholders of record as of May 31, 2017

On October 14, 2017, the BOD declared another cash dividend of 8.00% of outstanding preferred stock balance and ₱25.00 per share to common stockholders. Cash dividends declared amounting to ₱50.00 million and ₱4.00 million for common stockholders and preferred stockholders, respectively, were paid starting October 30, 2017 to stockholders of record as of September 30, 2017.

On March 12, 2016, the BOD declared cash dividends of 8.00% of outstanding preferred stock balance and ₱15.00 per share to common stockholders. Cash dividends declared amounting to ₱30.00 million and ₱0.85 million for common stockholders and preferred stockholders, respectively, were paid starting April 13, 2016 to stockholders of record as of February 28, 2016.

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.

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 of December 31, 2017 and 2016, the Bank is in compliance with the capitalization requirement.

Under BSP Circular No. 854, regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings including current year profit less accrued dividends, net long positions in own shares and goodwill. The other component of regulatory capital is Tier 2 capital, which includes revaluation reserves. Certain adjustments are made to PFRS-based results and reserves, as prescribed by the BSP.



The CAR of the Bank as of December 31, 2017 and 2016, as reported to the BSP, is shown in the table below (amounts in millions):

	2017	2016
Tier 1 capital	₱488.56	₱415.43
Tier 2 capital	73.98	16.60
Total qualifying capital	₱562.54	₱432.03
Risk weighted assets	₱2,849.88	₱1,892.19
Tier 1 capital ratio	17.14%	21.96%
Tier 2 capital ratio	2.60%	0.87%
Total CAR	19.74%	22.83%

As of December 31, 2017 and 2016, the Bank's CAR is in compliance with the regulatory requirements.

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

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments.

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.

Financial Performance

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

	2017	2016
Return on average equity*	46.28%	47.02%
Return on average assets*	10.96%	10.49%
Net interest margin	35.13%	36.17%

**Average balances is computed using monthly balances.*

14. Compensation and Benefits

This account consists of:

	2017	2016
Salaries and wages	₱89,338,024	₱52,215,783
Employee benefits	75,015,309	39,748,186
Retirement expense (Note 15)	6,287,394	3,099,261
Other short-term benefits	9,658,685	5,602,982
	₱180,299,412	₱100,666,212

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



15. Retirement Plan

The Bank, CARD MRI Development Institute, Inc. (CMDI), CARD Mutual Benefit Association (MBA), Inc., CARD SME Bank, Inc., CARD MRI Insurance Agency (CAMIA), Inc., CARD Business Development Service Foundation, Inc. (BDSFI), CARD MRI Information Technology, Inc. (CMIT), CARD Employees Multi-Purpose Cooperative (EMPC), Responsible Investments for Solidarity and Empowerment Financing Co. (RISE), BotiCARD Inc., CARD Leasing and Finance Corporation (CLFC), CARD, Inc. and Mga Likha ni Inay Inc. (MLNI) maintain a funded and formal noncontributory defined benefit retirement plan - the CARD MRI Multi-Employer Retirement Plan (MERP) - covering all of their regular employees and CARD Group Employees' Retirement Plan (Hybrid Plan) applicable to employees hired on or after July 1, 2016. MERP and Hybrid Plan comply with the requirements of Republic Act No. 7641, *Retirement Pay Law*.

MERP is valued using the projected unit cost method and is financed solely by the Bank and its related parties. MERP provides lump sum benefits equivalent to up to 120.00% of final salary for every year of credited service, a fraction of at least six (6) months being considered as one whole year, upon retirement, death, total and permanent disability, or voluntary separation after completion of at least one year of service with the participating companies.

The date of the latest actuarial valuation report for MERP is December 31, 2017.



Changes in retirement asset in 2017 and 2016 are as follow:

	2017											
	Net benefit cost in statement of income					Remeasurements in other comprehensive income						
	January 1	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
Fair value of plan assets	₱65,738,965	₱-	₱4,331,760	₱4,331,760	₱10,635,546	(₱746,423)	₱-	₱-	₱-	₱9,889,123	₱6,000,000	₱85,959,848
Present value of defined benefit obligation	(46,519,664)	(6,205,159)	(2,726,052)	(8,931,211)	(10,635,546)	(735,079)	-	717,045	16,773,242	6,119,662	-	(49,331,213)
Asset ceiling	(2,059,328)	-	(120,677)	(120,677)	-	-	(4,235,340)	-	-	(4,235,340)	-	(6,415,345)
Net defined benefit asset (liability)	₱17,159,973	(₱6,205,159)	₱1,485,031	(₱4,720,128)	₱-	(₱1,481,502)	(₱4,235,340)	₱717,045	₱16,773,242	₱11,773,445	₱6,000,000	₱30,213,290

	2016											
	Net benefit cost in statement of income					Remeasurements in other comprehensive income						
	January 1	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
Fair value of plan assets	₱43,463,097	₱-	₱2,628,956	₱2,628,956	₱6,761,314	(₱1,614,402)	₱-	₱-	₱-	₱5,146,912	₱14,500,000	₱65,738,965
Present value of defined benefit obligation	(36,056,201)	(3,772,672)	(1,752,331)	(5,525,003)	(6,761,314)	(8,847,342)	-	1,222,092	9,448,104	(4,938,460)	-	(46,519,664)
Asset ceiling	(503,922)	-	(24,491)	(24,491)	-	-	(1,530,915)	-	-	(1,530,915)	-	(2,059,328)
Net defined benefit asset (liability)	₱6,902,974	(₱3,772,672)	₱852,134	(₱2,920,538)	₱-	(₱10,461,744)	(₱1,530,915)	₱1,222,092	₱9,448,104	(₱1,322,463)	₱14,500,000	₱17,159,973

In 2017 and 2016, 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 of December 31, 2017 and 2016 follows:

	2017	2016
Cash and cash equivalents	₱35,424,053	₱27,307,966
Government securities	43,641,815	30,871,018
Loans and receivables	3,782,233	4,963,292
Mutual fund	404,012	341,843
Other assets	2,707,735	2,254,846
Fair value of plan assets	₱85,959,848	₱65,738,965

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 other than those in government securities which are of low risk.

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

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

	2017	2016
Discount rate		
January 1	5.86%	4.86%
December 31	5.77%	5.86%
Future salary increases	5.00%	7.00%

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

	2017		2016	
	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 (100)	(₱6,883,012) 8,570,887	+100 (100)	(₱7,467,218) 9,448,104
Future salary increases	+100 (100)	8,020,097 (6,597,039)	+100 (100)	8,721,736 (7,089,944)

The Bank plans to contribute ₱30.00 million to the defined benefit retirement plan in 2018.



As of December 31, 2017, the average duration of defined benefit obligations is 15.80 years.

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

	2017	2016
More than 5 years to 10 years	₱31,444,277	₱20,238,560
More than 10 years to 15 years	26,432,056	23,432,928
More than 15 years to 20 years	53,854,917	61,140,052
More than 20 years to 25 years	208,739,358	108,896,931
More than 25 years	356,065,446	581,898,662

Hybrid Plan

The Bank's Hybrid plan which provides a retirement benefit equal to 100.00% of the member's employer accumulated value (the Bank's contributions of 8.00% plan salary to Fund A plus credited earnings) and 100.00% of the member's employee accumulated value (member's own contributions up to 10.00% of plan salary to Fund B plus credited earnings), if any, provided that in no case shall 100.00% of the employee accumulated value in Fund A be less than 100.00% of plan salary for every year of credited service.

As of December 31, 2017 and 2016, the Bank does not value its defined benefit assets (liability) for the contributions made to the Hybrid Plan. Compensation and benefits include expenses recorded related to the Hybrid Plan amounting to ₱1.57 million and ₱0.18 million in 2017 and 2016, respectively.

16. Leases

Office spaces

The Bank leases the premises occupied by some of its branches in which lease payments are subjected to escalation clauses from 5.00% to 20.00% starting on the second or third 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.

Lease for office spaces recorded under 'Rent' amounted to ₱24.12 million and ₱13.74 million, in 2017 and 2016, respectively.

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

	2017	2016
Within one year	₱27,727,237	₱29,631,537
After one year but not more than five years	45,978,848	23,326,767
	₱73,706,085	₱52,958,304

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 and IT equipment recorded under 'Rent' amounted to ₱10.06 million and ₱4.89 million in 2017 and 2016, respectively.



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

	2017	2016
Within one year	₱6,387,200	₱7,042,568
After one year but not more than five years	851,640	5,338,953
	₱7,238,840	₱12,381,521

17. Miscellaneous Expenses

This account consists of:

	2017	2016
Postage, telephone, cables and telegrams	₱1,983,968	₱1,824,238
Repairs and maintenance	1,091,950	991,462
Program and monitoring	767,283	1,402,268
Advertising and publicity	67,368	160,900
Representation and entertainment (Note 18)	-	15,000
Other expenses	4,619,404	2,756,128
	₱8,529,973	₱7,149,996

Other expenses include various expenses such as notarial and other legal expenses, bank charges, awards to top performing branches, expenditures related to the opening of the new branch and other small value expenses that are non-recurring.

18. Income Taxes

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

Income taxes 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 amounting to nil and ₱0.02 million in 2017 and 2016, respectively. EAR expenses are presented under 'Miscellaneous expenses' in the statements of income.



Provision for income tax consists of:

	2017	2016
Current		
RCIT	₱100,200,529	₱71,126,466
Final tax	1,103,040	592,416
	101,303,569	71,718,882
Deferred	(2,770,916)	(6,501,060)
	₱98,532,653	₱65,217,822

As of December 31, 2017 and 2016, net deferred tax assets are as follows:

	2017	2016
Deferred tax assets		
Allowance for credit and impairment losses	₱13,271,515	₱10,366,330
Unamortized past service cost	4,795,057	5,432,499
Accumulated vacation leave credits	2,694,723	1,839,989
Accrued rent under PAS 17	206,953	174,553
	20,968,248	17,813,371
Deferred tax liability		
Retirement asset	₱9,063,987	₱5,147,992
	₱11,904,261	₱12,665,379

Deferred tax recognized in OCI amounted to a provision of ₱3.53 million and a benefit of ₱0.40 million for the years ended December 31, 2017 and 2016, respectively.

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

	2017	2016
Statutory income tax	₱98,075,288	₱66,245,474
Income tax effects of:		
Nondeductible expenses	873,066	825,833
Interest income subject to final tax	(599,041)	(296,208)
Movements in unrecognized deferred taxes	183,340	(1,557,277)
Provision for income tax	₱98,532,653	₱65,217,822

19. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Entities are considered to be related if they are subjected under common control or 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 a stand-alone entity assigned in facilitating the contributions to retirement starting 2015. The plan assets are mostly invested in time deposits and special savings accounts of related party banks and government bonds (Note 15). As of December 31, 2017 and 2016, 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, *Related Party Disclosures*.

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

	2017	2016
Short-term employee benefits	₱4,434,000	₱1,921,896
Post-employment benefits	421,839	256,406
	₱4,855,839	₱2,178,302

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 of December 31, 2017 and 2016, 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 of December 31, 2017 and 2016 follow:

Category	Amount/Volume	December 31, 2017	
		Outstanding Balance	Nature, Terms and Conditions
Key management personnel			
Deposit liabilities		₱2,271,636	Consists of regular and special savings deposit account with annual interest rate of 1.50% and 2.00%, respectively.
Deposits	₱9,576,730		
Withdrawals	7,665,303		
Interest expense/payable	48,630	-	

(Forward)



Shareholders			
Deposit liabilities		₱170,384,186	Consists of regular savings deposit account with annual interest rate of 1.50% and special savings deposit account with annual interest rate ranging from 3.25% to 4.25%.
Deposits	₱355,995,145		
Withdrawals	297,187,685		
Interest expense/payable	481,201	-	
Accounts receivable		-	Pertains to shareholders' share in share in expenses still payable to the Bank.
Billings	786,081		
Collection	787,796		
Accounts payable		224,122	Pertains to share on various expenses.
Billings	6,630,341		
Payment	6,406,219		
Affiliates			
Deposit liabilities		386,054,345	Consists of checking, savings and special savings deposit accounts with annual interest rate ranging from 1.50% to 5.00%.
Deposits	202,500,307		
Withdrawal	68,915,994		
Interest expense/payable	9,383,761	-	
Accounts receivable		-	Pertains to affiliates' share in share in expenses still payable to the Bank.
Billings	77,294		
Collections	77,294		
Accounts payable		42,185	Pertains to share on various expenses.
Billings	39,471,199		
Payments	39,429,014		

December 31, 2016

Category	Amount/Volume	Outstanding Balance	Nature, Terms and Conditions
Key management personnel			
Deposit liabilities		₱311,579	Consists of regular and special savings deposit account with annual interest rate of 1.50% and 2.00%, respectively.
Deposits	₱1,218,638		
Withdrawals	1,581,712		
Interest expense/payable	970	-	
Shareholders			
Deposit liabilities		111,095,525	Consists of regular savings deposit account with annual interest rate of 1.50% and special savings deposit account with annual interest rate ranging from 3.25% to 4.25%.
Deposits	176,325,200		
Withdrawals	90,530,440		
Interest expense/payable	979,423	-	
Accounts receivable		1,715	Pertains to shareholders' share in share in expenses still payable to the Bank.
Billings	700,000		
Collection	730,000		
Accounts payable		-	Pertains to share on various expenses.
Billings	560,084		
Payment	560,084		
Affiliates			
Deposit liabilities		243,086,271	Consists of checking, savings and special savings deposit accounts with annual interest rate ranging from 1.50% to 5.00%.
Deposits	295,314,725		
Withdrawal	72,728,179		
Interest expense/payable	8,255,956	-	
Accounts receivable		-	Pertains to affiliates' share in share in expenses still payable to the Bank.
Billings	336,019		
Collections	337,637		
Accounts payable		-	Pertains to share on various expenses.
Billings	181,254,319		
Payments	181,254,319		

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 of December 31, 2017 and 2016, 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.’

	2017	2016
Total outstanding DOSRI loans	₱803,107	₱195,540
Percent of DOSRI loans granted under regulations existing prior to BSP Circular No. 423	–	–
Percent of DOSRI loans granted under BSP Circular No. 423	–	–
Percent of DOSRI loans to total loans	0.04%	0.01%
Percent of unsecured DOSRI loans to total DOSRI loans	0.04%	0.01%
Percent past due DOSRI loans to total DOSRI loans	–	–
Percent of non-performing DOSRI loans to total DOSRI loans	–	–

As of December 31, 2017 and 2016, DOSRI includes fringe benefit loans to officer amounting to ₱0.80 million and ₱0.20 million, respectively. The Bank submits regular report to BSP on “Availment of Financial Assistance to Officers and Employees” as prescribed under Subsection X339.4 of the Manual of Regulations for Banks (MORB).

BSP Circular No. 560 provides that the total outstanding loans, other credit accommodation and guarantees to each of the bank’s/quasi-bank’s subsidiaries and affiliates shall not exceed 10.00% of the net worth of the lending bank/quasi-bank, provided that the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank/quasi-bank; and the subsidiaries and affiliates of the lending bank/quasi-bank are not related interest of any director, officer and/or stockholder of the lending institution, except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as representative of the bank/quasi-bank.

On May 12, 2009, BSP issued Circular No. 654 allowing a separate individual limit of 25.00% of the net worth of the lending bank/quasi-bank to loans of banks/quasi-banks to their subsidiaries and affiliates engaged in energy and power generation.

20. Supplementary Information for Cash Flow Analysis

The following table shows the reconciliation analysis of liabilities arising from financing activities for the year ended December 31, 2017:

	Beginning balance	Cash flows	Dividend declaration	Amortization of discount	Ending balance
Bills payable (Note 11)	₱440,000,000	₱57,145,480	₱–	(₱2,436,550)	₱498,023,590
Deposit for future stocks subscription (Note 13)	4,080,000	47,512,800	–	–	51,592,800
Dividends payable (Note 11)	–	(130,270,982)	130,284,129	–	13,147
Total liabilities from financing activities	₱444,080,000	(₱25,612,702)	₱130,284,129	(₱2,436,550)	₱549,629,537



21. 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 10, 2018.

22. Report on the Supplementary Information Required under Revenue Regulations (RR) No. 15-2010

On November 25, 2010, the BIR issued RR No. 15-2010 to amend certain provisions of RR No. 21-2012. The regulations provide that starting 2010, the notes to financial statements shall include information on taxes and licenses paid or accrued during the taxable year.

The components of 'Taxes and licenses' recognized in the statement of income for the year ended December 31, 2017, follow:

GRT	₱39,849,410
DST	1,605,666
Business permits and licenses	1,529,385
Real property tax	150,239
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	₱43,134,700

Withholding taxes in 2017 are categorized into:

Paid:	
Final withholding tax on interest expense and dividends declared	₱6,755,562
Withholding taxes on compensation and benefits	5,366,522
Expanded withholding tax	2,589,064
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	14,711,148
Accrued:	
Withholding taxes on compensation and benefits	1,259,667
Expanded withholding tax	430,348
Final withholding tax on interest expense and dividends declared	728,193
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	2,418,208
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	₱17,129,356

Tax Assessments and Cases

As of December 31, 2017, the Bank has no outstanding final assessment notice from the BIR or cases in court or bodies outside the BIR.

