

**CARD MRI Rizal Bank, Inc.,
A Microfinance-Oriented
Rural Bank**

Financial Statements
December 31, 2019 and 2018

and

Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of CARD MRI Rizal Bank, Inc., A Microfinance-Oriented Rural Bank (the Bank), which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2019 and 2018, 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.



**Reports on the Supplementary Information Required Under Bangko Sentral ng Pilipinas (BSP)
Circular No. 1074 and 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 BSP Circular No. 1074 in Notes 7, 13 and 19 and Revenue Regulations 15-2010 in Note 23 to the financial statements is presented for purposes of filing with the BSP and Bureau of Internal Revenue, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of CARD MRI 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.

Miguel U. Ballelos Jr.

Miguel U. Ballelos, Jr.

Partner

CPA Certificate No. 109950

SEC Accreditation No. 1566-A (Group A)

April 3, 2019, valid until April 2, 2022

Tax Identification No. 241-031-088

BIR Accreditation No. 08-001998-114-2019,

January 28, 2019, valid until January 27, 2022

PTR No. 8125210, January 7, 2020, Makati City

April 11, 2020



**CARD MRI RIZAL BANK, INC.,
A MICROFINANCE-ORIENTED RURAL BANK**

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2019	2018
ASSETS		
Cash and other cash items	₱15,071,444	₱7,871,827
Due from Bangko Sentral ng Pilipinas (Notes 6 and 10)	97,610,954	74,342,915
Due from other banks (Note 6)	858,365,760	638,651,481
Loans and receivables (Note 7)	3,762,263,676	3,116,830,742
Investment securities at amortized cost (Note 7)	36,283,701	41,015,971
Property and equipment (Note 8)	277,132,270	114,669,678
Retirement asset (Note 15)	27,351,284	34,564,180
Deferred tax assets (Note 18)	30,202,238	6,729,264
Other assets (Note 9)	84,429,776	74,956,093
	₱5,188,711,103	₱4,109,632,151
LIABILITIES AND EQUITY		
Liabilities		
Deposit liabilities (Notes 10 and 19)		
Regular savings	₱2,317,378,680	₱1,886,068,630
Special savings	740,915,188	501,312,932
Demand	37,164	–
	3,058,331,032	2,387,381,562
Bills payable (Note 11)	720,448,844	775,434,791
Income tax payable	56,189,227	45,099,406
Deposits for future stock subscription (Note 13)	110,637,200	–
Other liabilities (Note 11)	225,138,631	75,805,723
	4,170,744,934	3,283,721,482
Equity		
Capital stock (Note 13)		
Common stock	400,000,000	341,249,600
Preferred stock	100,000,000	54,000,000
Surplus free	492,711,435	394,037,390
Surplus reserve (Note 7)	26,695,806	26,695,806
Remeasurement gain (loss) on retirement plan (Note 15)	(1,441,072)	9,927,873
	1,017,966,169	825,910,669
	₱5,188,711,103	₱4,109,632,151

See accompanying Notes to Financial Statements.



**CARD MRI RIZAL BANK, INC.,
A MICROFINANCE-ORIENTED RURAL BANK**

STATEMENTS OF INCOME

	Years Ended December 31	
	2019	2018
INTEREST INCOME		
Loans and receivables (Note 7)	₱1,641,976,486	₱1,231,160,619
Due from other banks (Note 6)	24,818,982	9,996,737
Investment securities at amortized cost (Note 7)	3,296,350	2,045,361
	1,670,091,818	1,243,202,717
INTEREST EXPENSE		
Deposit liabilities (Notes 10 and 19)	61,239,788	44,305,138
Bills payable (Note 11)	31,008,950	18,660,368
Lease liabilities (Note 16)	6,874,343	–
	99,123,081	62,965,506
NET INTEREST INCOME	1,570,968,737	1,180,237,211
Miscellaneous	1,223,777	412,366
TOTAL OPERATING INCOME	1,572,192,514	1,180,649,577
OPERATING EXPENSES		
Compensation and benefits (Notes 14, 15 and 19)	375,358,370	267,592,272
Transportation and travel	100,983,788	71,458,928
Information technology	96,008,218	32,817,765
Taxes and licenses	95,444,944	68,701,148
Depreciation and amortization (Note 8)	72,763,704	22,411,502
Provision for credit losses (Note 7)	65,269,597	23,427,828
Stationeries and supplies	63,396,450	43,184,186
Training and development	32,119,632	31,185,671
Security, messengerial, janitorial services	31,352,309	19,943,439
Rent (Note 16)	29,639,491	54,515,280
Power, light and water	11,296,346	8,023,425
Seminars and meetings	7,499,339	5,577,105
Insurance	5,793,060	3,899,055
Fines, penalties and other charges	2,885,772	1,986,978
Professional fees	2,748,698	2,748,090
Miscellaneous (Note 17)	32,198,072	12,237,816
	1,024,757,790	669,710,488
INCOME BEFORE INCOME TAX	547,434,724	510,939,089
PROVISION FOR INCOME TAX (Note 18)	164,760,678	153,481,969
NET INCOME	₱382,674,046	₱357,457,120

See accompanying Notes to Financial Statements.



**CARD MRI RIZAL BANK, INC.,
A MICROFINANCE-ORIENTED RURAL BANK**

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2019	2018
NET INCOME	₱382,674,046	₱357,457,120
OTHER COMPREHENSIVE GAIN (LOSS)		
<i>Other comprehensive gain not recycled to profit or loss in subsequent periods:</i>		
Remeasurement gain (loss) on retirement plan (Note 15)	(16,241,350)	4,262,638
Income tax effect (Note 18)	4,872,405	(1,278,791)
	(11,368,945)	2,983,847
TOTAL COMPREHENSIVE INCOME	₱371,305,101	₱360,440,967

See accompanying Notes to Financial Statements.



**CARD MRI RIZAL BANK, INC.,
A MICROFINANCE-ORIENTED RURAL BANK**

STATEMENTS OF CHANGES IN EQUITY

	Common Stock (Note 13)	Preferred Stock (Note 13)	Surplus		Remeasurement Gain (Loss) on Retirement Plan	Total
			Free	Reserve (Note 7)	(Note 15)	
Balances at January 1, 2019	₱341,249,600	₱54,000,000	₱394,037,390	₱26,695,806	₱9,927,873	₱825,910,669
Issuance of shares (Note 13)	58,750,400	46,000,000	–	–	–	104,750,400
Total comprehensive income for the year	–	–	382,674,046	–	(11,368,945)	371,305,101
Declaration of cash dividends (Note 13)	–	–	(284,000,000)	–	–	(284,000,000)
Balances at December 31, 2019	₱400,000,000	₱100,000,000	₱492,711,436	₱26,695,806	(₱1,441,072)	₱1,017,966,170
Balances at January 1, 2018, as restated	198,395,400	50,000,000	342,291,076	–	6,944,026	597,630,502
Issuance of shares (Note 13)	10,907,200	4,000,000	–	–	–	14,907,200
Total comprehensive income for the year	–	–	357,457,120	–	2,983,847	360,440,967
Application of DFS subscription to issued shares	51,592,800	–	–	–	–	51,592,800
Collection of subscription receivable	1,604,600	–	–	–	–	1,604,600
Declaration of stock dividends (Note 13)	78,749,600	–	(78,749,600)	–	–	–
Declaration of cash dividends (Note 13)	–	–	(200,265,400)	–	–	(200,265,400)
Appropriation for valuation allowance (Note 7)	–	–	(26,695,806)	26,695,806	–	–
Balances at December 31, 2018	₱341,249,600	₱54,000,000	₱394,037,390	₱26,695,806	₱9,927,873	₱825,910,669

See accompanying Notes to Financial Statements.



**CARD MRI RIZAL BANK, INC.,
A MICROFINANCE-ORIENTED RURAL BANK**

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱547,434,724	₱510,939,089
Adjustments for:		
Depreciation and amortization (Note 8)	72,763,704	22,411,502
Provision for credit losses (Note 7)	65,269,597	23,427,828
Amortization of documentary stamp tax on bills payable (Notes 11 and 20)	5,925,697	4,045,311
Retirement expense (Note 15)	2,926,043	3,769,246
Amortization of financial assets at amortized cost	(146,828)	(259,404)
Operating income before changes in operating assets and liabilities:	694,172,937	564,333,572
Increase in the amounts of:		
Loans and receivables	(710,702,531)	(1,037,512,015)
Other assets	(16,522,573)	(50,383,476)
Increase (decrease) in the amounts of:		
Deposit liabilities	670,949,470	860,949,939
Other liabilities	(11,288,123)	37,602,615
Net cash generated from operations	626,609,180	374,990,635
Contributions to retirement asset (Note 15)	(11,954,497)	(3,857,498)
Income taxes paid	(172,271,427)	(150,646,298)
Net cash provided by operating activities	442,383,256	220,486,839
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment (Note 8)	(67,662,163)	(46,933,239)
Proceeds from maturity of investment securities at amortized cost	4,879,098	12,510,335
Net cash used in investing activities	(62,783,065)	(34,422,904)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Availment of bills payable (Notes 11 and 20)	794,088,356	903,365,890
Deposit for future stock subscription (Notes 13 and 20)	110,637,200	–
Issuance of common stock (Note 13)	58,750,400	10,907,200
Issuance of preferred stock (Note 13)	46,000,000	4,000,000
Collection of subscription receivable (Note 13)	–	1,604,600
Settlements of:		
Bills payable (Notes 11 and 20)	(855,000,000)	(630,000,000)
Dividend distribution (Notes 13 and 20)	(283,894,212)	(200,220,874)
Net cash provided by financing activities	(129,418,256)	89,656,816
NET INCREASE IN CASH AND CASH EQUIVALENTS	250,181,935	275,720,751

(Forward)



	Years Ended December 31	
	2019	2018
CASH AND CASH EQUIVALENTS		
AT BEGINNING OF YEAR		
Cash and other cash items	₱7,871,827	₱2,209,287
Due from Bangko Sentral ng Pilipinas	74,342,915	47,321,849
Due from other banks	638,651,481	395,614,336
	720,866,223	445,145,472
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and other cash items	15,071,444	7,871,827
Due from Bangko Sentral ng Pilipinas	97,610,954	74,342,915
Due from other banks	858,365,760	638,651,481
	₱971,048,158	₱720,866,223
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest received	₱1,656,387,353	₱1,207,388,121
Interest paid	83,977,422	52,632,596

See accompanying Notes to Financial Statements.



**CARD MRI RIZAL BANK, INC.,
A MICROFINANCE-ORIENTED RURAL BANK**

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

CARD MRI 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. AS094-11394 dated December 15, 1994 with a corporate life of 50 years. 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 June 28, 2018, the BSP approved the change in the Bank's corporate name from Rizal Bank, Inc., A Microfinance-Oriented Rural Bank to CARD MRI Rizal Bank, Inc., A Microfinance-Oriented Rural Bank. On October 5, 2018, 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 percent (10%) of the stockholdings of Center for Agriculture and Rural Development, Inc. (CARD, Inc.), transferee-stockholder, to Bank of the Philippine Island (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, 2019 and 2018, 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 at December 31, 2019, the Bank consists of its head office and thirty-one (31) branches.

2. Summary of Significant Accounting Policies

Basis of Preparation

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

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.

Statement of Compliance

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



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

The accounting policies adopted are consistent with those of the previous financial year, except that the Bank has adopted the following new and amended accounting standards starting January 1, 2019.

Except as otherwise indicated, these new and amended standards did not have a material impact on the accounting policies, financial position or performance of the Bank.

- PFRS 16, Leases

PFRS 16 supersedes PAS 17, *Leases*, Philippine Interpretation IFRIC 4, *Determining whether an Arrangement contains a Lease*, Philippine Interpretation SIC-15, *Operating Leases-Incentives* and Philippine Interpretation SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard 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 lease under PAS 17, *Leases*.

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. Therefore, PFRS 16 did not have an impact for leases where the Bank is the lessor.

The Bank adopted PFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application without restating comparative information. The Bank has elected to apply PFRS 16 transition relief to contracts that were previously identified as leases applying PAS 17 and IFRIC 4. The Bank will therefore not apply PFRS 16 to contracts that were not previously identified as containing a lease applying PAS 17 and IFRIC 4.

The effect of adoption PFRS 16 as at January 1, 2019 is as follows:

	Increase (decrease)
<hr/>	
Assets	
Property and equipment	₱90,499,380
Miscellaneous assets - advances	(3,457,764)
Miscellaneous assets - security deposits	(876,721)
Liabilities	
Other liabilities	87,419,908
Accrued rent	(1,255,013)



The Bank has lease contracts for various office spaces used as branch offices, staff houses, vehicles and IT equipment. Before the adoption of PFRS 16, the Bank classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease.

The Bank also applied the available practical expedients wherein it:

- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application

Based on the above, as at January 1, 2019:

- Additional property and equipment were recognized amounting to ₱90.50 million, representing the amount of right-of-use asset set up on transition date.
- Other liabilities of ₱87.42 million were recognized, representing lease liabilities set up on transition date.
- Advances and accrued rentals amounting to ₱3.46 million and ₱1.26 million, respectively, which are related to previous operating leases under PAS 17 were derecognized
- Security deposits were present valued resulting to a decrease in the carrying amount of ₱0.88 million.

The lease liabilities as at January 1, 2019 can be reconciled to the operating lease commitments as of December 31, 2018, as follows:

Operating lease commitments as at December 31, 2018	₱112,428,586
Less: Operating lease commitments pertaining to short-term leases	(10,162,559)
Total gross lease payments as of January 1, 2019	102,266,027
Weighted average incremental borrowing rate at January 1, 2019	7.12%
Discounted operating lease commitments at January 1, 2019	87,419,908
Lease liabilities recognized at January 1, 2019	87,419,908

Prior to adoption of PFRS 16, the Bank classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Bank; otherwise it was classified as an operating lease. In an operating lease, the leased property was not capitalized and the lease payments were recognized as rent expense in the statements of comprehensive income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under “Miscellaneous assets” and “Accrued other expenses”, respectively.

Upon adoption of PFRS 16, the Bank applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets.

Leases previously accounted for as operating leases

The Bank recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.



- *Philippine Interpretation IFRIC-23, Uncertainty over Income Tax Treatments*
The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The entity shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

Upon adoption of the Interpretation, the Bank has assessed whether it has any uncertain tax position. The Bank applies significant judgement in identifying uncertainties over its income tax treatments. The Bank determined, based on its assessment, that it is probable that its uncertain tax treatments will be accepted by the taxation authorities. Accordingly, the interpretation did not have a significant impact on the financial statements.

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- *Annual Improvements to PFRSs 2015-2017 Cycle*
 - Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*
 - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
 - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

Significant Accounting Policies

Fair Value Measurement

For measurement and disclosure purposes, the Bank determines fair value of an asset or a liability at initial measurement date or at each statement of financial position date. Fair value is the price that would be received to sell an asset or paid to transfer the 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 the 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 the market participants would use when pricing the asset or liability assuming the market participants act in their economic best interest.

If the asset or liability measured at fair value has a bid and ask price, the price within the bid-ask 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 nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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 and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market, except for derivatives, are recognized on the settlement date. Settlement date is the date on which the transaction is settled by delivery of the assets that are the subject of the agreement. Settlement date accounting refers to:

- a. the recognition of an asset on the day it is received by the Bank; and
- b. the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the Bank.

'Day 1' difference

Where the transaction price in a non-active market is different from the fair value 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.



Classification and measurement

Under PFRS 9, the classification and measurement of financial assets is driven by the entity's contractual cash flow characteristics of the financial assets and business model for managing the financial assets.

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

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

Business model assessment

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

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

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

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

The Bank's measurement categories are described below:

Investment securities at amortized cost

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

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



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

The Bank may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the debt financial asset been measured at amortized cost.

As of December 31, 2019, the Bank has not made such designation.

Financial liabilities

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.

This accounting policy relates to the balance sheet captions 'Deposit liabilities', 'Bills payable' and financial liabilities presented under 'Other liabilities'.

Impairment of Financial Assets

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

For non-credit-impaired financial instruments:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. The Bank recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. The Bank recognizes a lifetime ECL for Stage 2 financial instruments.



For credit-impaired financial instruments:

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

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

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

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

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

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

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.

Restructured receivables

Where possible, the Bank seeks to restructure receivables, which may involve extending the payment arrangements and the agreement of new receivable conditions. Once the terms have been renegotiated, the receivable is no longer considered past due. Management continuously reviews restructured receivables to ensure that all criteria are met and that future payments are likely to occur. The receivables continue to be subject to an individual or collective impairment assessment, calculated using the receivable's original EIR. The difference between the recorded value of the original receivable and the present value of the restructured cash flows, discounted at the original EIR, is recognized in 'Provision for credit losses' in the statement of income.

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 and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Bank’s continuing involvement in the asset. In that case, the Bank also recognizes an associated liability. The transferred asset and associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

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

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

Financial liabilities

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

Prepayments

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

Property and Equipment

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.

The initial cost is comprised of construction costs and any other directly attributable costs of bringing the asset to its working condition and location for its intended use. Construction-in-progress is not depreciated and is 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, residual value 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.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is credited against statement of income.

Impairment of Non-financial Assets

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



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

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

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

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

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.

Under SEC Financial Reporting Bulletin No. 006 issued in 2012 and amended in 2013, an entity should not consider a DFS as an equity instrument unless all of the following elements are present.

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

If any or all of the foregoing elements above are not present, the DFS should be recognized as a financial liability.

As of December 31, 2019, the Bank has DFS recorded under liabilities amounting to ₱110.64 million (Note 13).

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.



Surplus 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.

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 statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in 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% of the member’s employer accumulated value, if any, provided that in no case shall 100% of the employee accumulated value in Fund A be less than 100% of plan salary for every year of credited service. As of December 2019 and 2018, the Bank does not value its defined benefit assets (liability) for the contributions made to the Hybrid Plan.

Leases

Beginning January 1, 2019

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

Bank as a lessee

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

Right-of-use assets

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

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

	Years
Office space	1-12 years
Vehicles	1-2 years

If ownership of the leased asset transfers to the Bank at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment.

Lease liabilities

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects the Bank exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments



(e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases of machinery. It also applies the lease of low-value assets recognition exemption to leases of machinery that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Prior to January 1, 2019

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. as 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 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) or (c) above; and at the date of renewal or extension period for scenario (b).

Operating lease - Bank as lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized under 'Rent' in the statements of comprehensive income on a straight-line basis over the lease term.

Revenue Recognition

Interest income

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

Under PFRS 9, when a financial asset becomes credit-impaired, the Bank calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis. Under PAS 39, once the recorded value of a financial asset or group of similar financial assets carried at amortized cost has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

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 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 Bank allows to carry-over maximum of 30 and 60 days paid leave for its staff and managerial levels, respectively. Employees can convert to cash up to ten (10) days leave credits in the following year. The excess of the allowed leave credits shall likewise be converted to cash. 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 and reported under 'Other liabilities' in the statement of financial position.

For leave entitlements expected to be settled for more than twelve months after the reporting date, the present value of the liability is determined using PHP BVAL as at December 31, 2019 and reported under 'Other Liabilities' 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 statement of comprehensive income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to 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 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

Pronouncements issued but not yet effective are listed below. The Bank intends to adopt the following pronouncements when they become effective. Unless otherwise stated, adoption of these pronouncements is not expected to have a significant impact on the Bank's financial statements.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

Deferred effectivity

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



3. Significant Accounting Judgments and Estimates

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

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

Judgments

In the process of applying the Bank's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements.

a) *Fair value of financial instruments*

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

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

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

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

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

(e.g., construction of significant leasehold improvements or significant customization of the leased asset).

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) *Leases - Estimating the incremental borrowing rate*

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The Bank estimates the IBR using observable inputs (by reference to average bank lending rates). The carrying amount of the right-of-use assets amounted to ₱126.74 million as of December 31, 2019 (Note 8). Lease liabilities amounted to ₱125.46 million as of December 31, 2019 (Note 16).

(b) *Expected credit losses on financial assets (PFRS 9)*

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

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

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

(c) *Recognition of deferred tax assets*

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

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

The Bank recognized net deferred tax assets amounting to ₱30.20 million and ₱6.73 million as of December 31, 2019 and 2018, respectively (Note 18).

(d) *Present value of defined benefit obligation*

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



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

The Bank has a net retirement asset amounting to ₱27.35 million and ₱34.56 million as of December 31, 2019 and 2018, respectively (Note 15).

4. Fair Value Measurement

As of December 31, 2019, and 2018, except as discussed below, the carrying values of the Bank's financial assets and financial liabilities as reflected in the statements of financial position and related notes approximate their fair values.

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

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

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

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

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 at December 31, 2019 and 2018:

	2019				Total Fair Value
	Carrying Value	Level 1	Level 2	Level 3	
Assets and liabilities for which fair values are disclosed:					
Financial assets					
Investment securities at amortized cost	₱36,283,701	₱-	₱-	₱32,678,064	₱32,678,064
Other assets					
Refundable rental deposits	16,481,748	-	-	16,978,028	16,978,028
Financial liabilities					
Deposit liabilities	3,058,331,032		2,961,363,630	2,961,363,630	
Bills payable	720,448,844	-	-	711,516,057	711,516,057
Lease liabilities	125,455,811			125,455,811	125,455,811
Accrued vacation leave	22,139,256			22,139,756	22,139,756



	2018				Total Fair Value
	Carrying Value	Level 1	Level 2	Level 3	
Assets and liabilities for which fair values are disclosed:					
Financial assets					
Investment securities at amortized cost	₱41,015,971	₱–	₱–	₱40,888,653	₱40,888,653
Other assets					
Refundable rental deposits	13,744,487	–	–	12,525,379	12,525,379
Financial liabilities					
Deposit liabilities	2,387,381,562			2,332,787,428	2,332,787,428
Bills payable	775,434,791	–	–	762,558,194	762,558,194
Accrued vacation leave	12,872,812			12,872,812	12,872,812

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 2019 and 2018.

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 Independent director as chairman and majority of the members are independent directors, which is responsible for the comprehensive development of financial risk strategies, principles, frameworks, policies and limits purposely to eliminate or at least reduce the risk the Bank faces in banking activities and thus optimize returns on the capital or equity.

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

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

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).

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, assist personnel in handling daily transaction. The manual is customized for microfinance clients and is being updated as often as new policies and procedures are finalized and approved by the BOD, based on client and staff satisfaction surveys, staff and management program review and planning meetings and workshops. A codified signing authority is in place for every level of loan processing and approval.

All past due 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 at December 31, 2019 and 2018:

	2019			
	Maximum Exposure*	Fair Value of Collateral	Financial Effect of Collateral	Net Exposure
Loans and receivables	₱3,762,263,676	₱911,015,841	₱899,717,566	₱2,862,546,110

**Net of allowance for credit losses*

	2018			
	Maximum Exposure*	Fair Value of Collateral	Financial Effect of Collateral	Net Exposure
Loans and receivables	₱3,116,830,742	₱739,094,819	₱731,316,104	₱2,385,514,638

**Net of allowance for credit losses*



As at December 31, 2019 and 2018, 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 at December 31, 2019 and 2018.

The Bank has no financial instruments with rights of set-off in accordance to PAS 32 as at December 31, 2019 and 2018. There are also no financial instruments that are subject to an enforceable master netting arrangements or similar agreements which require disclosure in the financial statements in accordance with amendments to PFRS 7.

Additionally, the tables below show the distribution of maximum credit exposure by industry sector of the Bank as at December 31, 2019 and 2018:

	2019				
	Loans and Receivables	Due from BSP and Other Banks	Investment securities at Amortized Cost	Other Assets*	Total
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	₱1,557,295,975	₱-	₱-	₱-	₱1,557,295,975
Agriculture, hunting and forestry	871,859,210	-	-	-	871,859,210
Government	-	474,363,486	31,283,701	-	505,647,187
Financial institutions	-	481,613,228	5,000,000	-	486,613,228
Accommodation and food service activities	366,782,043	-	-	-	366,782,043
Construction	226,984,087	-	-	-	226,984,087
Real estate activities	180,248,736	-	-	-	180,248,736
Manufacturing	177,755,783	-	-	-	177,755,783
Education	149,765,504	-	-	-	149,765,504
Transportation and storage	82,489,423	-	-	-	82,489,423
Administrative and support service activities	78,027,361	-	-	-	78,027,361
Human health and social work activities	65,973,309	-	-	-	65,973,309
Fishing	50,932,900	-	-	-	50,932,900
Arts, entertainment and recreation	20,554,389	-	-	-	20,554,389
Other community, social and personal service activities	39,217	-	-	16,481,748	16,520,965
Water supply, sewerage, waste management, and remediation activities	14,179,614	-	-	-	14,179,614
Information and communication	8,269,743	-	-	-	8,269,743
Professional, scientific and technical services	4,697,887	-	-	-	4,697,887
Electricity, gas and water supply	686,216	-	-	-	686,216
Mining and quarrying	152,077	-	-	-	152,077
	3,856,693,474	955,976,714	36,283,701	16,481,748	4,865,435,637
Less allowance for credit losses	94,429,798	-	-	-	94,429,798
Total	₱3,762,263,676	₱955,976,714	₱36,283,701	₱16,481,748	₱4,771,005,839

*Pertains to refundable rental deposits

	2018				
	Loans and Receivables	Due from BSP and Other Banks	Investment securities at Amortized Cost	Other Assets*	Total
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	₱1,411,665,121	₱-	₱-	₱-	₱1,411,665,121
Financial institutions	-	600,097,861	6,000,000	-	606,097,861
Agriculture, hunting and forestry	541,428,486	-	-	-	541,428,486
Real estate activities	365,422,357	-	-	-	365,422,357
Accommodation and food service activities	271,013,232	-	-	-	271,013,232
Government	-	112,896,535	35,015,971	-	147,912,505
Education	129,064,734	-	-	-	129,064,734
Manufacturing	127,732,642	-	-	-	127,732,642
Fishing	101,288,513	-	-	-	101,885,153
(Forward)					



	2018				
	Loans and Receivables	Due from BSP and Other Banks	Investment securities at Amortized Cost	Other Assets*	Total
Transportation and storage	₱51,513,780	₱-	₱-	₱-	₱51,513,780
Human health and social work activities	42,085,137	-	-	-	42,085,137
Information and communication	33,827,147	-	-	-	33,827,147
Construction	18,961,219	-	-	-	18,961,219
Administrative and support service activities	17,222,095	-	-	-	17,222,095
Water supply, sewerage, waste management, and remediation activities	15,098,058	-	-	-	15,098,058
Other community, social and personal service activities	-	-	-	13,744,487	13,744,487
Arts, entertainment and recreation	12,672,481	-	-	-	12,672,481
Professional, scientific and technical services	6,239,053	-	-	-	6,239,053
Electricity, gas and water supply	3,710,271	-	-	-	3,710,271
Mining and quarrying	186,932	-	-	-	186,932
	3,149,727,898	712,994,396	41,015,971	13,744,487	3,917,482,752
Less allowance for credit losses	32,897,156	-	-	-	32,897,156
Total	₱3,116,830,742	₱712,994,396	₱41,015,971	₱ 13,744,487	₱3,884,585,596

*Pertains to refundable rental deposits

Credit quality per class of financial assets

In 2018, the financial assets are grouped according to stage whose description is explained as follows:

Stage 1

Microfinance loans

Those that are considered current, and based on change in rating, delinquencies and payment history, do not demonstrate significant increase in credit risk.

Other loans

Agri Loans and Other Loans

Those that are considered current, and based on change in rating, delinquencies and payment history, do not demonstrate significant increase in credit risk.

Business Loans and Salary Loans

Those that are considered current and up to 29 days past due, and based on change in rating, delinquencies and payment history, do not demonstrate significant increase in credit risk

Stage 2

Other Loans

Business Loans and Salary Loans

Those that, based on change in rating, delinquencies and payment history, demonstrate significant increase in credit risk, and/or are considered 30 up to 89 days past due but does not demonstrate objective evidence of impairment as of reporting date.

Stage 3

Microfinance Loans

Those that are considered in default or when the borrower has missed any installment payments and is past due for one (1) or more days.

Other Loans

Other Loans and Agri Loans

Those that are considered in default or when the borrower has missed any installment payments and is past due for one (1) or more days.



Business Loans and Salary Loans

Those that are considered in default or 90 or more days past due, demonstrate objective evidence of impairment as of reporting date.

The tables below show the credit quality per class of financial assets (gross of allowance for credit and impairment losses) as at December 31, 2019 and 2018:

	2019			Total
	Stage 1	Stage 2	Stage 3	
Due from BSP	₱97,610,954	–	₱–	₱97,610,954
Due from other banks	858,365,760	–	–	858,365,760
Receivable from customers:				
Microfinance loans	3,309,669,785	–	100,325,377	3,409,995,162
Other loans	355,150,112	244,119	10,338,892	365,733,123
Other receivables:				
Accrued interest receivable	76,446,573	–	–	76,446,573
Accounts receivable	4,518,616	–	–	4,518,616
Investment securities at amortized cost	36,283,701	–	–	36,283,701
Other assets:				
Refundable rental deposits	16,481,748	–	–	16,481,748
	₱4,754,527,249	₱244,119	₱110,664,269	₱4,865,435,637

	2018			Total
	Stage 1	Stage 3		
Due from BSP	₱74,342,915	₱–		₱74,342,915
Due from other banks	638,651,481	–		638,651,481
Receivable from customers:				
Microfinance loans	2,703,573,244	42,109,680		2,745,682,924
Other loans	332,887,740	5,398,263		338,286,003
Other receivables:				
Accrued interest receivable	62,888,938	–		62,888,938
Accounts receivable	2,870,033	–		2,870,033
Investment securities at amortized cost	41,015,971	–		41,015,971
Other assets:				
Refundable rental deposits	13,744,487	–		13,744,487
	₱3,869,974,809	₱47,507,943		₱3,917,482,752

As at December 31, 2019 and 2018, the Bank's microfinance loans that are past due for more than 90 days are considered impaired.

Carrying amount per class of loans and receivables which terms have been renegotiated

Restructured receivables have principal terms and conditions that have been modified in accordance with an agreement setting forth a new plan of payment or a schedule of payment on a periodic basis. When the receivable account becomes past due and is being restructured or extended, the approval of the BOD is required before loan booking and is always governed by the BSP rules on restructuring. No loans were restructured as at December 31, 2019 and 2018.

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

	2019					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	₱15,071,444	₱-	₱-	₱-	₱-	₱15,071,444
Due from BSP	97,610,954	-	-	-	-	97,610,954
Due from other banks	532,175,982	326,904,913	-	-	-	859,080,895
Loans and receivable	83,589,021	164,463,833	666,501,983	2,940,210,670	1,927,967	3,856,693,474
Financial asset at amortized cost	1,324,860	296,291	180,496	9,737,314	25,188,190	36,727,151
Other assets	-	153,339	971,871	9,643,365	5,713,173	16,481,748
Total Financial Assets	729,772,261	491,818,376	667,654,350	2,959,591,349	32,829,330	4,881,665,666
Financial Liabilities						
Deposit liabilities	301,804,829	322,810,742	482,047,817	1,651,929,030	299,738,614	3,058,331,032
Bills payable	-	37,500,000	162,500,000	525,000,000	-	725,000,000
Other liabilities:						
Lease liabilities	-	4,872,480	9,438,271	37,647,792	89,299,398	141,257,941
Accounts payable	21,165,009	3,988,296	-	-	-	25,153,305
Accrued interest payable	10,648	2,253,608	2,216,705	2,713,541	6,743,585	13,938,087
Accrued other expenses	-	13,851,096	-	985,585	18,261,255	33,097,936
Dividends payable	163,460	-	-	-	-	163,460
Total Financial Liabilities	323,143,946	385,276,222	656,202,793	2,218,275,948	414,042,852	3,996,941,761
Net	₱406,628,315	₱106,542,154	₱11,451,557	₱741,315,401	(₱381,213,522)	₱884,723,905

	2018					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	₱7,871,827	₱-	₱-	₱-	₱-	₱7,871,827
Due from BSP	74,342,915	-	-	-	-	74,342,915
Due from other banks	181,319,354	437,177,127	20,155,000	-	-	638,651,481
Loans and receivable	19,443,363	164,495,014	1,067,103,686	1,894,815,531	3,870,304	3,149,727,898
Financial asset at amortized cost	-	296,291	216,453	5,691,213	35,376,266	41,580,223
Other assets	-	-	-	11,262,255	2,482,232	13,744,487
Total Financial Assets	282,977,459	601,968,432	1,087,475,139	1,911,768,999	41,728,802	3,925,918,831
Financial Liabilities						
Deposit liabilities	850,185,938	233,325,249	311,797,805	685,069,707	307,002,863	2,387,381,562
Bills payable	-	-	232,500,000	547,500,000	-	780,000,000
(Forward)						



	2018					Total
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	
Other liabilities:						
Accrued other expense	₱-	₱24,976,742	₱-	₱-	₱10,239,189	₱35,215,931
Accounts payable	5,033,726	2,694,194	-	-	-	7,727,920
Accrued interest payable	-	1,927,367	3,395,899	2,467,139	3,802,064	11,592,469
Dividends payable	57,672	-	-	-	-	57,672
Total Financial Liabilities	855,277,336	262,923,552	547,693,704	1,235,036,846	321,044,116	3,221,975,554
Net	(₱572,299,877)	₱339,044,880	₱539,781,435	₱676,732,153	(₱279,315,314)	(₱703,943,277)

6. Due from BSP and Other Banks

The 'Due from BSP' account represents the aggregate balance of non-interest-bearing peso deposit account with the BSP which the Bank maintains primarily to meet reserve requirements (Note 10) and to serve as a clearing account for interbank claims.

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 7.00% in 2019 and 2018.

7. Loans and Receivables and Investment Securities at Amortized Cost

Loans and Receivables

This account consists of:

	2019	2018
Loans and receivables		
Microfinance loans	₱3,409,995,163	₱2,745,682,924
Other loans	365,733,122	338,286,003
	3,775,728,285	3,083,968,927
Accrued interest receivable	76,446,573	62,888,938
Accounts receivable (Note 19)	4,518,616	2,870,033
	3,856,693,474	3,149,727,898
Less allowance for credit losses	94,429,798	32,897,156
	₱3,762,263,676	₱3,116,830,742

Microfinance and other loans carry annual effective interest rates ranging from 32.00% to 61.91% and 33.47% to 50.47% in 2019 and 2018, respectively. Interest income earned on loans and receivables amounted to ₱1.64 billion and ₱1.23 billion in 2019 and 2018, respectively.

The movements in the allowance for credit losses follow:

	2019	2018
Balance at beginning of year	₱32,897,156	₱10,326,492
Provisions	65,269,597	23,427,828
Write-offs	(3,736,955)	(857,164)
Balance at end of year	₱94,429,798	₱32,897,156



The tables below illustrate the movements of the allowance for impairment and credit losses during the year 2019 and 2018 (effect of movements in ECL due to transfers between stages are shown in the total column):

	2019			
	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Loss allowance at January 1, 2019	₱14,064,838	₱-	₱18,832,318	₱32,897,155
Movements with P&L impact				
Transfer from Stage 1 to Stage 2	(27,849)	27,849	-	-
Transfer from Stage 1 to Stage 3	(39,646,404)	-	39,646,404	-
New financial assets originated or purchased	47,728,131	-	-	47,728,131
Changes in PDs/LGDs/EADs	81,962	-	39,805,944	39,887,906
Financial assets derecognized during the period	(13,836,955)	-	(8,509,485)	(22,346,440)
Total net P&L charge during the period	(5,701,115)	27,849	70,942,863	65,269,597
Other movements without P&L impact				
Write-offs and other movements	-	-	(3,736,955)	(3,736,955)
Total movements without P&L impact	-	-	(3,736,955)	(3,736,955)
Loss allowance at December 31, 2019	₱8,363,723	₱27,849	₱86,038,226	₱94,429,797

	2018		
	ECL Staging		Total
	Stage 1 12-month ECL	Stage 3 Lifetime ECL	
Loss allowance at January 1, 2018, as restated	₱3,268,306	₱7,564,182	₱10,832,488
Movements with P&L impact			
Transfer from Stage 1 to Stage 3	(18,713)	18,713	-
New financial assets originated or purchased	19,365,241	9,906,621	29,271,862
Changes in PDs/LGDs/EADs	(4)	2,199,965	2,199,961
Financial assets derecognized during the period	(8,549,992)	(10,326,491)	(18,876,483)
Total net P&L charge during the period	14,064,838	9,362,990	23,427,828
Other movements without P&L impact			
Write-offs and other movements	-	9,469,328	9,469,328
Total movements without P&L impact	-	9,469,328	9,469,328
Loss allowance at December 31, 2018	₱14,064,838	₱18,832,318	₱32,897,156

The movements in gross carrying amount of receivables from customers between stages follow:

	2019			
	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Gross carrying amount as at January 1, 2019	₱3,094,961,550	₱-	₱50,217,403	₱3,145,178,953
Transfer from Stage 1 to Stage 2	(247,769)	247,769	-	-
Transfer from Stage 1 to Stage 3	(91,158,714)	-	91,158,714	-
New financial assets originated or purchased	3,792,311,914	-	-	3,792,311,914
Collection of principal and accrual of interest	29,873,498	-	(2,150,872)	27,722,626
Financial assets derecognized during the period	(3,085,601,564)	-	(24,824,021)	(3,110,425,585)
Write-offs and other movements	-	-	(3,736,955)	(3,736,955)
Gross carrying amount as at December 31, 2019	₱3,740,138,915	₱247,769	₱110,664,269	₱3,851,050,953



	2018		
	ECL Staging		Total
	Stage 1 12-month ECL	Stage 3 Lifetime ECL	
Gross carrying amount as at January 1, 2018	₱2,088,168,260	₱28,310,762	₱2,116,479,022
Transfer from Stage 1 to Stage 3	(8,479,471)	8,479,471	-
New financial assets originated or purchased	3,718,114,926	31,682,199	3,749,797,125
Collection of principal and accrual of interest	-	(4,102,889)	(4,102,889)
Financial assets derecognized during the period	(2,702,842,165)	(13,294,977)	(2,716,137,142)
Write-offs and other movements	-	(857,163)	(857,163)
Gross carrying amount as at December 31, 2018	₱3,094,961,550	₱50,217,403	₱3,145,178,953

While the Bank recognizes through the statements of income the movements in the expected credit losses computed using the models, the Bank also complies with BSP's regulatory requirement to appropriate a portion of its surplus at an amount necessary to bring to at least 1% the allowance for credit losses on loans. In 2019 and 2018, the amount of surplus reserve for this purpose increased by nil and ₱26.70 million, respectively.

Regulatory Reporting

In accordance with BSP regulations, the Bank considers a loan as part of portfolio-at-risk (PAR) when an installment payment is past due for one day. As at December 31, 2019 and 2018, the Bank's PAR amounted to ₱112.29 million and ₱47.51 million, respectively. The allowance for credit losses recognized for past due loans amounted to ₱85.76 million and ₱14.98 million as of December 31, 2019 and 2018, respectively.

As of December 31, 2019 and 2018, nonperforming loans (NPLs) based on Circular No. 941 and as reported to the BSP amounted to as follows:

	2019	2018
Performing loans	₱3,665,064,016	₱3,036,602,431
Nonperforming loans	110,664,269	47,366,496
Balance at end of year	₱3,775,728,285	₱3,083,968,927

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

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

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



In the case of microfinance loans, past due/PAR accounts shall be considered as NPL. Loans are classified as nonperforming in accordance with BSP regulations, or when, in the opinion of management, collection of interest is doubtful. Loans are not reclassified as performing until interest and principal payments are brought to current or the loans are restructured in accordance with existing BSP regulations, and future payments appear assured.

The following table shows the secured and unsecured portions of receivable from customers as at December 31, 2019 and 2018 (at gross amount):

	2019	2018
Secured portion		
Deposit hold-out	₱899,717,566	₱731,316,104
Unsecured portion	2,876,010,719	2,352,652,823
	₱3,775,728,285	₱3,083,968,927

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

As at December 31, 2019 and 2018, information on the concentration of receivables from customers as to industry follows (at gross amount):

	2019		2017	
	Amount	%	Amount	%
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	₱1,521,962,427	40.31%	₱1,380,640,773	44.77%
Agriculture, hunting and forestry	854,557,127	22.63%	530,608,213	17.21%
Accommodation and food service activities	359,503,238	9.52%	265,597,120	8.61%
Construction	222,479,578	5.89%	18,765,481	0.60%
Real estate activities	176,671,692	4.68%	358,119,509	11.61%
Manufacturing	174,228,212	4.62%	125,179,946	4.06%
Education	146,793,401	3.89%	126,485,417	4.10%
Transportation and storage	80,852,417	2.14%	50,484,294	1.64%
Administrative and support service activities	76,478,905	2.03%	16,877,917	0.55%
Human health and social work activities	64,664,066	1.71%	41,244,079	1.34%
Fishing	49,922,134	1.32%	99,849,011	3.24%
Arts, entertainment and recreation	20,146,486	0.53%	12,419,226	0.40%
Water supply, sewerage, waste management and remediation activities	13,898,219	0.37%	14,796,328	0.48%
Information and communication	8,105,630	0.22%	33,151,122	1.07%
Professional, scientific and technical services	4,604,657	0.12%	6,114,368	0.20%
Other services activities	860,096	0.02%	3,636,123	0.12%
	₱3,775,728,285	100.00%	₱3,083,968,927	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.

Investment securities at Amortized Cost

As at December 31, 2019 and 2018, investment securities at amortized cost consist of the following:

	2019	2018
Agrarian Reform 10-year bond	₱31,283,701	₱35,015,971
Small Business Corporation (SBC)	5,000,000	6,000,000
	₱36,283,701	₱41,015,971

Agrarian reform bonds pertain to long-term certificates issued by the National Government and earn annual interest rates from 3.17 to 5.73% and 2.15% to 2.25% in 2019 and 2018, respectively.



Investments in SBC pertain to non-negotiable Micro, Small and Medium Enterprise Notes with annual interest rate of 2.00% in 2019 and 2018.

Interest income on investment securities at amortized cost amounted to ₱3.30 million and ₱2.05 million in 2019 and 2018, respectively.



8. Property and Equipment

The composition of and movements in this account follow:

	2019								
	Land	Building	Furniture, Fixtures and Equipment	Information Technology Equipment	Transportation Equipment	Leasehold Improvements	Construction in Progress	Right-of-Use Asset	Total
Cost									
Balance at beginning of year	₱20,030,959	₱29,981,083	₱44,767,124	₱9,540,723	₱214,417	₱58,370,497	₱7,737,584	–	₱170,642,387
Effect of adoption of PFRS 16	–	–	–	–	–	–	–	₱90,499,380	90,499,380
At January 1, as restated	20,030,959	29,981,083	44,767,124	9,540,723	214,417	58,370,497	7,737,584	90,499,380	261,141,767
Additions	–	–	27,797,549	11,942,266	1,316,483	1,968,075	24,637,790	77,064,753	144,726,916
Reclassification	–	–	–	–	–	26,711,537	(26,711,537)	–	–
Disposals	–	–	(16,600)	–	–	–	–	–	(16,600)
Balance at end of year	20,030,959	29,981,083	72,548,073	21,482,989	1,530,900	87,050,109	5,663,837	167,564,133	405,852,083
Accumulated Depreciation									
Balance at beginning of year	–	11,237,667	24,906,552	4,462,105	214,416	15,151,969	–	–	55,972,709
Depreciation	–	3,033,073	11,782,194	2,991,002	70,862	14,061,468	–	40,825,105	72,763,704
Disposals	–	–	(16,600)	–	–	–	–	–	(16,600)
Balance at end of year	–	14,270,740	36,672,146	7,453,107	285,278	29,213,437	–	40,825,105	128,719,813
Net Book Value	₱20,030,959	₱15,710,343	₱35,875,927	₱14,029,882	₱1,245,622	₱57,836,672	₱5,663,837	126,739,028	₱277,132,270

	2018								
	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	₱29,981,083	₱30,566,994	₱6,113,992	₱214,417	₱36,292,787	₱537,816	–	₱123,738,048
Additions	–	–	14,252,520	3,403,241	–	299,472	28,978,006	–	46,933,239
Reclassification	–	–	(23,490)	23,490	–	21,778,238	(21,778,238)	–	–
Disposals	–	–	(28,900)	–	–	–	–	–	(28,900)
Balance at end of year	20,030,959	29,981,083	44,767,124	9,540,723	214,417	58,370,497	7,737,584	–	170,642,387
Accumulated Depreciation									
Balance at beginning of year	–	8,204,594	16,427,751	2,608,238	214,416	6,135,108	–	–	33,590,107
Depreciation	–	3,033,073	8,508,354	1,853,214	–	9,016,861	–	–	22,411,502
Reclassification	–	–	(653)	653	–	–	–	–	–
Disposals	–	–	(28,900)	–	–	–	–	–	(28,900)
Balance at end of year	–	11,237,667	24,906,552	4,462,105	214,416	15,151,969	–	–	55,972,709
Net Book Value	₱20,030,959	₱18,743,416	₱19,860,572	₱5,078,618	₱1	₱43,218,528	₱7,737,584	–	₱114,669,678



Construction in progress represents the cost of materials, labor, and other capitalizable expenditures incurred in connection with leasehold improvements of bank premises under establishment or renovation. As of December 31, 2019, the leasehold improvements under construction pertain to the renovations of the Angeles' bank premises, teller's booth in San Fernando, Iba and Solano branch-lite units and the head office's second floor. These are estimated to be completed in February, March and July 2020, respectively. As of December 31, 2018, the leasehold improvements under construction pertained to the renovations of Aparri and Solana's bank premises which were completed in January and March 2019, respectively, and the head office's second floor which was still in progress by the end of 2019.

As of December 31, 2019 and 2018, the cost of fully depreciated property and equipment that are still in use amounted to ₱25.07 million and ₱14.30 million, respectively.

9. Other Assets

This account consists of:

	2019	2018
Financial assets		
Refundable rental deposits	₱16,481,748	₱13,744,487
Nonfinancial assets		
Prepaid expenses (Note 19)	37,371,319	41,354,010
Stationery and supplies on hand	28,792,588	14,662,281
Prepaid rent	1,784,121	5,195,315
	67,948,028	61,211,606
	₱84,429,776	₱74,956,093

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

No impairment loss was recognized on other assets in 2019 and 2018.

10. Deposit Liabilities

The Bank's deposit liabilities include regular savings amounting to ₱2.32 billion and ₱1.89 billion as at December 31, 2019 and 2018, 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 2019 and 2018. In 2019 and 2018, a member/borrower is required to maintain a pledge savings balance equivalent to 15.00% of the original loan amount (Note 7).

Other regular savings accounts are "Kusang-ipon", "Tagumpay", "Agap-ipon" and "Katuparan" savings deposit accounts which cater to non-members and Bank employees and carry interest rates from 1.50% and 5.00% in 2019 and 2018.

Special savings deposits have interest rates ranging from 2.00% to 4.25% in 2019 and 2018.



Interest expense on deposit liabilities are as follows:

	2019	2018
Regular savings deposits	₱38,757,750	₱43,709,618
Special savings deposit	22,482,038	595,520
Balance at end of year	₱61,239,788	₱44,305,138

Circular No. 1063 of the BSP prescribes 3.00% reserve requirements on demand and savings deposits.

As of December 31, 2019 and 2018, available reserves pertain to Due from BSP of ₱97.61 million and ₱74.34 million, respectively. 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 financing institutions which are subject to certain terms and conditions and bears annual nominal interest rates ranging from 3.90% to 7.25% in 2019 and from 3.80% to 7.25% in 2018. Maturity period for the outstanding bills payable are ranges from one month to one year and from three months to one year in 2019 and 2018, respectively.

The composition of and movements in this account follow:

	2019	2018
Face value		
Balance at beginning of year	₱780,000,000	₱500,000,000
Availments	800,000,000	910,000,000
Principal payments	(855,000,000)	(630,000,000)
Balance at end of year	725,000,000	780,000,000
Unamortized transaction cost		
Balance at beginning of year	4,565,209	1,976,410
Availments	5,911,644	6,634,110
Amortization	(5,925,697)	(4,045,311)
Balance at end of year	4,551,156	4,565,209
Carrying value	₱720,448,844	₱775,434,791

Other Liabilities

This account consists of the following:

	2019	2018
Financial liabilities:		
Lease liabilities	₱125,455,811	-
Accounts payable (Note 19)	25,153,305	₱7,727,920
Accrued interest payable	13,938,087	11,592,469
Accrued other expenses	33,097,936	35,215,930
Dividends payable	163,460	57,672
	197,808,599	54,593,991

(Forward)



	2019	2018
Nonfinancial liabilities:		
Gross receipt taxes payable	₱23,734,701	₱18,549,621
Withholding taxes payable	3,016,000	2,198,412
Documentary stamp taxes payable	579,331	463,699
	27,330,032	21,211,732
	₱225,138,631	₱75,805,723

Accounts payable include 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:

	2019			2018		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Assets						
Cash and other cash items	₱15,071,444	₱-	₱15,071,444	₱7,871,827	₱-	₱7,871,827
Due from BSP	97,610,954	-	97,610,954	74,342,915	-	74,342,915
Due from other banks	858,365,760	-	858,365,760	638,651,481	-	638,651,481
Loans and receivables	3,854,765,507	1,927,967	3,856,693,474	3,129,284,264	20,443,634	3,149,727,898
Investment securities at amortized cost	11,447,566	24,836,135	36,283,701	6,203,957	34,812,014	41,015,971
Other assets (Note 9)	-	16,481,748	16,481,748	-	13,744,487	13,744,487
Nonfinancial Assets						
Property and equipment	-	405,852,083	405,852,083	-	170,642,387	170,642,387
Retirement asset	-	27,351,284	27,351,284	-	34,564,180	34,564,180
Deferred tax assets	-	30,202,238	30,202,238	-	6,729,264	6,729,264
Other assets (Note 9)	66,163,907	1,784,121	67,948,028	56,016,292	5,195,314	61,211,606
Total Assets	₱4,903,425,138	₱508,435,576	₱5,411,860,714	₱3,912,370,736	₱286,131,280	₱4,198,502,016
Allowance for credit and impairment losses			(94,429,798)			(32,897,156)
Accumulated depreciation and Amortization			(128,719,813)			(55,972,709)
			₱5,188,711,103			₱4,109,632,151
Financial Liabilities						
Deposit liabilities	₱2,758,592,418	₱299,738,614	₱3,058,331,032	₱2,087,578,790	₱299,802,772	₱2,387,381,562
Bills payable	720,448,844	-	720,448,844	775,434,791	-	775,434,791
Other liabilities (Note 11)	92,954,215	104,854,384	197,808,599	41,809,517	3,802,064	45,611,581
Deposit for future stock subscription	110,637,200	-	110,637,200	-	-	-
Nonfinancial Liabilities						
Income tax payable	56,189,227	-	56,189,227	45,099,406	-	45,099,406
Other liabilities (Note 11)	27,330,032	-	27,330,032	21,211,732	8,982,410	30,194,142
Total Liabilities	₱3,766,151,936	₱404,592,998	₱4,170,744,934	₱2,971,134,236	₱312,587,246	₱3,283,721,482



13. Equity

Capital Stock

The Bank's authorized capital stock amounted to ₱500.00 million, consisting of 4,000,000 shares of common stock with par value of ₱100 per share and 500,000 private preferred shares with par value of ₱200 per share.

As at December 31, 2019 and 2018, the Bank's capital stock consists of:

	2019		2018	
	Shares	Amount	Shares	Amount
Common stock - ₱100 par value, 4,000,000 authorized shares				
Common stock at the beginning of the year	3,412,496	₱341,249,600	1,983,954	₱198,395,400
Application of DFS subscription to issued shares	–	–	515,928	51,592,800
Issuance of shares	587,504	58,750,400	109,072	10,907,200
Issuance of shares of stocks from settlement of subscriptions receivable	–	–	16,046	1,604,600
Issuance of stock dividend	–	–	787,496	78,749,600
Common stock at the end of the year	4,000,000	₱400,000,000	3,412,496	₱341,249,600

	2019		2018	
	Shares	Amount	Shares	Amount
Preferred stock - ₱200 par value, 500,000 authorized shares				
Preferred stock at the beginning of the year	270,000	₱54,000,000	250,000	₱50,000,000
Issuance of shares	230,000	46,000,000	20,000	4,000,000
Preferred stock at the end of the year	500,000	₱100,000,000	270,000	₱54,000,000

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. As of December 31, 2019 and 2018, cumulative dividends preferred shares amounted to ₱8.00 million and ₱4.32 million, respectively

Deposit for Future Stock Subscriptions

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

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

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

The application for approval of the proposed increase is not yet filed with the SEC as of December 31, 2019. As such, the deposit for future stock subscriptions amounting to ₱110.64 million was classified under liabilities as of December 31, 2019 (see Note 21). The DFS was paid in cash by its stockholders and related parties.



Dividends

Cash dividends declared by the Bank in 2019 and 2018 are the following:

Date of declaration	Common shares		Preferred shares		Record date
	Per share	Total amount	% of Par	Total amount	
November 9, 2019	₱15.00	₱60.00 million	8.00%	₱8.00 million	October 31, 2019
August 10, 2019	₱23.00	₱92.00 million	8.00%	₱8.00 million	July 31, 2019
April 13, 2019	₱25.00	₱100.00 million	16.00%	₱16.00 million	March 31, 2019
November 10, 2018	₱25.00	₱65.63 million	16.00%	₱8.64 million	October 31, 2018
April 14, 2018	₱30.00	₱60.00 million	16.00%	₱8.00 million	March 31, 2018
July 14, 2018	₱25.00	₱50.00 million	16.00%	₱8.00 million	June 30, 2018

On December 8, 2018, the BOD declared stock dividends amounting to ₱78.75 million for common stockholders of record as at November 30, 2018. No stock dividends were declared in 2019.

Capital Management

The Bank's capital management aims to ensure that it complies with regulatory capital requirements and 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 at December 31, 2018 and 2017, 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, surplus 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 at December 31, 2019 and 2018, as reported to the BSP, is shown in the table below (amounts in millions):

	2019	2018
Tier 1 capital	₱1,011.19	₱711.69
Tier 2 capital	145.23	84.36
Total qualifying capital	₱1,156.42	₱796.05
Risk weighted assets	₱5,705.48	₱4,265.95
Tier 1 capital ratio	17.72%	16.68%
Tier 2 capital ratio	2.55%	1.98%
Total CAR	20.27%	18.66%

As of December 31, 2019 and 2018, the Bank's CAR is in compliance with the regulatory requirements.

Liquidity Coverage Ratio for universal and commercial banks, which also applies to their subsidiary and affiliate thrift banks (TBs), rural banks (RBs), cooperative banks (CBs), and quasi-banks (QBs) is 90% beginning January 1, 2018 and 100% beginning January 1, 2019 onwards. Meanwhile, stand-alone TBs, RBs, CBs, and QBs will be subjected to a Minimum Liquidity Ratio (MLR) of 20% for 2019 and 2018.

The Banks MLR as at December 31, 2019 and 2018, as reported to the BSP is shown in the table below (amounts in millions):

	2019	2018
Stock of liquid assets	₱968.12	₱721.59
Qualifying liabilities	2,315.03	3,287.64
MLR	41.82%	21.95%



As at December 31, 2019 and 2018, the Bank's MLR is in compliance with the regulatory requirement.

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:

	2019	2018
Return on average equity	41.51%	51.07%
Return on average assets	8.23%	10.46%
Net interest margin	38.19%	37.96%

14. Compensation and Benefits

This account consists of:

	2019	2018
Salaries and wages	₱200,092,702	₱136,160,516
Employee benefits	149,625,330	112,871,609
Retirement expense (Note 15)	2,926,043	3,769,246
Other short-term benefits	22,714,295	14,790,901
	₱375,358,370	₱267,592,272

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 Bank, Inc., CARD MRI Development Institute, Inc., CARD Mutual Benefit Association, Inc., CARD SME Bank, Inc., CARD MRI Insurance Agency, Inc., CARD Business Development Service Foundation, Inc., CMIT, CARD Employees Multi-Purpose Cooperative, Responsible Investments for Solidarity and Empowerment Financing Co., BotiCARD Inc., CLFC, CARD, Inc., Mga Likha ni Inay Inc., CARD MRI Property Holdings Inc., CARD MRI Publishing House Inc. and CARD MRI Hijos Tours Inc. maintain a funded and formal noncontributory defined benefit retirement plan - the CARD MRI Multi-Employer Retirement Plan (MERP) - covering all of their regular employees and CARD Group Employees' Retirement Plan (Hybrid Plan) applicable to employees hired on or after July 1, 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% 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.

In addition to the Bank's defined benefit retirement plan, the Bank also operates defined contribution plan referred to as "Hybrid Plan" which provides a retirement benefit equal to 100% of the member's employer accumulated value (the Bank's contributions of 8% plan salary to Fund A plus credited earnings) and 100% of the member's employee accumulated value (member's own contributions up to 10% of plan salary to Fund B plus credited earnings), if any, provided that in no case shall 100% of the employee accumulated value in Fund A be less than 100% of plan salary for every year of credited service.

'Employee benefits' include expenses recorded related to the Hybrid Plan amounting to ₱2.93 million and ₱3.86 million in 2019 and 2018.

The date of the latest actuarial valuation report for MERP is December 31, 2019.



Changes in retirement asset in 2019 and 2018 are as follow:

	2019											
	Net benefit cost in statement of income					Remeasurements in other comprehensive income						
	January 1	Current service cost	Net interest	Subtotal	Benefits paid from plan assets	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	₱96,675,460	₱-	₱7,816,636	₱7,816,636	(₱2,275,903)	(₱3,613,716)	₱-	₱-	₱-	(₱5,889,619)	₱11,954,497	₱110,556,974
Present value of defined benefit obligation	(50,466,078)	(5,960,110)	(3,885,888)	(9,845,998)	2,275,903	(1,904,597)	-	(400,754)	(19,689,806)	(19,719,254)	-	(80,031,330)
Asset ceiling	(11,645,202)	-	(896,681)	(896,681)	-	-	9,367,523	-	-	9,367,523	-	(3,174,360)
Net defined benefit asset (liability)	₱34,564,180	(₱5,960,110)	₱3,034,067	(₱2,926,043)	₱-	(₱5,518,313)	₱9,367,523	(₱400,754)	(₱19,689,806)	(₱16,241,350)	₱11,954,497	₱27,351,284

	2018												
	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	Benefits paid from plan assets	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	₱85,959,848	₱-	₱5,135,827	₱5,135,827	₱4,202,024	(₱1,960,948)	(₱518,789)	₱-	₱-	₱-	₱1,722,287	₱3,857,498	₱96,675,460
Present value of defined benefit obligation	(49,331,213)	(5,688,497)	(2,846,411)	(8,534,908)	(4,202,024)	1,960,948	(6,731,597)	-	1,227,013	15,145,703	7,400,043	-	(50,466,078)
Asset ceiling	(6,415,345)	-	(370,165)	(370,165)	-	-	-	(4,859,692)	-	-	(4,859,692)	-	(11,645,202)
Net defined benefit asset (liability)	₱30,213,290	(₱5,688,497)	₱1,919,251	(₱3,769,246)	₱-	₱-	(₱7,250,386)	(₱4,859,692)	₱1,227,013	₱15,145,703	₱4,262,638	₱3,857,498	₱34,564,180

In 2019 and 2018, net benefit cost is recognized under 'Compensation and benefits' in the statements of income.



The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions. The fair value of plan assets by each class as at December 31, 2019 and 2018 follows:

	2019	2018
Cash and cash equivalents	₱37,658,707	₱48,395,735
Government securities	48,817,735	42,943,240
Other bond instruments	12,516,191	
Mutual fund	553,026	5,336,485
Loans and receivables	9,104,573	-
Other assets	1,906,742	-
Fair value of plan assets	₱110,556,974	₱96,675,460

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

	2019	2018
Discount rate		
January 1	7.70%	5.77%
December 31	5.54%	7.70%
Future salary increases	5.00%	5.00%

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

	2019		2018	
	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)	(₱10,150,587) 12,441,563	+100 (100)	(₱5,861,224) 7,113,445
Future salary increases	+100 (100)	12,381,772 (10,286,303)	+100 (100)	7,239,435 (6,050,142)



The Bank plans to contribute ₱20.5 million to the defined benefit retirement plan in 2020. As at December 31, 2019, the average duration of defined benefit obligations is 14.1 years.

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

	2019	2018
Less than one year	₱3,927,902	₱2,838,175
More than one year to five years	22,915,756	14,826,037
More than five years to ten years	36,164,404	32,391,726
More than 10 years to 15 years	60,079,160	43,436,942
More than 15 years to 20 years	88,112,154	76,215,977
More than 20 years to 25 years	148,009,368	122,759,223
More than 25 years	438,841,638	487,995,255

16. Leases

The Bank has lease contracts for various items of office spaces, transportation, and IT equipment used in its operations. The lease contracts are for periods ranging from six months to 12 years and are renewable upon mutual agreement between the Bank and lessors. Various lease contracts include escalation clauses ranging from 5 to 50%, starting on the year stated in the contract.

The Bank's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Bank is restricted from assigning and subleasing the leased assets and some contracts require the Bank to maintain certain financial ratios.

The carrying amounts of right-of-use assets recognized and the movements during the period are disclosed in Note 8.

The following are the amounts recognized in statements of income:

	2019	2018
Lease payments relating to short-term leases and leases with low value assets	₱29,639,491	₱—
Rent expense recorded under PAS 17	—	54,515,280
Depreciation expense of ROU assets included in property and equipment	40,825,105	—
Interest expense on lease liabilities	6,874,343	—
Total amount recognized in the statements of income	₱77,338,939	₱54,515,280

Rent expense in 2019 pertains to expenses from short-term leases and leases of low-value assets. As of December 31, 2019, and 2018, the Bank has no contingent rent payable.



Set out below are the carrying amounts of lease liabilities (included under other liabilities) and the movements during the period:

	2019
As at January 1, 2019 (Note 2)	₱87,419,908
Additions	74,197,601
Accretion of interest	6,874,343
Payments	(43,036,041)
As at December 31, 2019	₱125,455,811

Prior to adoption of PFRS 16

Rent expense pertaining to operating leases recognized under 'Rent' amounted to ₱29.64 million and ₱54.52 million for the period ended December 31, 2019 and 2018, respectively.

Future minimum rentals payable under noncancellable operating leases details are as follows:

	2018
Within one year	₱43,500,464
Beyond one year	68,928,122
	₱112,428,586

17. Miscellaneous Expenses

This account consists of:

	2019	2018
Postage, telephone, cables and telegrams	₱9,425,355	₱3,577,810
Donations and charitable contributions	8,368,800	490,000
Repairs and maintenance	2,619,127	1,158,407
Company events and celebrations	3,168,139	1,188,509
Meals during overtime and meetings	1,727,024	1,014,434
Stipend of trainees during exposures	967,104	662,044
Banking fees	667,397	438,934
Advertising and publicity	598,008	362,896
Legal fees	412,566	134,884
Processing fee of approved branches	392,273	53,401
Periodicals and magazines	376,867	167,611
Membership fees and dues	157,720	52,000
Program and monitoring	76,718	624,809
Other expenses	3,240,974	2,312,077
	₱32,198,072	₱12,237,816

Other expenses include various expenses such as replenishment of emergency fund, representation and entertainment expenses, awards to top performing branches and staffs, 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. EAR expenses are presented under ‘Miscellaneous expenses’ in the statements of income. The Bank incurred no EAR expenses in 2019 and 2018.

Provision for income tax consists of:

	2019	2018
Current:		
RCIT	₱177,711,000	₱157,734,720
Final tax	5,650,248	2,024,611
	183,361,248	159,759,331
Deferred	(18,600,570)	(6,277,362)
	₱164,760,678	₱153,481,969

As at December 31, 2019 and 2018, net deferred tax assets are as follows:

	2019	2018
Deferred tax assets		
Allowance for credit and impairment losses	₱28,328,939	₱9,869,147
Unamortized past service cost	4,985,272	4,157,614
Accumulated vacation leave	5,478,377	2,694,723
Accrued rent	–	377,034
	38,792,588	17,098,518
Deferred tax liability		
Retirement asset	8,205,385	10,369,254
Net right-of-use assets over lease liabilities	384,965	–
	8,590,350	10,369,254
	₱30,202,238	₱6,729,264

Deferred tax recognized in OCI amounted to a provision of ₱4.87 million and ₱1.28 million for the years ended December 31, 2019 and 2018, respectively. There are no unrecognized deferred tax assets as of December 31, 2019 and 2018.



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

	2019	2018
Statutory income tax	₱164,230,417	₱153,281,727
Income tax effects of:		
Interest income subject to final tax	(2,784,352)	(1,588,019)
Nondeductible expenses	3,314,613	1,788,261
Movements in unrecognized deferred taxes	-	-
Provision for income tax	₱164,760,678	₱153,481,969

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, and
- post-employment benefit plans for the benefit of the Bank's employees.

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 and government bonds (Note 15). As at December 31, 2019 and 2018, 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 statement of income are as follows:

	2019	2018
Short-term employee benefits	₱8,918,194	₱4,554,671
Post-employment benefits	699,283	820,006
	₱9,617,477	₱5,374,677



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 receivable

As of December 31, 2019 and 2018, the Bank has no outstanding loan that was granted to related parties.

Deposit liabilities, accounts receivable and accounts payable

Deposit liabilities, accounts receivable and accounts payable held by the Bank for key management personnel, shareholder and other related parties as at December 31, 2019 and 2018 follow:

			December 31, 2019
Category	Amount/Volume	Outstanding Balance	Nature, Terms and Conditions
Key management personnel			
Deposit liabilities		₱16,365,823	Consists of regular savings deposit account with annual interest rate of 1.50% and 5.00%, and special savings deposit account with annual interest rate ranging from 2.75% to 4.25%..
Deposits	₱23,153,770		
Withdrawals	13,140,692		
Interest expense/payable	219,486		
Shareholders			
Deposit liabilities		191,879,675	Consists of regular savings deposit account with annual interest rate of 1.50% and special savings deposit account with annual interest rate ranging from 3.00% to 4.00%.
Deposits	388,251,990		
Withdrawals	357,455,689		
Interest expense/payable	3,132,234		
Accounts receivable		-	Pertains to shareholders' share in share in expenses still payable to the Bank.
Billings	2,396,159		
Collection	3,337,475		
Accounts payable		55,497	Pertains to share on various expenses.
Billings	2,463,835		
Payment	2,435,866		
			December 31, 2018
Category	Amount/Volume	Outstanding Balance	Nature, Terms and Conditions
Key management personnel			
Deposit liabilities		₱6,133,259	Consists of regular savings deposit account with annual interest rate of 1.50% to 5.00% and special savings deposit account with annual interest rate ranging from 2.75% to 4.25%.
Deposits	₱34,585,748		
Withdrawals	30,608,048		
Interest expense/payable	84,898		
Shareholders			
Deposit liabilities		₱157,951,140	Consists of regular savings deposit account with annual interest rate of 1.50% and special savings deposit account with annual interest rate ranging from 3.50% to 4.00%.
Deposits	364,388,549		
Withdrawals	221,145,453		
Interest expense/payable	346,176		
Accounts receivable		941,316	Pertains to shareholders' share in share in expenses still payable to the Bank.
Billings	5,607,117		
Collection	4,665,801		
Accounts payable		27,528	Pertains to share on various expenses.
Billings	1,803,869		
Payment	2,000,319		

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.



As of December 31, 2019 and 2018, DOSRI includes fringe benefit loans to officer amounting to ₱1.69 million and ₱1.43 million, respectively. In the aggregate, loans to DOSRI generally should not exceed total equity or 15.00% of total loan portfolio, whichever is lower. As at December 31, 2019 and 2018, the Bank is in compliance with the regulatory requirements.

BSP Circular No. 423 dated March 15, 2004, as amended by BSP Circular No. 914 dated June 23, 2016, provide the rules and regulations governing credit exposures to DOSRI. The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to BSP Circular No. 423 and new DOSRI loans and other credit accommodations granted under said circular as of December 31, 2019 and 2018:

	2019	2018
Total outstanding DOSRI loans	1,688,082	1,432,635
Percent of DOSRI accounts to total loans	0.04%	0.05%

There are no unsecured DOSRI accounts in total outstanding DOSRI loans.

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, 2019:

	December 31, 2019					
	Beginning balance	Cash flows	Application of DFS to stocks	Dividend declaration	Amortization of discount	Ending balance
Bills payable (Note 11)	₱775,434,791	(₱60,911,644)	₱-	₱-	₱5,925,697	₱720,448,844
Deposit for future stocks subscription (Note 13)	-	110,637,200	-	-	-	110,637,200
Dividends payable (Note 11)	57,672	(283,894,212)	-	284,000,000	-	163,460
Total liabilities from financing activities	₱775,492,463	₱(234,168,656)	-	₱284,000,000	₱5,925,697	₱831,249,504

	December 31, 2018					
	Beginning balance	Cash flows	Application of DFS to stocks	Dividend declaration	Amortization of discount	Ending balance
Bills payable (Note 11)	₱498,023,590	₱273,365,890	₱-	₱-	₱4,045,311	₱775,434,791
Deposit for future stocks subscription (Note 13)	51,592,800	-	(51,592,800)	-	-	-
Dividends payable (Note 11)	13,147	(200,220,875)	-	200,265,400	-	57,672
Total liabilities from financing activities	₱549,629,537	₱73,145,015	(₱51,592,800)	₱200,265,400	₱4,045,311	₱775,492,463

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 April 11, 2020.



22. Events After the Reporting Date

Deposit for Future Stock Subscription

On March 9, 2019, the BOD and the stockholders approved and ratified the increase in the Bank's capitalization from ₱500.00 million to ₱1,000.00 million by increasing its authorized common and preferred stock by 4.00 million and 0.50 million, respectively. The Bank received the DFS amounting to ₱110.64 million in 2019 (see Note 13). BSP approval for the proposed increase was obtained on January 16, 2020. This was actually filed with SEC for approval on February 11, 2020.

The Bank considers the subsequent event as a non-adjusting subsequent event which does not impact its presentation of financial position and performance as of and for the year ended December 31, 2019.

COVID-19 Pandemic

In a move to contain the COVID-19 pandemic, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine throughout the island of Luzon until April 12, 2020, which was subsequently extended to April 30, 2020. The BSP has also issued implementing rules and regulations (IRR) in pursuant to RA No. 11469, otherwise known as the 'Bayanihan to Heal as One Act'. The IRR requires all lenders under BSP supervision to grant a 30-day grace period or extension for the payment of loans due within the enhanced community quarantine period, without imposing additional interest, penalties, or charges on their borrowers. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve.

The Bank considers the events surrounding the outbreak as non-adjusting subsequent events, which do not impact its financial position and performance as of and for the year ended December 31, 2019. However, the outbreak could have a material impact on its 2020 financial results and even periods thereafter. Considering the evolving nature of this outbreak, the Bank cannot determine at this time the impact to its financial position, performance and cash flows. The Bank will continue to monitor the situation.

23. Supplementary Information Required under RR 15-2010

On November 25, 2010, the Bureau of Internal Revenue (BIR) issued RR 15-2010 prescribing the manner of compliance in connection with the preparation and submission of financial statements accompanying the tax returns. It includes provisions for additional disclosure requirements in the notes to the financial statements, particularly on taxes and licenses paid or accrued during the year. The components of 'Taxes and licenses' recognized in the statement of income for the year ended December 31, 2019, follow:

GRT	₱84,126,884
Business permits and licenses	4,076,750
DST	3,718,422
Others	3,357,306
Real property tax	165,582
	<u>₱95,444,944</u>



Withholding taxes in 2019 are categorized into:

	Amount remitted	Outstanding as of December 31, 2019
Final withholding tax on interest expense and dividends declared	₱14,774,122	₱1,962,521
Expanded withholding tax	8,146,345	791,478
Withholding taxes on compensation and benefits	1,249,753	262,001
	<u>₱24,170,220</u>	<u>3,016,000</u>

Tax Assessments and Cases

On July 2, 2019, the BIR rendered a letter of authority to examine the books of accounts and other accounting records for all internal revenue taxes including documentary stamp taxes and other taxes for the taxable period January 1, 2018 to December 31, 2018. The examination resulted to a total deficiency tax assessment of P1.9 million which was settled by the Bank on September 4, 2019.

As at December 31, 2019, the Company has no outstanding tax assessment notice from the BIR or cases in court or bodies outside the BIR.

