how we came to be

CARD
BANK, INC.
ANNUAL
REPORT
2016

about the cover

As CARD Mutually Reinforcing Institutions reach its 30th year in service, the growing group of people- and development-oriented institutions celebrates its remarkable milestones that contribute to the rich ongoing history of CARD MRI in empowering Filipino women and families. As the group pursues its vision of being a world-class leader in microfinance and community-based social development undertakings, CARD MRI had been through many ups and downs but was able to face them with its consistent, purposeful, and forward-looking brand of service.

The butterfly is a representation of CARD MRI's metamorphosis: its transformation from a small social development foundation into a group of mutually reinforcing institutions that have made positive impact to the lives of its more than four million clients. Inside the butterfly's wings are a few of the many momentous events that brought CARD MRI to where it is now and that will continuously inspire the organization to reinvent itself while remaining anchored to its purpose and keeping in mind the people it serves.

vision

CARD MRI is a world-class leader in microfinance and community-based social development undertakings that improves the quality of life of socially- and economically-challenged women and families towards nation building.

mission

CARD MRI is committed to:

Empower socially- and economically-challenged women and families through continuous access to financial, microinsurance, educational, livelihood, health, and other capacity-building services that eventually transform them into responsible citizens for their community and the environment;

Enable the women members to gain control and ownership of financial and social development institutions; and

Partner with appropriate agencies, private institutions, and people and community organizations to facilitate achievement of mutual goals.

The Metamorphosis

As a member institution of CARD MRI, our goals of eradicating poverty and serving the nation have inspired us to reach remarkable milestones in empowering Filipino women and families. We commemorate how history has shaped us - through the challenges that we have surpassed and the accomplishments that we have achieved - into a passionate and hardworking institution.

SOARING TO *Greater* HEIGHTS

MARIVIC M. AUSTRIA
President and CEO,
CARD Bank, Inc.

Way back 1986, the members of CARD, Inc. had a clear mindset: they were motivated to expand the services that the institution offers. More than just money lending, they were determined to grant their members a wider range of financial assistance; they had a vision of transforming it into a full-service bank.

With the permission to operate as a bank granted by Bangko Sentral ng Pilipinas, CARD Bank, Inc. became the first bank of CARD MRI. It was the first institution born out of CARD, Inc. and has been rendering microfinance service since 1997.

Empowerment was the objective of choosing women and their families as our intended beneficiaries. It was never our intention to show bias towards women, but it is to provide them with income-generating activities while they stay at home taking care of the household.

HOMEGROWN SERVICE

In my 23 years of service in CARD MRI, I have witnessed how it grew from a non-government organization foundation into a successful microfinance institution.

Through time, our staff and members continued to flourish as well; many of our clients are now becoming members of the Board of Directors due to their good track record since they became members. In line with CARD Bank's desire to produce competent account officers, trainings and workshops are being held for them to gain more knowledge and first-hand experience on microfinance operations.

Throughout the years, there are things that just don't change. We may have received big achievements this year but our feet remain grounded. This alone made a stronger connection between us and our members. In this institution, everyone is considered as a family, even those in remote areas. We spend most of our time in the field offices together with

▶ 8

"We carry the heart of the NGO to the banking institution."

- Dr. Dolores M. Torres

First CARD Bank CEO

CARD, Inc. obtained license from *Bangko Sentral ng Pilipinas* as a microfinance-oriented rural bank. In the same year, CARD Bank, Inc., opened its door to the public in San Pablo City, subsuming four CARD NGO branches.

1997

"We were able to show the world that the poor people can also become stockholders."

- Lourdes B. Dijan
EVP for Accounting and Administration
CARD Bank

The first branch of CARD Bank was established in Masbate City, followed by another branch established in Mogpog, Marinduque.

1999

CARD Bank granted its members to become shareholders using their savings as payment for the stocks.

CARD Bank issued preffered share to its members.

CARD Bank named its first batch of scholars.

2000

our clients. This way, we established a better relationship with them without losing the professional partnership as well.

SUCCESS WITH OUR MEMBERS

Serving almost half of the more than four million clients of CARD MRI, CARD Bank is continuously expanding. Aside from the increase in number of members this year, we have also opened nine additional branches nationwide. This paved way to the introduction of 69 Micro Banking Offices (MBOs) which are nearer to our members' homes. The MBOs are expected to offer a less-hassle mode of payment and services collections. This year, we have successfully shifted to a new system for our Matapat ATM Savings.

CHALLENGES OUTWITTED

Coming up with a new ATM system was not an easy task. The institution has encountered difficulties in developing the Matapat Savings. Of course, inevitable difficulties happened in our remote offices, but we were able to attend to them with immediate response. There were other issues that hindered us to achieve success this year but altogether, we strongly overcame them.

PROGRESSIVE YEARS AHEAD

Through our efforts and dedication, we are looking forward to major breakthroughs this 2017. One of which is the pilot run of our Core Banking System in six branches this May 2017 and another 10 to follow in July. We are keeping our hopes for the other branches to follow.

The Core Banking System centralizes all of CARD Bank, Inc.'s branches. The goal of this project is to allow members to access our products and services in any CARD Bank, Inc. branches present in the country.

For the past 30 years, CARD Bank, Inc. and the whole CARD MRI went across borders. We have catered to numerous families, helped them gain financial knowledge, and gave them ideas on how to achieve community and self-development. As the years approach, we pledge to give our members the continuous services we have always provided to them.

This coming 2017, we are looking forward to opening eight new branches and 72 MBOs to better serve and expand our bank reach in Visayas, Mindanao, Quezon, and Mindoro.

In line with our goal of bringing a more convenient and faster access to products and services, we would also like to come up with better ways on how to deliver our banking services to members while they are in the comfort of their homes; this gave birth to our *konek2CARD* mobile system. We have faith that we will be able to do all these without losing the institution's essence, which is instilling discipline among our members.

In CARD Bank, Inc., our members are not just mere clients. They are recognized as partners and undoubtedly play a massive role in our ever-growing family.

EMBRACING THE FUTURE

Our year's labor bore fruit and for that, we are truly grateful. Together with the whole staff and management, CARD Bank, Inc. was able to flourish and grow. The institution was founded with determination and passion for women and their families and we will stay true to our mission and vision while living up to our sworn words. The past year brought us to rough roads but we were able to surpass them and move forward.

It has been a ride; the experiences we've been through—both victorious and challenging brought us to where we are now. We still have a lot to explore, and as an institution, we are very thrilled for what the future has in store for us as we invest into greater endeavors.

CARD Bank started the pilot of savings mobilization in Marinduque with the assistance from Women's World Banking (WWB).

The banking system of CARD Bank was enhanced through E-Banker in partnership with NgKhai Development Corporation and Ingenium.

CARD Bank received its first award recognition from the Peoples Credit and Finance Corporation (PCFC), Asian Development Bank and Associated Resources for Management, Inc. (ARMDEV) for presenting its winning strategies during the Grameen Bank Approach Replicators Managers' Conference.

2001

2002

Savings and Loan Products were renamed: Regular Savings to Kayang-kaya, Time Deposit to Tiwala Savings, Pangarap to Tagumpay, Regular Loan to Sikap Loan, and Multipurpose Loan to Sagip Loan.

Implementation of seasonal loans and Balik-CARD Program began.

2003

CARD Bank gained its first recognition as one of the Top Grosser for the year 2002 given by BIR -RDO 55, San Pablo City.

2005

CARD Bank was given Certificate of Compliance by USAID for having successfully completed the MABS Approach to Microfinance course.

PCFC's Plaque of Recognition was given to CARD Bank for its invaluable contribution to poverty alleviation in Region IV.

2004

BSP approved a change of bank name from CARD Rural Bank, Inc. to CARD Bank, Inc. (A Microfinance-oriented Rural Bank).

The first CARD Bank member from Torrijos Marinduque, Nanay Leticia Rosas, won the Entrepreneur Award from Citibank.

Given the Certificate of Transparency by Microfinance Council of the Philippines and Microfinance Information Exchange for being in the MIX Market to promote transparency, quality and reliability of microfinance information globally.

This year marked the birth of CARD Bank Remittance Program: for local remittance - CARD Bilis Remittance and for international remittance - Partnership with Banco De Oro.

2006

2007

The Health Insurance Loan commenced, enabling poor families to have medical care through PhilHealth's nationwide networks.

CARD Bank, being a member of the CARD MRI, also celebrated when the latter received the Ramon Magsaysay Award for Public Service in 2008.

2008

The institution gained financial and technical support from Bill & Melinda Gates Foundation through Grameen Foundation in intensifying the savings mobilization project.

2009

2010

Two new savings products were introduced: Matapat Savings Account - an ATM account and Maagap Savings Account - a savings account for kids.

The company's brand essence was established: "Matatag na Bukas sa Bawat Pamilya" or "Bright and Stable Future for Every Family."

CARD Bank launched its first Electronic Banking with an ATM system.

CARD Bank reached the mark of more than half-million clients.

The bank started pilot testing the Mobile Financial Services (MFS) in order to enhance the access of clients to its financial services.

2011

2012

CARD Bank gained another Special Recognition for Partners in Financial Inclusion during BSP Stakeholder's Awarding.

The Matapat Savings System was launched allowing CARD Bank's members to gain easier access to products and services.

This year marks the start of Galing Ni Nanay (GNN) Awards - recognizing the outstanding Micro-Entrepreneurs of CARD MRI.

The company launched the Maagap Savings & intensive marketing campaign of other savings products through School and Brgy. Savings Caravan and birth of CARD Bank Mascot – CARDEE.

CARD Bank received the "Financial Inclusion Champion" Hall of Fame Award from BSP.

The start of MicroEntrepreneur (ME) Conference empowered the members by equipping them with knowledge and skills in building and managing a business.

CARD Remittance Service underwent rebranding from CARD Bilis to CARD Sulit Padala. It was in response to the need of members and clients of a real time and convenient means of sending and receiving money to and from their loved ones nationwide.

The institution implemented a new service - Maagap Gift Card (MGC) - a savings mobilization strategy that aims to increase the number of accounts and savings balances of Maagap Savings Account.

2013

MFS rebranded and was eventually named konek2CARD. This access facility was launched through caravan in selected branches.

The '89 Kababaihan also known as 89K was honored. These women are members since 1989. Their unwavering effort and contribution to CARD MRI were recognized during the Year-end Business Planning.

The start of CARDEEskwela, a financial literacy workshop for kids. Together with CARDEE's Amazing Race which teaches the value of savings in a fun, exciting and challenging way.

2014

"We were able to reach success due to our adherence to CARD MRI's mission."

- Lorenza D.T. Bañez
Executive Vice President, CARD Bank

The mark of more than one million clients was reached.

Ms. Ester Shiela Vitto, member in Pinamalayan Branch, became an awardee for Luzon in the Citi Microentrepreneurship Awards (CMA).

CARD Bank was awarded as National Winner for Rural Bank Category and Best CFI Availer for Agri-Agra Loan by Landbank and Outstanding Financial Inclusion Champion by BSP.

MF-Sipag Loan (Small Business Loan) was launched.

2015

The Core Banking System project was initialized to centralize data from all the branches.

Additional five new branches conducted CARDEEskwela started to operate nationwide, expanding the reach of the workshop, equipping more students with primary knowledge on savings.

CARD Bank transferred to a new building in San Pablo City.

2016

"We flourished along with the advancements in technology."

- Dr. Dolores Torres
Former CARD Bank President

2016 has been a fruitful year for CARD Bank and our members. This year, we opened nine additional branches and transferred our head office to its brand new home in San Pablo City. Trainings were also conducted in Boracay and Baguio to better capacitate our staff in terms of banking; participants from different branches attended this event. Tips on Savings and Loan Management were released on our Facebook page as part of our client protection and awareness program.

Aside from these, our pursuit to imbibe knowledge in financing was also extended to children in various schools as we conduct CARDEEskwela in six of our branches and in public elementary schools.

These are just some of the accomplishments that CARD Bank has reached. With these, we expect blessings to pour as we seek for more breakthroughs in the years to come.

Accomplishments of CARD BANK

LOAN OUTSTANDING PhP 18,386,921,182	**SAVINGS** PhP 5,969,184,808	**CLIENTS AND SAVERS** 2,007,183	**CLIENTS SERVED** 2,038,718
ACTIVE CLIENTS WITH LOAN 804,113	**HEAD OFFICE** 1	**BRANCHES** 78	**UNIT OFFICES/ MBOs** 520
STAFF 3,488	**REPAYMENT RATE** 99.12%	**FINANCIAL SELF-SUFFICIENCY** 119.35%	**OPERATING SELF-SUFFICIENCY** 129%

Our Offices

CAN ALSO BE FOUND IN THE FOLLOWING AREAS:

Main Office: San Pablo City, Laguna

LUZON

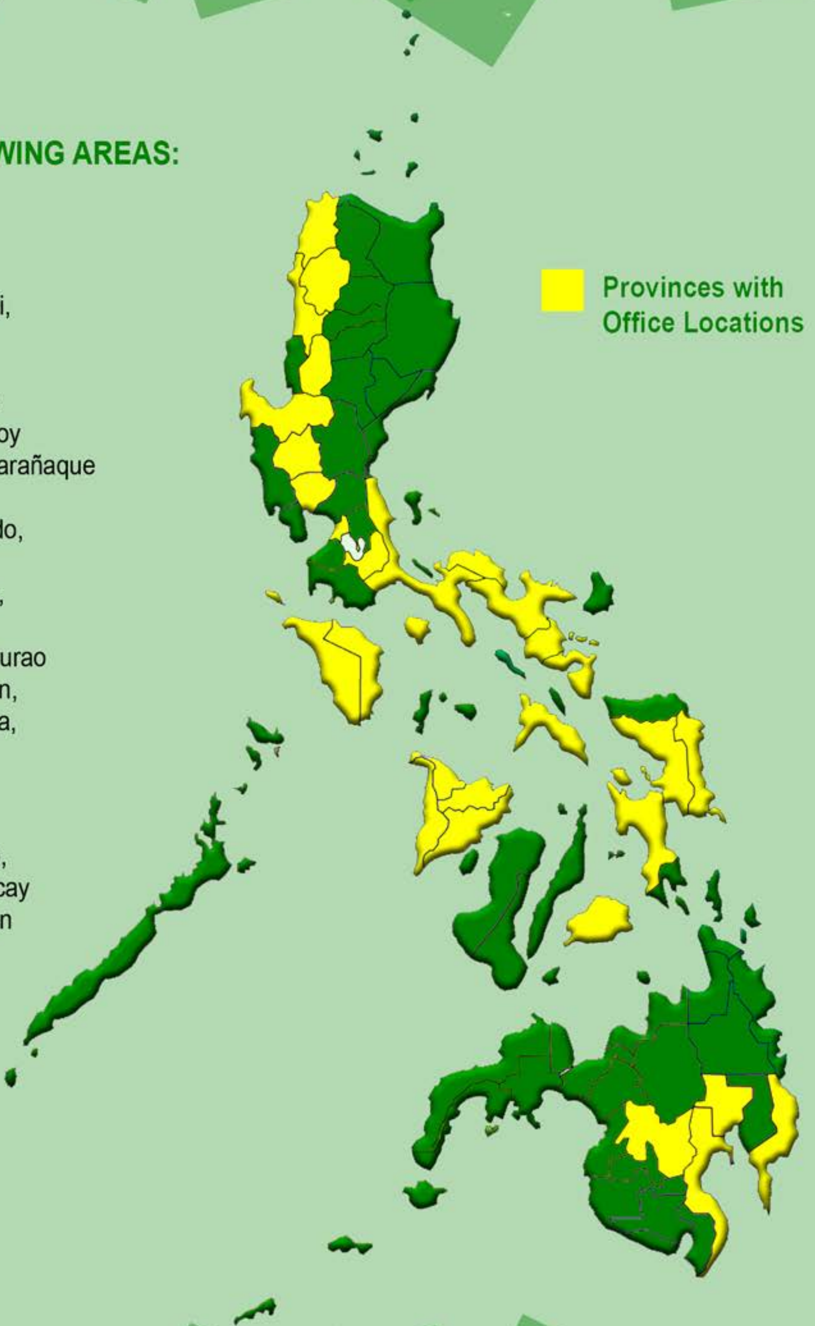
Bicol: Sipocot, Daet, Pili, Goa, Sorsogon, Legazpi, Ligao, Libmanan, Nabua, Naga, Labo
Laguna: Bay, Nagcarlan
Marinduque: Mogpog, Torrijos, Gasan, Sta. Cruz
Masbate: Masbate, Cataingan, Dimasalang, Aroroy
NCR: Las Piñas, Mandaluyong, Makati, Pasay, Parañaque
Northern Luzon: La Trinidad, Baguio, Lingayen, Tarlac, San Carlos, Urdaneta, San Fernando, Alaminos, Candon, Laoag, Bangued Abra
Oriental Mindoro: Calapan, Pinamalayan, Roxas, Puerto Galera
Occidental Mindoro: San Jose, Sablayan, Mamburao
Quezon: Gumaca, Tagkawayan, Mulanay, Quezon, Atimonan, Lucban, Infanta, Lucena, Sariaya, Candelaria, Tiaong, Dolores

VISAYAS

Panay Island: Culasi, San Jose Antique, Miag-ao, Ilo-Ilo, Estancia, Roxas Capiz, Passi, Boracay
Samar: Balangiga, Borongan, Catbalogan, Guiuan
Leyte: Tacloban
Bohol: Tagbilaran

MINDANAO

Davao: Davao, Buhangin, Matina, Tagum, Mati, Malalag
Cotabato: Kidapawan, Kabacan



The Board of Directors and Corporate Officers

Board of Directors and Corporate Officers

DR. JAIME ARISTOTLE B. ALIP
Chairman

MS. MARIVIC M. AUSTRIA
President and CEO

MS. LORENZA DT. BAÑEZ
Treasurer

MS. MERCEDITA G. MEDEQUISO
Independent Director
Governance Committee Chairperson

DR. GILBERTO M. LLANTO
Independent Director
Audit Committee Chairperson

DR. DOLORES M. TORRES
Director/Vice Chairman

MS. MA. LUISA P. CADAING
Director

MS. ANNABILLE D. CERENO
Independent Director

MR. EDUARDO D. JOSE, JR.
Independent Director
Risk Committee Chairperson

MS. LOURDES B. DIJAN
Corporate Secretary

ATTY. EDGARDO R. MARILIM
Corporate Legal Counsel

The Management Committee

Management Committee

MS. MARIVIC M. AUSTRIA
President/CEO

MS. LORENZA dT. BANEZ
Executive Vice-President

MR. EDGAR V. CAUYAN
Senior Vice-President for Information Technology

MS. MARISSA M. DE MESA
Senior Vice-President for Risk Management

MS. GLENDA C. MAGPANTAY
Assistant Vice-President for Operations

MS. LAARNE D. PAJE
Assistant Vice-President for Audit

MR. RONNIE D. FALLEGA
Chief Information Officer

MS. LOURDES B. DIJAN
Executive Vice-President for Finance

MS. LYNETH L. DEREQUITO
Senior Vice-President for Compliance

MS. HERMINIGILDA P. MANUBA
Assistant Vice-President for Operations

MS. RIZALINE A. MANALO
Assistant Vice-President for Operations

MS. ROWENA F. GALARDE
Assistant Vice-President for Finance and Accounting

MS. JEANNIE T. LA ROSA
General Accounting Manager

MS. BABY ANALYN A. MALABORBOR
Senior Regional Director

MS. CLARITA G. MERCADO
Regional Director

MR. JONEL A. RAPERA
Regional Director

MS. MARISOL L. ECHAVARIA
Regional Director

MS. JENET R. CONSTANTINO
Regional Director

MS. MEDY M. VALENZUELA
Regional Director

MS. MARISSA DL. CARANDANG
Regional Director

MR. JUANITO I. DELA CUEVA
Regional Director

MS. JESSICA J. DICHOSO
Regional Director

MS. RAQUEL B. ZARAGOZA
Regional Director

MS. MARISSA P. ESCALONA
Regional Director

MR. DOMINGO F. ROMASANTA JR.
Regional Director

MS. JOCELYN L. LAMPAS
Regional Director

MS. MARIDEL C. MENDOZA
Regional Director

MS. WILMA D. LAURIO
Regional Director

MS. MA. LUELLA S. BULALACAO
Regional Director

MR. FUNDARD A. BUNCARAS
Regional Director

Partners

OUR LOCAL PARTNERS

BANCNET
BANCO DE ORO
BANK OF THE PHILIPPINE ISLANDS
BDO REMIT
CEBUANA LHUILLIER
DEVELOPMENT BANK OF THE PHILIPPINES
GLOBE GCASH
LAND BANK OF THE PHILIPPINES
MONEYGRAM
PEOPLE'S CREDIT AND FINANCE CORPORATION
PHILHEALTH
PLANTERS DEVELOPMENT BANK
SECURITY BANK
SECURITY BANK CORPORATION
SMALL BUSINESS CORPORATION
SOCIAL SECURITY SYSTEM
TRANS-FAST
UNION BANK OF THE PHILIPPINES
XOOM GLOBAL MONEY TRANSFER
XPRESSMONEY

OUR INTERNATIONAL PARTNERS

GRAMEEN FOUNDATION, USA
INTERNATIONAL FINANCE CORPORATION (IFC)
WOMEN'S WORLD BANKING
ATTF LUXEMBOURG

Audited Financial statements

CARD BANK, INC.
(A MICROFINANCE-ORIENTED RURAL BANK)
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2016	2015
ASSETS		
Cash and other cash items	**₱146,860,868**	₱100,838,896
Due from Bangko Sentral ng Pilipinas (Notes 6 and 13)	**189,947,924**	149,539,008
Due from other banks (Note 6)	**1,734,571,649**	1,158,855,488
Available-for-sale investments (Note 7)	**231,231,531**	136,508,213
Loans and receivables (Note 8)	**6,398,359,567**	5,324,253,781
Held-to-maturity investments (Note 9)	**246,006,757**	238,220,396
Investment in an associate (Note 10)	**170,182,354**	118,783,722
Property and equipment (Note 11)	**555,237,686**	519,858,626
Retirement asset (Note 19)	**219,442,604**	126,100,919
Deferred tax assets (Note 21)	**32,670,711**	46,027,575
Other assets (Note 12)	**144,304,477**	167,480,409
	₱10,068,816,128	₱8,086,467,033
LIABILITIES AND EQUITY		
Liabilities		
Deposit liabilities (Notes 13 and 22)		
Demand	**₱63,086,029**	₱152,278,885
Savings	**5,906,098,779**	4,360,487,687
	5,969,184,808	4,512,766,572
Bills payable (Note 14)	**1,371,050,423**	1,261,701,810
Income tax payable	**98,458,483**	106,109,509
Other liabilities (Note 15)	**319,742,205**	439,805,859
	7,758,435,919	6,320,383,750
Equity		
Capital stock (Note 17)		
Preferred stock	**570,827,000**	499,884,000
Common stock	**543,185,700**	492,286,800
	1,114,012,700	992,170,800
Surplus	**1,192,135,303**	772,926,265
Remeasurement gains on retirement liabilities (Note 19)	**16,507,237**	9,997,169
Share in other comprehensive loss of an associate (Note 10)	**(8,692,044)**	(8,173,090)
Net unrealized losses on available-for-sale investments (Note 7)	**(3,582,987)**	(837,861)
	2,310,380,209	1,766,083,283
	₱10,068,816,128	₱8,086,467,033

See accompanying Notes to Financial Statements.

CARD BANK, INC.
(A MICROFINANCE-ORIENTED RURAL BANK)

STATEMENTS OF INCOME

	Years Ended December 31	
	2016	2015
INTEREST INCOME ON		
Loans and receivables (Note 8)	**₱2,898,808,240**	₱2,429,605,719
Investment securities (Notes 7 and 9)	**16,885,910**	16,417,695
Due from other banks (Note 6)	**16,820,310**	8,262,581
	2,932,514,460	2,454,285,995
INTEREST EXPENSE ON		
Deposit liabilities (Notes 13 and 22)	**111,203,343**	102,803,409
Bills payable (Note 14)	**46,855,651**	24,436,751
	158,058,994	127,240,160
NET INTEREST INCOME	**2,774,455,466**	2,327,045,835
Miscellaneous (Note 18)	**17,159,504**	17,611,672
TOTAL OPERATING INCOME	**2,791,614,970**	2,344,657,507
OPERATING EXPENSES		
Compensation and benefits (Notes 19 and 22)	**849,178,079**	694,381,592
Transportation and travel	**173,412,626**	135,783,941
Taxes and licenses (Note 21)	**161,363,925**	131,176,178
Rent (Notes 20 and 22)	**106,598,931**	79,803,354
Information and technology (Note 22)	**84,027,093**	60,233,514
Depreciation and amortization (Note 11)	**83,273,945**	73,812,754
Stationery and office supplies	**77,310,850**	63,767,561
Employee trainings (Note 22)	**57,846,304**	49,240,958
Security, messengerial and janitorial	**53,290,164**	43,450,444
Postage, telephone and cable	**46,268,539**	35,896,351
Provision for credit losses (Note 8)	**40,935,931**	52,507,667
Members training and development (Note 22)	**40,166,483**	79,212,352
Power, light and water	**26,812,503**	23,629,521
Insurance	**21,772,829**	19,515,081
Management and other professional fees	**19,853,865**	17,581,814
Seminars and meetings (Note 22)	**12,074,164**	10,285,783
Repairs and maintenance	**8,881,824**	8,373,443
Program monitoring and evaluation	**7,247,955**	6,790,893
Miscellaneous (Notes 18 and 22)	**47,579,047**	61,587,470
	1,917,895,057	1,647,030,671
INCOME BEFORE SHARE IN NET INCOME OF AN ASSOCIATE	**873,719,913**	697,626,836
SHARE IN NET INCOME OF AN ASSOCIATE (Note 10)	**63,917,586**	36,760,807
INCOME BEFORE TAX	**937,637,499**	734,387,643
PROVISION FOR INCOME TAX (Note 21)	**263,428,461**	217,838,302
NET INCOME	**₱674,209,038**	₱516,549,341

See accompanying Notes to Financial Statements.

CARD BANK, INC.
(A MICROFINANCE-ORIENTED RURAL BANK)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2016	2015
NET INCOME	**₱674,209,038**	₱516,549,341
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that may not be classified to the statement of income:		
Remeasurement gains (losses) on retirement liabilities (Note 19)	**9,300,096**	(12,675,386)
Income tax effects (Note 21)	**(2,790,028)**	3,802,615
	6,510,068	(8,872,771)
Items that may be reclassified to the statement of income:		
Unrealized losses on available-for-sale investments (Note 7)	**(3,921,608)**	(2,331,240)
Income tax effects (Note 21)	**1,176,482**	699,371
	(2,745,126)	(1,631,869)
Share in other comprehensive loss of an associate (Note 10)	**(518,954)**	(9,742,074)
	(3,264,080)	(11,373,943)
TOTAL COMPREHENSIVE INCOME	**₱677,455,026**	₱496,302,627

See accompanying Notes to Financial Statements.

CARD BANK, INC.
(A MICROFINANCE-ORIENTED RURAL BANK)

STATEMENTS OF CHANGES IN EQUITY

	Preferred Stock (Note 17)	Common Stock (Note 17)	Surplus	Remeasurement Gains on Retirement Liabilities (Note 19)	Share in an Associate's Other Comprehensive Loss (Note 10)	Net Unrealized Losses on Available-for-sale Investments (Note 7)	Total
Balance at January 1, 2016	**₱499,884,000**	**₱492,286,800**	**₱772,926,265**	**₱9,997,169**	**(₱8,173,090)**	**(₱837,861)**	**₱1,766,083,283**
Total comprehensive income	–	–	**674,209,038**	**6,510,068**	**(518,954)**	**(2,745,126)**	**677,455,026**
Application of deposit for future stock subscription to issued shares	**42,191,010**	**26,097,100**	–	–	–	–	**68,288,110**
Collection of subscription receivable (Note 23)	**28,751,990**	**24,801,800**	–	–	–	–	**53,553,790**
Cash dividends	–	–	**(255,000,000)**	–	–	–	**(255,000,000)**
Balance at December 31, 2016	**₱570,827,000**	**₱543,185,700**	**₱1,192,135,303**	**₱16,507,237**	**(₱8,692,044)**	**(₱3,582,987)**	**₱2,310,380,209**
Balance at January 1, 2015	₱496,938,400	₱470,438,900	₱441,202,779	₱18,869,940	₱1,568,984	₱794,008	₱1,429,813,011
Total comprehensive income	–	–	516,549,341	(8,872,771)	(9,742,074)	(1,631,869)	496,302,627
Collection of subscription receivable (Note 23)	2,945,600	21,847,900	–	–	–	–	24,793,500
Cash dividends	–	–	(184,825,855)	–	–	–	(184,825,855)
Balance at December 31, 2015	₱499,884,000	₱492,286,800	₱772,926,265	₱9,997,169	(₱8,173,090)	(₱837,861)	₱1,766,083,283

See accompanying Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱937,637,499**	₱734,387,643
Adjustments for:		
Depreciation and amortization (Note 11)	**83,273,945**	73,812,754
Share in net income of an associate (Note 10)	**(63,917,586)**	(36,760,807)
Provision for credit losses (Note 8)	**40,935,931**	52,507,667
Retirement expense (Note 19)	**25,758,411**	24,691,258
Amortization of discount on bills payable (Note 14)	**5,069,709**	4,028,347
Amortization of net premium on held-to-maturity investments (Note 9)	**1,651,028**	2,668,767
Gain on disposal of property and equipment (Note 18)	**(972,556)**	(1,940,537)
Amortization of net premium on available-for-sale investments (Note 7)	**699,869**	684,527
Net unrealized (gains) losses on foreign exchange transactions	**(260,171)**	183,224
Operating income before changes in operating assets and liabilities:	**1,029,876,079**	854,262,843
Decrease (increase) in the amounts of:		
Loans and receivables	**(1,115,041,717)**	(1,068,618,874)
Other assets	**22,797,150**	(100,548,780)
Increase (decrease) in the amounts of:		
Deposit liabilities	**1,456,418,236**	992,866,145
Other liabilities	**10,255,913**	121,582,245
Net cash generated from operations	**1,404,305,661**	799,543,579
Income taxes paid	**(259,336,169)**	(172,775,311)
Contribution to retirement fund (Note 19)	**(109,800,000)**	(75,867,516)
Net cash provided by operating activities	**1,035,169,492**	550,900,752
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property and equipment (Note 11)	**(118,939,820)**	(173,167,008)
Available-for-sale investments	**(99,344,795)**	–
Held-to-maturity investments (Note 9)	**(72,934,670)**	(34,859,499)
Software costs (Notes 12 and 23)	**–**	(14,046,232)
Dividends received from an associate (Note 10)	**12,000,000**	10,400,000
Additional investment in an associate (Notes 10 and 23)	**(29,600,000)**	(10,400,000)
Proceeds from:		
Maturity of held-to-maturity investments (Note 9)	**63,497,281**	52,836,000
Disposal of property and equipment	**1,638,153**	1,940,537
Net cash used in investing activities	**(243,683,851)**	(167,296,202)

(Forward)

	Years Ended December 31	
	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES		
Availments of bills payable (Note 14)	**₱925,858,904**	₱1,310,718,567
Settlements of bills payable (Note 14)	**(821,580,000)**	(935,000,000)
Proceeds from (Note 17):		
Collection of subscriptions receivable on preferred stock	**28,751,990**	2,826,800
Collection of subscriptions receivable on common stock	**24,801,800**	4,886,900
Dividends paid (Note 17)	**(287,431,457)**	(135,806,308)
Net cash provided by (used in) financing activities	**(129,598,763)**	247,625,959
EFFECTS OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS	**260,171**	(183,224)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**662,147,049**	631,047,285
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and other cash items	**100,838,896**	65,451,150
Due from Bangko Sentral ng Pilipinas	**149,539,008**	124,989,147
Due from other banks	**1,158,855,488**	587,745,810
	1,409,233,392	778,186,107
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and other cash items	**146,860,868**	100,838,896
Due from Bangko Sentral ng Pilipinas	**189,947,924**	149,539,008
Due from other banks	**1,734,571,649**	1,158,855,488
	₱2,071,380,441	₱1,409,233,392

OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS

	Years Ended December 31	
	2016	2015
Interest received	**₱2,914,385,026**	₱2,400,854,569
Interest paid	**153,044,736**	107,072,802
Dividend received	**12,000,000**	10,400,000

See accompanying Notes to Financial Statements.

1. Corporate Information

CARD Bank, Inc. (A Microfinance-Oriented Rural Bank) (the Bank) was incorporated in the Philippines on July 1, 1997. The Bank was granted the authority to operate by the Bangko Sentral ng Pilipinas (BSP) on August 25, 1997 and formally opened for business on September 1, 1997. It is currently engaged in extending microcredit and rural credit to small farmers and tenants and to deserving rural industries or enterprises. The Bank offers a wide range of products and services such as deposit products, loans, and treasury that serve mainly to the consumer market.

On April 16, 2011, the Bank's Board of Directors (BOD) and stockholders approved the amendment to the Articles of Incorporation, adding to the Bank's purpose the function to act as a micro-insurance agent for the presentation, marketing, sale, and servicing of micro-insurance products. This was subsequently approved by the BSP and the Insurance Commission on February 10, 2012 and January 17, 2012, respectively. The Philippine Securities and Exchange Commission (SEC) approved and issued the certificate of filing of amended Articles of Incorporation on June 29, 2012.

The Bank is a member of Center for Agriculture and Rural Development (CARD) - Mutually Reinforcing Institutions (MRI).

As at December 31, 2016 and 2015, the Bank is 29.6%-owned by CARD, Inc.

The Bank's executive office is located at 20 M. L. Quezon Street, City Subdivision, San Pablo City, Laguna. The head office is located at No. 35 P. Burgos, corner M. Paulino Street, San Pablo City, Laguna. As at December 31, 2016 and 2015, the Bank has 78 and 69 branches, respectively.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

The financial statements of the Bank include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of the RBU and the FCDU is the Philippine peso and United States dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine pesos (see accounting policy on Foreign Currency Transactions and Translation). The financial statements of these units are combined after eliminating inter-unit accounts.

Statement of Compliance

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

Presentation of Financial Statements
The statements of financial position of the Bank are presented 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 (non-current) is presented in Note 16.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if and only if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The Bank assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Bank and all of the counterparties.

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

Changes in Accounting Policies and Disclosures
Except for these new and amended standards and interpretations which became effective beginning January 1, 2016, the accounting policies adopted are consistent with those of the previous financial year.

- Amendments to PFRS 10, PFRS 12 and Philippine Accounting Standard (PAS) 28, *Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Joint Arrangements*: *Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Disclosure Initiative*
- Amendments to PAS 16 and PAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*

Annual Improvements to PFRSs (2012 - 2014 Cycle)
- Amendments to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations, Changes in Methods of Disposal*
- Amendments to PFRS 7, *Servicing Contracts*
- Amendments to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
- Amendments to PAS 19, *Discount Rate: Regional Market Issue*
- Amendments to PAS 34, *Disclosure of Information 'Elsewhere in the Interim Financial Report*

The aforementioned new and amended standards did not have material impact on the financial position or performance of the Bank.

Foreign Currency Transactions and Translation

Transactions and balances

The books of accounts of the RBU are maintained in Philippine peso, the RBU's functional currency, while those of the FCDU are maintained in USD, the FCDU's functional currency. For financial reporting purposes, the foreign currency-denominated monetary assets and monetary liabilities in the RBU are translated in Philippine peso based on the BSP closing rate prevailing at end of the year and foreign currency-denominated income and expenses based on the exchange rates at transaction dates. Foreign exchange differences arising from restatements of foreign currency-denominated assets and liabilities in the RBU are credited to or charged against the operations in the period which the rates change. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

FCDU

As at reporting date, the assets and liabilities of the FCDU are translated into the Bank's presentation currency, the Philippine peso, using BSP closing exchange rates and its income and expenses are translated at the exchange rates at transaction dates.

Exchange differences arising on translation are taken directly to the statement of comprehensive income under 'Cumulative translation adjustment'. Upon actual remittance of FCDU income to RBU, the related exchange differences arising from translation lodged under 'Cumulative translation adjustment' is reclassified to the statement of income in the RBU books.

Fair Value Measurement

For measurement and disclosure purposes, the Bank determines the fair value of an asset or liability at initial measurement 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 a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

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

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

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

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy (see Note 4).

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks that are highly liquid, readily convertible to known amounts of cash with original maturities of three months or less from dates of placements and which are subject to insignificant risk of changes in value.

Financial Instruments - Initial Recognition and Subsequent Measurement
Date of recognition
Regular way purchases or sales of financial assets that require delivery of the assets within the time frame established by regulation or convention in the marketplace are recognized on settlement date. Deposits and receivables from borrowers are recognized when cash is received or advanced to the borrowers.

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

As at December 31, 2016 and 2015, the Bank has no outstanding financial instruments at FVTPL.

'Day 1' difference
Where the transaction price in a non-active market is different from the fair value 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 under 'Miscellaneous' unless it qualifies for recognition as some other type of asset. In cases where the transaction price used is made of data which is not observable, the difference between

the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the 'Day 1' difference amount.

Embedded derivatives
Embedded derivatives are separated from their host contracts and carried at fair value when the entire hybrid contracts (composed of both the host contract and the embedded derivative) are not accounted for as financial assets at FVTPL, when their economic risks and characteristics are not closely related to those of their respective host contracts, and when a separate instrument with the same terms as the embedded derivatives would meet the definition of a derivative. The Bank assesses whether embedded derivatives are required to be separated from the host contract when the Bank first becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows.

AFS investments
AFS investments are those which are designated as such or do not qualify to be classified as financial assets at FVTPL, HTM investments, or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. The Bank's AFS investments are composed of government debt securities.

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

When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized in the statement of income under 'Miscellaneous' account. Interest earned on holding AFS debt securities are reported as 'Interest income' using the effective interest method. The losses arising from impairment of AFS investments are recognized as 'Provision for credit losses' in the statement of income.

Loans and receivables
This accounting policy relates to 'Due from BSP', 'Due from other banks', 'Loans and receivables' and security deposits under 'Other assets'. These are financial assets with fixed or determinable payments that are not quoted in an active market other than:

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

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

HTM investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Bank's management has the positive intention and ability to hold to maturity. Where the Bank would sell other than insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments.

After initial measurement, these are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income. Gains and losses are recognized when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of income under 'Provision for credit losses'.

Financial liabilities at amortized cost
These are issued financial instruments or their components, which are not designated at FVTPL 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 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 not qualified and not designated as FVTPL, are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account the impact of applying the effective interest method of amortization for any related premium, discount and any directly attributable transaction costs.

When the Bank breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the reporting period and before the authorization of the financial statements for issue, not to demand payment as a consequence of the breach. The Bank classifies the liability as current because, at the end of the reporting period, it does not have an unconditional right to defer its settlement for at least twelve months after that date.

These policies apply to liabilities classified under 'Deposit liabilities', 'Bills payable' or other financial liabilities under 'Other liabilities' in the statement of financial position.

<u>Derecognition of Financial Assets and Financial Liabilities</u>
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:

- the rights to receive cash flows from the asset have expired or transferred; or
- 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

- the Bank has transferred its rights to receive cash flows from the asset either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred the control of 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 of the asset, the Bank continues to recognize the transferred asset to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

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

Impairment of Financial Assets
The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial asset carried at amortized cost
For financial assets carried at amortized cost, 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 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 present value of the estimated future cash flows is discounted at the financial asset's original EIR.

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 under 'Provision for credit losses'. Interest income continues to be recognized based on the original EIR of the asset. The 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 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.

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

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited under 'Miscellaneous' in the statement of income.

Restructured loans
Where possible, the Bank seeks to restructure receivables, which may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subjected to individual and collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan 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.

AFS investments
For AFS investments, the Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets are impaired. In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of income. Future interest income is based on the reduced carrying amount and is accrued based on the original EIR. Such accrual is recorded as part of 'Interest income' in the statement of income. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

<u>Investment in an Associate</u>
An associate is an entity over which the Bank has a significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The Bank's investment in an associate is accounted for using the equity method.

Under the equity method, investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Bank's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The statement of income reflects the Bank's share of the results of operations of the associate. Any change in OCI of the associate is presented as part of the Bank's OCI. In addition, when there has been a change recognized directly in the equity of the associate, the Bank recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Bank and associate are eliminated to the extent of the interest in the associate.

The financial statements of the associate are prepared for the same reporting period as the Bank. The associate's accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

Upon loss of significant influence over the associate, the Bank measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in statement of income.

Property and Equipment

Land is stated at cost less any impairment in value while depreciable property and equipment such as furniture, fixtures and equipment, building, transportation equipment, leasehold improvements, and land improvements are stated at cost less accumulated depreciation and any impairment in value.

Construction in progress is stated at cost less any impairment in value. The initial cost is comprised of construction costs and any other directly-attributable costs of bringing asset to its working condition and location for its intended use, including borrowing costs. Construction in progress is not depreciated until such time that the relevant assets are completed and are ready for use.

Depreciation and amortization commences once the property and equipment are available for use and is computed using the straight-line method over the estimated useful lives (EUL) of the respective assets, except for leasehold improvements which are amortized over the shorter of the EUL of the improvements or the terms of the related leases. The EUL of the depreciable assets are as follows:

Furniture, fixtures and equipment	3 to 7 years
Building	7 to 15 years
Transportation equipment	3 years
Leasehold improvements	3 years or the terms of the related leases, whichever is shorter
Land improvements	3 years

The EUL, residual value and 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.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is credited against profit or loss.

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

Intangible Assets

Intangible assets consist of software costs that are recognized under 'Other assets' in the statement of financial position. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets is recognized in the statement of income in the expense category that is consistent with the function of the intangible assets.

If the entity acquires intangible assets by subcontracting other parties (e.g., development-and-supply contracts or research and development contracts), the entity must exercise judgment in determining whether it is acquiring an intangible asset or whether it is obtaining goods and services that are being used in the development of an intangible asset by the entity itself. In the latter case, the entity will only be able to recognize an intangible asset if the expenditures meet the criteria which confirm that the related activity is at a sufficiently advanced stage of development, which shall be both technically and commercially viable and includes only directly attributable costs.

Only expenditure arising from the development phase can be considered for capitalization, with all expenditure on research being recognized as an expense when it is incurred.

Software costs recognized as assets are amortized on a straight-line basis over the EUL of three (3) to ten (10) years. The amortization period and method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. Software costs under development are not amortized until available for use.

Impairment of Nonfinancial Assets

At each reporting date, the Bank assesses whether there is any indication that its nonfinancial assets (e.g., investment in an associate, property and equipment, and intangible 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 or CGU exceeds its recoverable amount, the asset (or CGU) 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 (or CGU).

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. 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.

Retirement Benefits

The Bank operates a defined benefit retirement plan and a hybrid retirement plan, which require contributions to be made to a separately administered fund. The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the 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.

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

Equity

Capital stock
Capital stock is measured at par value for all shares issued and outstanding. When the Bank issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax. The subscribed capital stock is reported in equity less the related subscription receivable.

Surplus
Surplus represents cumulative balance of periodic net income or loss, dividend distributions, if any, to the shareholders, effect of changes in accounting policy, and all other capital adjustments.

Dividends
Dividends on preferred and common shares are recognized as a liability and deducted from retained earnings when approved by the BOD of the Bank. Dividends declared during the year that are approved after the reporting date are dealt with as an event after the reporting date.

Deposit for Future Stock Subscription

Deposit for future stock subscription (DFS) are treated as an equity account if all of the following conditions are present as at reporting date:

- the unissued authorized capital stock of the Bank is insufficient to cover the amount of shares indicated in the contract;
- there is BOD approval on the proposed increase in authorized capital stock (for which a deposit was received by the Bank);
- there is stockholders' approval of said proposed increase; and
- the application for the approval of the proposed increase has been filed with the BSP and the SEC.

As at December 31, 2016, the Bank's DFS met the foregoing provisions and is treated as equity.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured, regardless of when payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Bank assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal. The Bank has concluded that it is acting as a principal in all of its revenue.

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

Interest income

For all financial instruments measured at amortized cost and AFS investments, income is recorded at EIR, which is the rate that exactly discounts estimated future cash flows through the expected useful 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 (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as 'Interest income' in the statement of income.

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Commission income, deposit-related fees, penalties and bank charges

Commissions are accrued when earned. Deposit-related fees, penalties and bank charges are recognized only upon collection or where there is a reasonable degree of certainty as to their collectability. These items are reported under 'Miscellaneous' in the statement of income.

Rental income

Rental income arising on leased properties is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the statement of income under 'Miscellaneous'.

Expense Recognition

Expense is recognized when it is probable that decrease in the future economic benefits related to decrease in an asset or an increase in liability has occurred and that the decrease in economic benefits can be measured reliably. Revenues and expenses that relate to the same transaction or other event are recognized simultaneously.

Interest expense

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

Other expenses

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

Leases

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

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

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

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

Bank as lessee

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

Bank as lessor

Leases where the Bank does not transfer substantially all the risk and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the year in which they are earned.

Income Taxes

Current tax

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

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

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

Current tax and deferred tax relating to items recognized directly in equity is recognized in OCI, and not in the statement of income.

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

Provisions and Contingencies

Provisions are recognized when the Bank has a present obligation (legal or constructive), as a result of a past event and 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.

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

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

Events After the Reporting Period

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

Standards Issued but not yet Effective

Standards issued but not yet effective are listed below. The listing consists of standards and interpretations issued, which the Bank reasonably expects to be applicable at a future date. Unless otherwise indicated, the Bank does not expect that the future adoption of the said pronouncements to have a significant impact on its financial statements. The Bank intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2017

- Amendments to PFRS 12, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Amendments to PAS 7, *Statement of Cash Flows*, *Disclosure Initiative*
- Amendments to PAS 12, *Recognition of Deferred Tax Assets for Unrealized Losses*

Effective beginning on or after January 1, 2018

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

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

Effective beginning on or after January 1, 2018

- PFRS 9, *Financial Instruments*
  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement and impairment. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory.

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

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*
  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

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

  Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Bank is currently assessing the impact of adopting PFRS 16.

3. Significant Accounting Judgments and Estimates

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

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

Estimates

(a) Credit losses on loans and receivables

The Bank reviews its loans and receivables at each reporting date to assess whether an allowance for credit losses should be set up. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Past-due accounts for more than 90 days, and loans wherein the borrower requested moratorium but no subsequent collection is made after the moratorium period ends as at year-end, fall under specific loan loss.

In addition, the Bank makes a collective impairment assessment against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on changes in factors that are indicative of incurred losses, such as deterioration in payment status among others.

As at December 31, 2016 and 2015, the carrying values of loans and receivables and related allowance for credit losses are disclosed in Note 8.

(b) Net plan assets and retirement expense

Net plan assets and retirement expense are dependent on the selection of certain assumptions used by the actuary in calculating such amounts. Those assumptions are described in Note 19 and include, among others, discount rate, future salary increase, and average remaining working lives of employees. While management believes that the assumptions are reasonable and appropriate, significant differences in the Bank's actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligation.

As at December 31, 2016 and 2015, the present value of retirement obligation and fair value of plan assets of the Bank are disclosed in Note 19.

As at December 31, 2016 and 2015, management assessed that there is no significant accounting judgment exercised with respect to the preparation of the financial statements.

4. **Fair Value Measurement**

The fair values of cash and cash equivalents, current loans and receivables, current bills payable and other liabilities approximate their carrying values in view of the relatively short-term maturities of these instruments.

As at December 31, 2016 and 2015, the Bank's financial instruments where the carrying values do not approximate fair value pertain to security deposits recorded under 'Other assets'. These are reported at cost and are not significant in relation to the Bank's asset portfolio.

Fair values of noncurrent loans and receivables are estimated based on the discounted cash flow methodology using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. Where the instrument reprices on a quarterly basis or has a relatively short maturity, the carrying amounts approximate fair values.

As at December 31, 2016 and 2015, the Bank has no financial instruments with repricing and floating interest rates.

Quoted securities classified as AFS and HTM investments are generally based on quoted market prices, which is within the bid-ask price. AFS and HTM investments of the Bank are categorized as Level 2 in the absence of bid-offer as at reporting date and due to low volume of trading activity in the market.

Fair values of noncurrent deposit liabilities are estimated using the discounted cash flow methodology, using the Bank's current incremental borrowing rates for similar borrowings, ranging from 1.0% to 1.1% in 2016 and 2015 with maturities consistent with those remaining for the liability being valued, if any.

Fair value of long-term bills payable were based on interpolation of Philippine zero rate of 3.7% as adjusted for 2.7% credit spread as at reporting date.

Fair Value Hierarchy

The following table summarizes the carrying amounts and the fair values by level of the fair value hierarchy of the Bank's financial assets and liabilities that are carried at fair value or for which fair value is disclosed as at December 31, 2016 and 2015 (amounts in thousands):

	2016				
	Carrying Value	Level 1	Level 2	Level 3	Total
Recurring fair value measurements					
AFS investments	**₱231,232**	**₱157,771**	**₱73,461**	**₱–**	**₱231,232**
Assets and liabilities for which fair values are disclosed:					
Financial assets					
HTM investments	**246,007**	**–**	**251,015**	**–**	**251,015**
Loans and receivables					
Receivables from borrowers	**35,593**	**–**	**–**	**43,051**	**43,051**
Financial liabilities					
Bills payable	**494,231**	**–**	**–**	**501,397**	**501,397**
Deposit liabilities					
Special savings	**596,570**	**–**	**–**	**571,040**	**571,040**

	2015				
	Carrying Value	Level 1	Level 2	Level 3	Total
Recurring fair value measurements					
AFS investments	₱136,508	₱63,334	₱73,174	₱–	₱136,508
Assets and liabilities for which fair values are disclosed:					
Financial assets					
HTM investments	174,488	–	176,371	–	176,371
Loans and receivables					
Receivables from borrowers	30,440	–	–	35,356	35,356
Financial liabilities					
Bills payable	534,557	–	–	540,347	540,347
Deposit liabilities					
Special savings	453,828	–	–	432,094	432,094

As at December 31, 2016, there were no transfers of financial instruments between Levels 1, 2, and 3.

5. Financial Risk Management Objectives and Policies

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

- Credit risk
- Market risk
- Liquidity risk

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

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

The BOD, through its Risk Oversight Committee (ROC), is responsible for monitoring the Bank's implementation of risk management policies and procedures and for reviewing the adequacy of risk management framework in relation to the risks faced by the Bank.

The ROC regularly reports to the BOD the results of reviews of actual implementation of risk management policies. The risk management of the Bank is strengthened in conjunction with Audit Committee (AC) and Internal Audit (IA) functions. IA undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the AC.

In addition, an Asset Liability Committee (ALCO) with members from Executive Committee and Management Committee of the Bank, together with the Senior Finance and Accounting officers regularly performs analysis of the operating and financial status of the Bank. In addition, ALCO handles the financial risk management of the Bank.

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 industry concentrations, and by monitoring exposures in relation to such limits.

Management of credit risk
Credit risk is being managed by instilling credit discipline both among the staff and the borrowers. Staff performs close-monitoring and assessment of account throughout the borrowing period, hence, on-time service delivery motivate the borrowers to fulfill their financial obligation to the highest standards. Borrowers are well-oriented and committed on the credit repayment design they undertake. In general, borrowers are also perpetual savers. Consequently, their pledge savings balances serve as guarantee to their loans, which increase their borrowing capacity.

Each business unit has a Unit Manager who reports on all credit related matters to the local management consisting of the Branch Manager and the Regional Director. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolio. Regular audits of business units and credit processes are undertaken by IA. Field operations per unit are frequently monitored by the Executive Committee and Management Committee by actual visitations at the center level and unit office covered area.

In line with the Bank's mission of "*providing continued access to integrated microfinance and social development services to an expanding membership base by organizing and empowering women and their families*", microfinance services are part of the major programs of the Bank. Accordingly, the microfinance loans portfolio represents the bulk of the Bank's assets.

In microfinance lending operations, the field operations personnel are provided with thorough skills training for effective and efficient service delivery. The operations manual is a reference for every operations personnel.

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.
Credit worthiness of microfinance clients is deepened through ownership of the Bank's preferred stock, opportunity for their children to avail scholarship program, and chance to become a regular staff of CARD-MRI. Maximum loan amount per account holder is below 2.0% of the Bank's equity and does not fall under directors, officers, stockholders and related interests (DOSRI) classification.

All past due or impaired accounts are reported on a daily, weekly and monthly basis. Consistent monitoring for this group of accounts is established by competent and diligent staff to maximize recovery. Incentives for bad debts collection have been established and subjected to review and assessment periodically. These were given to staff to recover from the accounts and to fully install credit discipline to clients. Restructuring of loan payments are done after full compliance of approved policies and procedures. Writing off bad accounts are approved by the BOD and reported to the BSP in compliance with the rules and regulations for banks.

An independent research unit continuously conducts market research as a tool for updating and developing loan products responsive to the needs and demands of existing and potential clients. Hence, individual loans for advance microfinance clients have been developed and are being tested as a complement to their micro-entrepreneurial capacities. Loans under this system are fully backed-up by their co-borrower, co-maker, savings balances and/or collateral required as appropriate.

The ROC closely monitors the overall credit operations. Identified existing and potential risks are acted upon appropriately and are reported during monthly BOD meeting.

Maximum exposure to credit risk
The carrying values of the financial assets and liabilities best represent the maximum exposure to credit risk. The table below shows the analysis of the maximum exposure to risk, net of allowance for credit losses, for financial assets as at December 31, 2016 and 2015:

	2016			
	Carrying Amount	**Fair Value of Collateral**	**Maximum Exposure to Credit Risk**	**Financial Effect of Collateral or Credit Enhancement**
Receivables from borrowers	**₱6,307,606,208**	**₱3,816,959,971**	**₱5,573,102,743**	**₱734,503,465**

	2015			
	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral or Credit Enhancement
Receivables from borrowers	₱5,233,878,644	₱3,197,922,781	₱4,453,664,402	₱780,214,242

Credit enhancement on receivable from borrowers pertains to deposit hold-out from pledge savings equivalent to 15.0% of the original amount of the loan to the member, deed of assignment, and real estate mortgage as at December 31,2016 and 2015 (Note 13).

As at December 31, 2016 and 2015, the Bank has no financial assets with rights to offset in accordance with PAS 32. There are also no financial assets that are subject to an enforceable master netting arrangements or similar agreements which require disclosure in the financial statements in accordance with the offsetting disclosure requirements of PFRS 7.

Additionally, the tables below show the distribution of maximum credit exposure by industry sector of the Bank as at December 31, 2016 and 2015, net of unearned income (in thousands):

	2016				
	Loans and Receivables*	**AFS Investments**	**HTM Investments**	**Security Deposits****	**Total**
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	**₱5,786,233**	**₱–**	**₱–**	**₱–**	**₱5,786,233**
Financial institutions	**1,837,377**	**–**	**–**	**–**	**1,837,377**
Government	**195,443**	**231,232**	**246,007**	**–**	**672,682**
Fishing	**390,578**	**–**	**–**	**–**	**390,578**
Real estate, renting and business activities	**163,047**	**–**	**–**	**33,826**	**196,873**
Education	**180,345**	**–**	**–**	**–**	**180,345**
Manufacturing	**16,581**	**–**	**–**	**–**	**16,581**
Agriculture, hunting and forestry	**15,588**	**–**	**–**	**–**	**15,588**
Other community, social and personal service activities	**4,281**	**–**	**–**	**–**	**4,281**
Health and social work	**59**	**–**	**–**	**–**	**59**
	8,589,532	**231,232**	**246,007**	**33,826**	**9,100,597**
Less allowance for credit losses	**266,653**	**–**	**–**	**–**	**266,653**
Total	**₱8,322,879**	**₱231,232**	**₱246,007**	**₱33,826**	**₱8,833,944**

**Consist of due from BSP and other banks, receivable from borrowers and other receivables*
***Reported under 'Other Assets'*

	2015				
	Loans and Receivables*	AFS Investments	HTM Investments	Security Deposits**	Total
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	₱3,558,706	₱–	₱–	₱–	₱3,558,706
Financial institutions	1,248,648	–	–	–	1,248,648
Agriculture, hunting and forestry	1,017,069	–	–	–	1,017,069
Real estate, renting and business activities	155,474	136,508	238,220	–	530,202
Fishing	391,800	–	–	22,189	413,989
Other community, social and personal service activities	272,041	–	–	–	272,041
Education	159,091	–	–	–	159,091
Government	33,177	–	–	–	33,177
Manufacturing	16,450	–	–	–	16,450
Health and social work	5,926	–	–	–	5,926
	6,858,382	136,508	238,220	22,189	7,255,299
Less allowance for credit losses	225,734	–	–	–	225,734
Total	₱6,632,648	₱136,508	₱238,220	₱22,189	₱7,029,565

**Consist of due from BSP and other banks, receivable from borrowers, and other receivables*
***Reported under 'Other Assets'*

Credit quality per class of financial assets

The table below shows the credit quality per class of financial assets (gross of allowance for credit and impairment losses and unearned interest income) as at December 31, 2016 and 2015:

	2016				
	Neither past due nor impaired				
	High grade	**Standard grade**	**Past due but not impaired**	**Impaired**	**Total**
Due from BSP	**₱189,947,924**	**₱–**	**₱–**	**₱–**	**₱189,947,924**
Due from other banks	**1,733,553,091**	**1,018,558**	**–**	**–**	**1,734,571,649**
AFS investments	**231,231,531**	**–**	**–**	**–**	**231,231,531**
Receivable from borrowers					
Microfinance loans	**–**	**5,350,600,186**	**10,244,012**	**134,150,499**	**5,494,994,697**
Other loans	**–**	**969,453,356**	**1,857,815**	**10,893,407**	**982,204,578**
Other receivables:					
Accrued interest receivable	**–**	**96,295,366**	**–**	**–**	**96,295,366**
Accounts receivable	**–**	**35,042,547**	**–**	**–**	**35,042,547**
Unquoted debt securities classified as loans (UDSCL)	**–**	**56,475,387**	**–**	**–**	**56,475,387**
HTM investments	**246,006,757**	**–**	**–**	**–**	**246,006,757**
Security deposits	**–**	**33,931,692**	**–**	**–**	**33,931,692**
	₱2,400,739,303	**₱6,542,817,092**	**₱12,101,827**	**₱145,043,906**	**₱9,100,702,128**

**Consist of due from BSP and other banks, receivable from borrowers and other receivables*
***Reported under 'Other Assets'*

	2015				
	Neither past due nor impaired				
	High grade	Standard grade	Past due but not impaired	Impaired	Total
Due from BSP	₱149,539,008	₱–	₱–	₱–	₱149,539,008
Due from other banks	1,157,755,403	1,100,015	–	–	1,158,855,418
AFS investments	136,508,213	–	–	–	136,508,213
Receivable from borrowers					
Microfinance loans	–	4,537,553,979	8,293,985	120,252,978	4,666,100,942
Other loans	–	703,490,108	1,825,643	9,263,227	714,578,978

(Forward)

	2015				
	Neither past due nor impaired				
	High grade	Standard grade	Past due but not impaired	Impaired	Total
Other receivables:					
Accrued interest receivable	₱–	₱78,165,932	₱–	₱–	₱78,165,932
Accounts receivable	–	35,271,552	–	–	35,271,552
UDSCL	–	56,000,000	–	–	56,000,000
HTM investments	238,220,396	–	–	–	238,220,396
Security deposits	–	22,189,022	–	–	22,189,022
	₱1,682,023,020	₱5,433,770,608	₱10,119,628	₱129,516,205	₱7,255,429,461

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

- *High grade* - These are receivables and investments which have a high probability of collection. The counterparty has the apparent ability to satisfy its obligation and the securities on the receivables are readily enforceable. These also include deposits with reputable institutions from which the deposits may be withdrawn and recovered with certainty.

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

As at December 31, 2016 and 2015, the Bank's receivables that are past due for more than 90 days are considered impaired.

Aging analysis of past due but not impaired loans and receivables
The following table shows the total aggregate amount of loans and receivables that are contractually past due but not considered as impaired per delinquency bucket as at December 31, 2016 and 2015:

	2016			
	Less than 30 Days	**31 to 60 Days**	**61 to 90 Days**	**Total**
Microfinance	**₱1,308,844**	**₱4,502,106**	**₱4,433,062**	**₱10,244,012**
Regular	**625,377**	**489,361**	**562,948**	**1,677,686**
Agri-agra	**45,372**	**38,968**	**95,789**	**180,129**
	₱1,979,593	**₱5,030,435**	**₱5,091,799**	**₱12,101,827**

	2015			
	Less than 30 Days	31 to 60 Days	61 to 90 Days	Total
Microfinance	₱1,357,392	₱3,275,899	₱3,660,694	₱8,293,985
Agri-agra	400,518	394,169	415,151	1,209,838
Regular	346,725	73,681	195,399	615,805
	₱2,104,635	₱3,743,749	₱4,271,244	₱10,119,628

Carrying amount per class of loans and receivables which terms have been renegotiated
Restructured receivables have principal terms and conditions that have been modified in accordance with an agreement setting forth a new plan of payment or a schedule of payment on a periodic basis. When the receivable account becomes past due and is being restructured or extended, the approval of the BOD is required before loan booking and is always governed by the BSP rules on restructuring. As at December 31, 2016 and 2015, the Bank's outstanding restructured receivables tagged as impaired account amounted ₱0.3 million.

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.

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

The Treasury Group uses liquidity forecast models that estimate the Bank's cash flow needs based on the Bank's actual contractual obligations and under normal circumstances and extraordinary circumstances. The Bank expects that majority of the depositors will not request payment on the earliest date that the Bank could be required to pay.

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

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

	2016					
	On Demand	Less than 30 days	30 to 90 days	91 to 360 days	More than 360 days	Total
Financial Assets						
Cash and other cash items	₱146,861	₱–	₱–	₱–	₱–	₱146,861
Due from BSP	189,948	–	–	–	–	189,948
Due from other banks*	649,169	1,085,403	–	–	–	1,734,572
AFS investments*	–	212	3,281	5,191	272,490	281,174
Loans and receivables*						
Microfinance	5,350,600	1,309	8,935	26,720	107,431	5,494,995
Others	969,454	671	1,187	2,982	990,117	1,964,411
HTM investments*	–	160	51,326	4,915	241,150	297,551
Total Financial Assets	7,306,032	1,087,755	64,729	39,808	1,611,188	10,109,512
Financial Liabilities						
Deposit liabilities*						
Demand	63,086	–	–	–	–	63,086
Savings	4,917,338	186,131	144,255	266,184	392,191	5,906,099
Bills payable*	–	49,972	226,338	682,473	501,397	1,460,180
Other liabilities	17,683	82,471	18,595	88,237	35,474	242,460
Total Financial Liabilities	4,998,107	318,574	389,188	1,036,894	929,062	7,671,825
Net	₱2,307,925	₱769,181	(₱324,459)	(₱997,086)	₱682,126	₱2,437,687

**Includes future interest*

	2015					
	On Demand	Less than 30 days	30 to 90 days	91 to 360 days	More than 360 days	Total
Financial Assets						
Cash and other cash items	₱100,839	₱–	₱–	₱–	₱–	₱100,839
Due from BSP	149,539	–	–	–	–	149,539
Due from other banks*	483,052	585,537	90,513	–	–	1,159,102
AFS investments*	–	112	1,581	4,159	152,491	158,343
Loans and receivables*						
Microfinance	113,599	102,960	912,147	3,962,157	45	5,090,908
Others	8,855	38,939	174,498	563,535	93,233	879,060
HTM investments*	–	44,400	14,160	15,920	195,715	270,195
Total Financial Assets	855,884	771,948	1,192,899	4,545,771	441,484	7,807,986
Financial Liabilities						
Deposit liabilities*						
Demand	152,279	–	–	–	–	152,279
Savings	3,767,324	174,757	118,084	160,897	180,482	4,401,544
Bills payable*	–	51,629	150,264	667,481	604,852	1,474,226
Other liabilities	3,251	51,430	34,012	72,295	95,340	256,328
Total Financial Liabilities	3,922,854	277,816	302,360	900,673	880,674	6,284,377
Net	(₱3,066,970)	₱494,132	₱890,539	₱3,645,098	(₱439,190)	₱1,523,609

**Includes future interest*

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 changed as a result of changes in interest rates. The financial instruments of the Bank have fixed interest rates, and therefore are not subject to any interest rate risk.

Interest rate risk

The Bank's receivables earn fixed interest rates ranging from 6.0% to 28.0% per annum with equivalent EIR ranging from 16.0% to 52.0% and 16.0% to 53.0% in 2016 and 2015, respectively. The shortest term of loan is one month while the longest term is twelve (12) years.

The Bank's savings deposit liabilities include compulsory and voluntary savings that earn 0.3% to 6.0% per annum in 2016 and 2015. Special savings deposits have interest rates of 2.0% to 4.3% in 2016 and 2015.

The Bank pays fixed interest rates on its bills payables from 3.0% to 6.5% and 3.4% to 6.5% per annum in 2016 and 2015, respectively and payable within 1 year to 7 years in 2016 and 2015, respectively.

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

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in interest rates. The Bank's exposure to fair value interest rate risk relates primarily to investments in AFS debt securities.

The table below demonstrates the sensitivity to a reasonably possible change in interest rates with all other variables held constant, of the Bank's OCI through the impact of interest on AFS debt securities:

	Changes in interest rates (in basis points)			
	2016		2015	
	+10.0	**-10.0**	+10.0	-10.0
Sensitivity of Equity	**(₱3,158,523)**	**₱3,182,531**	(₱3,773,968)	₱4,690,051

Cash flow interest rate risk
The exposure to cash flow interest rate risk results primarily from financial instruments which carry floating interest rates that are reset as market rates changes. As at December 31, 2016 and 2015, the Bank has no AFS investments, HTM investments, loans and receivables, and financial liabilities that have floating interest rates, therefore no exposure to cash flow interest risk.

Foreign currency risk
The Bank's exposure to foreign exchange risk is minimal as it arises mainly from foreign currency-denominated liabilities (foreign currency liabilities).

Foreign currency liabilities generally consist of foreign currency deposits in the Bank's FCDU account made in the Philippines or which are generated from remittances to the Philippines by Filipino expatriates and overseas Filipino workers who retain for their own benefit or for the benefit of a third party, foreign currency deposit accounts with the Bank and foreign currency-denominated borrowings appearing in the regular books of the Bank.

Foreign currency deposits are generally used for those depositors accepting and will accept remittance from abroad. Banks are required by the BSP to match the foreign currency assets with the foreign currency liabilities held through FCDUs.

The Bank's policy is to maintain foreign currency exposure within existing regulations and within acceptable risk limits. The Bank believes in ensuring its foreign currency exposure is, at all times, within limits presented for a financial institution engaged in the type of business in which the Bank is engaged in. As at December 31, 2016 and 2015, the Bank's foreign currency exposure is within the prescribed limits.

6. Due from BSP and Other Banks

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

Due from other banks represent funds deposited with domestic banks which are used as part of the Bank's operating funds.

As at December 31, 2016 and 2015, due from other banks include dollar-denominated deposits amounting to \$0.2 million (₱11.4 million) and \$0.2 million (₱12.0 million), respectively.

Peso-denominated deposits earn interest at annual rates ranging from 1.2% to 1.8% in 2016 and 2015. Dollar-denominated deposits earn interest at annual rates ranging from 0.1% to 0.4% in 2016 and 2015.

Total interest income earned on deposits from other banks amounted to ₱16.8 million and ₱8.3 million in 2016 and 2015, respectively. Of these amounts, ₱13,548 and ₱9,010 pertains to interest income from USD deposits in 2016 and 2015, respectively.

7. Available-for-Sale Investments

This account consists of investments in quoted peso government debt securities that earn interest at annual rates ranging from 3.5% to 4.8% and 3.9 to 4.8% in 2016 and 2015, respectively.

Interest income on AFS investments amounted to ₱6.2 million and ₱5.2 million in 2016 and 2015, respectively. Amortized premium on AFS investments amounted to ₱0.7 million in 2016 and 2015.

The movements in the net unrealized losses on AFS investments of the Bank follow:

	2016	2015
Balance at January 1	**₱837,861**	(₱794,008)
Fair value changes during the year	**3,921,608**	2,331,240
Income tax effects	**(1,176,482)**	(699,371)
	2,745,126	1,631,869
Balance at December 31	**₱3,582,987**	₱837,861

8. Loans and Receivables

This account consists of:

	2016	2015
Receivables from borrowers		
Microfinance loans*	**₱5,494,994,697**	₱4,666,100,942
Regular loans	**809,070,590**	479,583,467
Agricultural-agrarian loans	**172,785,180**	234,620,264
Restructured loans	**348,807**	375,247
	6,477,199,274	5,380,679,920
Less: Unearned interest income	**–**	129,178
	6,477,199,274	5,380,550,742
Other receivables:		
Accrued interest receivable	**96,295,366**	78,165,932
UDSCL	**56,475,387**	56,000,000
Accounts receivable (Note 22)	**35,042,547**	35,271,552
	6,665,012,574	5,549,988,226
Less: Allowance for credit losses	**266,653,007**	225,734,445
	₱6,398,359,567	₱5,324,253,781

**Include microfinance loans used to secure bills payable amounting to ₱1.7 billion and ₱2.1 billion as at December 31, 2016 and 2015, respectively.*

Regular loans include salary loans granted to the Bank's employees and officers and government and schools employees amounting to ₱36.5 million and ₱31.3 million as at December 31, 2016 and 2015, respectively, and earning fixed annual interest rates ranging from 6.0% to 28.0% in 2016 and 10.0% to 18.0% in 2015 (see Note 22).

Interest income on receivables from borrowers amounted to ₱2.9 billion and ₱2.4 billion in 2016 and 2015, respectively. Receivables from borrowers earns annual interest ranging from 16.0% to 52.0% in 2016 and 16.0% to 53.0% in 2015.

Unquoted debt instruments
As at December 31, 2016 and 2015, unquoted debt securities consist of short-term non-negotiable Micro, Small and Medium Enterprise Notes issued by Small Business Corporation amounting to ₱56.5 million and ₱56.0 million, respectively, with a term of one (1) year. These notes bear annual interest rates ranging from 1.2% to 1.7% and 1.3% to 1.5% in 2016 and 2015, respectively. Income earned from this account amounted to ₱0.9 million and ₱0.7 million in 2016 and 2015, respectively.

BSP Reporting
In accordance with BSP regulations, the Bank considers as part of portfolio-at-risk (PAR) an installment payment that is past due for one day. As at December 31, 2016 and 2015, the Bank's PAR amounted to ₱157.1 million and ₱139.6 million, respectively.

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

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

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

In the case of microfinance loans, past due/PAR accounts are considered as NPLs.

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

As at December 31, 2016 and 2015, based on the revised definition of NPLs under Circular No. 772, NPLs of ₱12.1 million and ₱10.1 million which the Bank reported to the BSP are net of specific allowance amounting to ₱145.0 million and ₱129.5 million, respectively.

The following table shows the secured and unsecured portions of receivables from borrowers as at December 31, 2016 and 2015:

	2016		2015	
	Amount	**%**	**Amount**	**%**
Secured portion				
Deposit hold-out (Note 13)	**₱6,440,315,413**	**99.4%**	₱5,347,785,942	99.4%
Deed of assignment	**3,756,486**	**0.1%**	5,738,337	0.1%
Real estate mortgage	**1,328,939**	**–**	3,475,839	0.1%
Unsecured portion	**31,798,706**	**0.5%**	23,679,802	0.4%
	₱6,477,199,274	**100.0%**	₱5,380,679,920	100.0%

As at December 31, 2016 and 2015, information on the concentration of gross loans and receivables as to industry follows (amounts in thousands):

	2016		2015	
	Amount	**%**	Amount	%
Wholesale and retail trade	**₱4,669,538**	**70.1%**	₱3,558,706	64.1%
Agriculture, hunting and forestry	**1,542,520**	**23.1%**	1,017,069	18.3%
Education	**180,345**	**2.7%**	159,091	2.9%
Real estate renting and business activities	**104,897**	**1.6%**	391,800	7.1%
Financial institutions	**90,874**	**1.4%**	89,792	1.6%
Fishing	**36,492**	**0.5%**	272,041	4.9%
Manufacturing	**16,581**	**0.2%**	33,177	0.6%
Other community, social and personal service activities	**13,885**	**0.2%**	16,450	0.3%
Government	**5,495**	**0.1%**	5,936	0.1%
Health and social work	**4,385**	**0.1%**	5,926	0.1%
	₱6,665,012	**100.0%**	₱5,549,988	100.0%

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

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

	2016	2015
Balance at beginning of year	**₱224,967,208**	₱178,101,931
Provision for credit losses	**40,935,931**	52,391,515
Accounts written-off	**(14,707)**	(5,542,019)
Reversal of accounts written-off	–	15,781
Balance at end of year	**₱265,888,432**	₱224,967,208
Individual impairment	**₱145,043,906**	₱129,516,205
Collective impairment	**120,844,526**	95,451,003
Total allowance for credit losses	**₱265,888,432**	₱224,967,208
Gross amounts of loans individually determined to be impaired, before deducting any individually assessed impairment losses	**₱145,043,906**	₱129,516,205

The movements in allowance for credit losses on other receivables follow:

	2016	2015
Balance at beginning of year	**₱767,237**	₱911,687
Provision for credit losses	–	116,152
Accounts written-off	**(2,662)**	(260,602)
Balance at end of year	**₱764,575**	₱767,237

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

9. Held-to-Maturity Investments

This account represents investments in quoted government debt securities bearing fixed annual interest rates ranging from 3.3% to 7.0% and 3.3% to 9.1% in 2016 and 2015, respectively and EIR ranging from 3.1% to 5.8% and 3.1% to 7.0% in 2016 and 2015, respectively.

The terms of these investments range from 3 to 10 years and 4 to 10 years in 2016 and 2015, respectively.

The rollforward analysis of this account follows:

	2016	2015
Face Value		
Balance at beginning of year	**₱236,427,281**	₱253,330,281
Acquisitions	**74,024,000**	35,933,000
Maturities	**(63,497,281)**	(52,836,000)
Balance at end of year	**246,954,000**	236,427,281
Net Premium (Discount)		
Balance at beginning of year	**1,793,115**	5,535,383
Acquisitions	**(1,089,330)**	(1,073,501)
Amortization	**(1,651,028)**	(2,668,767)
Balance at end of year	**(947,243)**	1,793,115
Carrying Value	**₱246,006,757**	₱238,220,396

Interest income earned from HTM investments amounted to ₱10.7 million and ₱11.2 million in 2016 and 2015, respectively.

10. Investment in an Associate

This account consists of:

	2016	2015
Acquisition cost		
Balance at beginning of year	**₱83,350,000**	₱23,750,000
Additional investments during the year (Notes 15 and 23)	–	59,600,000
	83,350,000	83,350,000
Accumulated equity in net earnings		
Balance at beginning of year	**53,606,812**	16,846,005
Share in net income of an associate	**63,917,586**	36,760,807
	117,524,398	53,606,812
Accumulated equity in other comprehensive loss		
Balance at beginning of year	**(8,173,090)**	1,568,984
Share in other comprehensive loss of an associate	**(518,954)**	(9,742,074)
	(8,692,044)	(8,173,090)

(Forward)

	2016	2015
Dividends		
Balance at beginning of year	**(₱10,400,000)**	₱–
Dividends	**(12,000,000)**	(10,400,000)
	(22,400,000)	(10,400,000)
Balance at end of year	**169,782,354**	118,383,722
Advances to an associate (Note 22)	**400,000**	400,000
	₱170,182,354	₱118,783,722

The Bank's investment in an associate represents the carrying value of its 40.0% interest in Rizal Bank, Inc. (RBI). RBI is involved in the business of rural banking as defined in and authorized under Republic Act No. 3779, as amended. RBI's primary activities include granting loans to small farmers and to deserving rural enterprises, as well as receiving deposits in accordance with the law. RBI is not listed on any public exchange. The primary place of business of RBI is at P. Guevarra St., Cor. Aguirre St., Brgy. Poblacion 2, Sta. Cruz, Laguna.

In 2013, the BOD approved the increase in RBI's authorized capital stock from ₱50.0 million to ₱250.0 million. Advances to RBI amounting to ₱19.6 million made in 2014 were converted as additional investments upon SEC and BSP approvals of RBI's increase in authorized capital stock on November 24, 2014 and April 15, 2015, respectively, and the corresponding unpaid subscription by the Bank amounting to ₱29.6 million was recognized as 'Subscription payable' under 'Other liabilities' (see Note 15).

On January 12, 2016, RBI's BOD and stockholders approved and ratified the increase in the authorized capital stock from ₱250.0 million to ₱500.0 million. As at December 31, 2016, RBI has yet to file its application to the BSP and SEC for increase in authorized capital stock.

The following table illustrates the summarized financial information in the statements of financial position, statements of income and statements of comprehensive income of RBI (amounts in millions):

	2016	2015
Current assets	**₱1,773.1**	₱1,000.2
Noncurrent assets	**116.7**	79.1
Current liabilities	**1,454.9**	850.9
Net assets	**434.9**	228.4
Revenue	**517.1**	310.4
Net income	**159.8**	92.7
Other comprehensive loss	**(1.3)**	(24.3)
Total comprehensive income	**158.5**	68.4

As at December 31, 2016 and 2015, RBI has outstanding preferred stocks amounting to ₱37.0 million and ₱9.8 million, respectively.

The excess of the carrying value of the Bank's investment in RBI over the share in the net assets of RBI is attributable to the notional goodwill from the acquisition of the investment.

11. **Property and Equipment**

The composition of and movements in this account follow:

	2016							
	Furniture, Fixtures and Equipment	**Building**	**Land**	**Transportation Equipment**	**Leasehold Improvements**	**Construction in Progress**	**Land Improvements**	**Total**
Cost								
Balance at beginning of year	**₱258,649,251**	**₱167,298,804**	**₱203,941,985**	**₱31,889,451**	**₱66,237,797**	**₱89,060,351**	**₱3,066,000**	**₱820,143,639**
Additions	**39,194,383**	**2,470,746**	**1,167,607**	**–**	**14,896,738**	**60,529,346**	**681,000**	**118,939,820**
Disposals	**(872,399)**	**–**	**–**	**(6,285,671)**	**(10,001)**	**–**	**–**	**(7,168,071)**
Reclassification	**–**	**136,196,716**	**–**	**–**	**13,392,981**	**(149,589,697)**	**–**	**–**
Balance at end of year	**296,971,235**	**305,966,266**	**205,109,592**	**25,603,780**	**94,517,515**	**–**	**3,747,000**	**931,915,388**
Accumulated Depreciation and Amortization								
Balance at beginning of year	**157,156,962**	**62,087,263**	**–**	**31,814,666**	**48,832,022**	**–**	**394,100**	**300,285,013**
Depreciation and amortization	**42,076,205**	**33,354,903**	**–**	**64,925**	**6,751,881**	**–**	**647,250**	**82,895,164**
Disposals	**(216,814)**	**–**	**–**	**(6,285,660)**	**–**	**–**	**–**	**(6,502,474)**
Balance at end of year	**199,016,353**	**95,442,166**	**–**	**25,593,931**	**55,583,903**	**–**	**1,041,350**	**376,677,703**
Net Book Value	**₱97,954,882**	**₱210,524,100**	**₱205,109,592**	**₱9,849**	**₱38,933,612**	**₱–**	**₱2,705,650**	**₱555,237,685**

	2015							
	Furniture, Fixtures and Equipment	Building	Land	Transportation Equipment	Leasehold Improvements	Construction in Progress	Land Improvements	Total
Cost								
Balance at beginning of year	₱209,441,516	₱143,628,219	₱173,623,402	₱39,578,449	₱54,155,607	₱36,549,500	₱–	₱656,976,693
Additions	51,381,999	1,300,117	30,318,583	–	9,538,990	80,311,319	316,000	173,167,008
Disposals	(2,174,264)	–	–	(7,688,998)	(136,800)	–	–	(10,000,062)
Reclassification	–	22,370,468	–	–	2,680,000	(27,800,468)	2,750,000	–
Balance at end of year	258,649,251	167,298,804	203,941,985	31,889,451	66,237,797	89,060,351	3,066,000	820,143,639
Accumulated Depreciation and Amortization								
Balance at beginning of year	122,670,685	35,927,847	–	35,950,375	42,264,062	–	–	236,812,969
Depreciation and amortization	36,660,541	26,159,416	–	3,553,289	6,704,760	–	394,100	73,472,106
Disposals	(2,174,264)	–	–	(7,688,998)	(136,800)	–	–	(10,000,062)
Balance at end of year	157,156,962	62,087,263	–	31,814,666	48,832,022	–	394,100	300,285,013
Net Book Value	₱101,492,289	₱105,211,541	₱203,941,985	₱74,785	₱17,405,775	₱89,060,351	₱2,671,900	₱519,858,626

Depreciation and amortization presented in the statements of income follow:

	2016	2015
Property and equipment	**₱82,895,163**	₱73,472,106
Intangible assets (Note 12)	**378,782**	340,648
	₱83,273,945	₱73,812,754

Cost of fully depreciated assets still in use as at December 31, 2016 and 2015 amounted to ₱191.18 million and ₱142.2 million, respectively.

12. Other Assets

This account consists of:

	2016	2015
Financial assets		
Security deposits	**₱33,931,692**	₱22,189,022
Nonfinancial assets		
Stationeries and supplies	**57,225,989**	53,579,973
Intangible assets	**34,113,398**	34,492,180
Prepaid expenses	**18,630,506**	15,173,016
Sundries	**–**	40,554,655
Others	**402,892**	1,491,563
	110,372,785	145,291,387
	₱144,304,477	₱167,480,409

Security deposits pertain to refundable deposits on the Bank’s leased office spaces and staff house premises.

Intangible assets include software costs under development and purchased licenses.

The movements of intangible assets follow:

	2016	2015
Cost		
Balance at beginning of year	**₱38,146,566**	₱4,363,102
Additions (Note 23)	**–**	33,783,464
Balance at end of year	**38,146,566**	38,146,566
Accumulated Amortization		
Balance at beginning of year	**3,654,386**	3,313,738
Amortization (Note 11)	**378,782**	340,648
Balance at end of year	**4,033,168**	3,654,386
Net Book Value	**₱34,113,398**	₱34,492,180

13. **Deposit Liabilities**

The Bank's savings deposit liabilities include pledge savings amounting to ₱3.8 billion and ₱2.9 billion as at December 31, 2016 and 2015, respectively. These represent the aggregate compulsory savings of ₱50.0 per week collected from each member in 2016 and 2015. Under an assignment agreement, the pledge savings balances serve as security for loans granted by the Bank to its members. The pledge savings earn an annual interest rate of 2.0%. Pledge savings equivalent to 15.0% of the loan proceeds serves as guarantee fund of the outstanding loan receivable from members (Note 8).

Savings deposits include regular and special savings deposit. Regular savings deposits include "Kayang kaya", "Tagumpay", "Maagap", "Matapat" and "Dollar" savings. These savings accounts bear annual fixed interest rates ranging from 0.3% to 6.0% in 2016 and 2015. Special savings deposits include "Tiwala" savings. This account earns annual interest rates ranging from 2.0% to 4.3% in 2016 and 2015. Interest expense on deposit liabilities amounted to ₱111.2 million and ₱102.8 million in 2016 and 2015, respectively.

BSP Circular No. 830 requires reserves against deposit liabilities. As at December 31, 2016 and 2015, due from BSP amounting to ₱189.9 million and ₱149.5 million, respectively, were set aside as reserves for deposit liabilities per latest report submitted by the Bank to the BSP. As at December 31, 2016 and 2015, the Bank is in compliance with such regulation.

14. **Bills Payable**

The Bank's bills payable consists of payables to local banks and to International Finance Corporation (IFC). The movements in the account follow:

	2016	2015
Face Value		
Balance at beginning of year	**₱1,270,000,000**	₱885,000,000
Availments	**930,000,000**	1,320,000,000
Principal payments	**(821,580,000)**	(935,000,000)
Balance at end of year	**1,378,420,000**	1,270,000,000
Unamortized Transaction Costs		
Balance at beginning of year	**(8,298,190)**	(3,045,104)
Availments	**(4,141,096)**	(9,281,433)
Amortization	**5,069,709**	4,028,347
Balance at end of year	**(7,369,577)**	(8,298,190)
Carrying Value	**₱1,371,050,423**	₱1,261,701,810

Local banks

Bills payable of ₱876.8 million and ₱727.1 million as at December 31, 2016 and 2015, respectively, pertain to promissory notes obtained from various local banks for working capital requirements with a tenor of one (1) year and annual interest rates ranging from 3.0% to 3.5% and 3.4% to 4.3% in 2016 and 2015, respectively.

IFC

On December 16, 2015, the Bank entered into a Loan Agreement (Agreement) with IFC for the availment of loan amounting to ₱540.0 million (the Loan). The purpose of the loan is to provide funds to be used by the Bank for financing its lending operations to small and medium-sized enterprises and microfinance entities. The note bears a Philippine fixed base rate of 6.5%, inclusive of 2.7% spread and has a tenor of seven (7) years.

As at December 31, 2016 and 2015, carrying value of the Loan amounted to ₱494.3 million and ₱534.6 million, respectively.

Borrowings from IFC contain the following embedded derivatives:

a. prepayment option which allows the Bank to redeem the loan (or portion of the loan not less than ₱45.0 million) prior to the respective maturities; and
b. cross currency swap which allows the parties to exchange interest payments and principals denominated in different currencies (in USD and Philippine Pesos).

The Bank assessed that these embedded derivatives are clearly and closely related to the host loan instruments, since their redemption price approximate the loans' amortized cost on redemption dates. Accordingly, these embedded derivatives were not accounted for separately from the host loan instrument.

Debt covenants

The Agreement covering the loan with IFC provide for restrictions and requirements which includes the following negative and financial covenants, among others:

a. Negative covenants

   Unless IFC otherwise agrees, the Bank shall not take action on the following, among others:

   - declare or pay any dividend or make any distribution on its share capital (other than dividends or distribution payable in shares of the Bank), unless the proposed payment or distribution is out of net income of the current financial year, no event of default or potential event of default has occurred and is then continuing; and after giving effect to any such action the Bank is in compliance with the financial covenants stated in the agreement;
   - purchase, redeem or otherwise acquire any shares of the Bank or any option over them;
   - incur, create, assume or permit to exist any liability that is covered or ranks prior or senior to the Loan, except those that is in existence of the date of Agreement;
   - create or permit to exist any lien on any property, revenues or other assets, present or future, of the Bank subject to exceptions indicated in the Agreement;
   - enter into any transaction except in the ordinary course of business on ordinary commercial terms and on the basis of arm's-length arrangements;
   - enter into or establish any partnership, profit-sharing or royalty agreement or other similar arrangement whereby the Bank's income or profits are, or might be, shared with any other person; or enter into any management contract or similar arrangement whereby its business or operations are managed by any other persons;
   - have any subsidiaries subject to exceptions indicated in the Agreement;
   - change its charter in any manner which would be inconsistent with the provisions of the agreement or any other transaction document; its financial year; or the nature or scope of its present or contemplated business or operations;

- undertake or permit any merger, spin-off, consolidation or reorganization; or sell, transfer, lease or otherwise dispose of all or a substantial part of its assets, other than assets acquired in the enforcement of security created in favor of the Bank in the ordinary course of its banking business, whether in a single transaction or in a series of transaction; and
- prepay or repurchase any long-term debt (other than the Loan) subject to conditions indicated the agreement.

b. Financial covenants

The Bank agreed to prudently manage its financial position in accordance with sound banking and financial practices, applicable laws and the prudential standards of the BSP. To the extent that the banking regulation imposes financial requirements or ratios that are more stringent than the following, the Bank shall observe and comply with those more stringent requirements or ratios.

- risk weighted capital adequacy ratio of not less than 10.0%;
- equity to assets ratio of not less than 5.0%;
- economic group exposure ratio of not more than 15.0%;
- aggregate large exposure ratio of not more than 400.0%;
- related party exposure ratio of not more than 15.0%;
- open credit exposures ratio of not more than 25.0%;
- fixed assets plus equity participants ratio of not more than 35.0%;
- aggregate foreign exchange risk ratio of not more than 25.0%;
- single currency foreign exchange risk ratio of not more than 10.0%;
- interest rate risk ratio of not less than -10.0% and not more than 10.0%;
- aggregate interest rate risk ratio of not less than -20.0% and not more than 20.0%;

The period of compliance with the above covenants commenced on March 31, 2016. As at December 31, 2016, the Bank is in compliance with the above covenants.

Receivable from borrowers amounting to ₱1.7 billion and ₱2.1 billion secure the above borrowings as at December 31, 2016 and 2015, respectively (Note 8).

Interest expense on bills payable amounted to ₱46.9 million and ₱24.4 million in 2016 and 2015, respectively.

The Bank has undrawn credit line amounting to ₱920.0 million and ₱480.0 million in 2016 and 2015, respectively.

15. Other Liabilities

This account consists of:

	2016	2015
Financial liabilities		
Accrued expenses	**₱128,691,223**	₱138,698,404
Accounts payable (Note 22)	**60,865,619**	52,225,866
Accrued interest on deposit liabilities (Note 22)	**46,587,208**	41,145,317

(Forward)

	2016	2015
Dividends payable (Note 17)	**₱9,605,557**	₱42,037,014
Accrued interest on bills payable	**3,436,245**	3,863,878
Refundable deposits	**1,151,318**	–
Subscriptions payable (Note 23)	**–**	29,600,000
	250,337,170	307,570,479
Nonfinancial liabilities		
Accrued vacation leaves	**45,278,430**	40,652,767
Accrued taxes	**13,065,424**	12,054,399
Withholding taxes payable	**11,061,181**	11,240,104
Deposit for future stock subscription (Note 17)	**–**	68,288,110
	69,405,035	132,235,380
	₱319,742,205	₱439,805,859

Accrued expenses include accrued rent, Philippine Deposit Insurance Corporation premium and other operating expenses.

Accounts payable include due to suppliers and contractors, due to staff, due to Social Security System for collection remittances, Automated Teller Machine overages, statutory payables on employee compensation, and due to related parties (Note 22).

16. Maturity Analysis of Assets and Liabilities

The following table presents the Bank's assets and liabilities as at December 31, 2016 and 2015 analyzed according to when they are expected to be recovered or settled within one year and beyond one year from respective reporting date (in thousands):

	2016			2015		
	Within one year	**Beyond one year**	**Total**	Within one year	Beyond one year	Total
Financial Assets						
Cash and other cash items	**₱146,861**	**₱–**	**₱146,861**	₱100,839	₱–	₱100,839
Due from BSP	**189,948**	**–**	**189,948**	149,539	–	149,539
Due from other banks	**1,734,572**	**–**	**1,734,572**	1,158,855	–	1,158,855
AFS investments	**–**	**231,231**	**231,231**	–	136,508	136,508
Loans and receivables	**6,627,936**	**37,077**	**6,665,013**	5,519,223	30,894	5,550,117
HTM investments	**49,318**	**196,689**	**246,007**	63,732	174,488	238,220
Security deposits	**–**	**33,932**	**33,932**	–	22,189	22,189
Nonfinancial Assets						
Investment in an associate	**–**	**170,182**	**170,182**	–	118,784	118,784
Property and equipment	**–**	**931,915**	**931,915**	–	820,143	820,143
Retirement asset	**–**	**219,443**	**219,443**	–	126,101	126,101
Deferred tax assets	**–**	**32,671**	**32,671**	–	46,028	46,028
Intangible assets	**–**	**38,147**	**38,147**	–	38,147	38,147
Other assets	**76,258**	**–**	**76,258**	88,610	22,189	110,799
Total Assets	**₱8,824,893**	**₱1,891,287**	**10,716,180**	₱7,080,798	₱1,535,471	8,616,269
Less: Allowance for credit losses			**266,653**			225,734
Unearned interest			**–**			129
Accumulated depreciation and amortization			**380,711**			303,939
			₱10,068,816			₱8,086,467
Financial liabilities						
Deposit liabilities	**₱5,372,615**	**₱596,570**	**₱5,969,185**	₱4,058,939	₱453,828	₱4,512,767
Bills payable	**880,000**	**498,420**	**1,378,420**	730,000	540,000	1,270,000
Other liabilities:						
Accrued expenses	**56,621**	**72,072**	**128,693**	43,050	95,648	138,698
Accounts payable	**60,866**	**–**	**60,866**	52,226	–	52,226
Accrued interest	**50,023**	**–**	**50,023**	45,009	–	45,009

(Forward)

	2016			2015		
	Within one year	**Beyond one year**	**Total**	Within one year	Beyond one year	Total
Dividends payable	**₱9,606**	**₱–**	**₱9,606**	₱42,037	₱–	₱42,037
Refundable deposits	–	**1,151**	**1,151**	–	–	–
Subscriptions payable	–	–	–	29,600	–	29,600
Nonfinancial liabilities						
Income tax payable	**98,458**	–	**98,458**	106,110	–	106,110
Other liabilities:						
Accrued vacation leaves	**9,804**	**35,474**	**45,278**	8,035	32,618	40,653
Accrued taxes	**13,065**	–	**13,065**	12,054	–	12,054
Withholding taxes payable	**11,061**	–	**11,061**	11,240	–	11,240
Deposit for stock subscription	–	–	–	–	68,288	68,288
Total Liabilities	**₱6,562,119**	**₱1,203,687**	7,765,806	₱5,138,300	₱1,190,382	6,328,682
Less: Unamortized discount on bills payable			**7,370**			8,298
			₱7,758,436			₱6,320,384

17. Equity

Capital Stock

As at December 31, 2016 and 2015, the Bank's capital stock consists of:

	2016		2015	
	Shares	**Amount**	Shares	Amount
Preferred stock - ₱200 par value				
Authorized	**5,000,0000**		2,5000,000	
Issued and outstanding				
Beginning of year	**2,495,991**	**₱499,198,200**	2,481,263	₱496,252,600
Application of deposit for future stock subscription to issued shares	**210,955**	**42,191,010**	–	–
Issuance of shares of stocks from settlement of subscriptions receivables	**143,760**	**28,751,990**	14,134	2,826,800
Application of cash dividends to subscription receivables	–	–	594	118,800
Preferred stock at the end of the year	**2,850,706**	**570,141,200**	2,495,991	499,198,200
Subscribed	**274,294**	**54,858,800**	4,009	801,800
Subscription receivable	–	**(54,173,000)**	–	(116,000)
	3,125,000	**₱570,827,000**	2,500,000	₱499,884,000
Common stock - ₱100 par value				
Authorized	**10,000,000**		5,000,000	
Issued and outstanding				
Beginning of year	**3,423,944**	**₱342,394,400**	3,205,465	₱320,546,500
Application of deposit for future stock subscription to issued shares	**260,971**	**26,097,100**	–	–
Issuance of shares of stocks from settlement of subscriptions receivables	**248,018**	**24,801,800**	48,869	4,886,900
Application of cash dividends to subscription receivables	–	–	169,610	16,961,000
Common stock at the end of the year	**3,932,933**	**393,293,300**	3,423,944	342,394,400
Subscribed	**2,317,067**	**231,706,700**	1,576,056	157,605,600
Subscription receivable	–	**(81,814,300)**	–	(7,713,200)
	6,250,0000	**₱543,185,700**	5,000,000	₱492,286,800

Preferred has the following features: (a) 8.0% cumulative dividends, (b) non-participating, and (c) non-redeemable. As at December 31, 2016 and 2015, cumulative dividends amounted to ₱45.7 million and ₱40.0 million, respectively.

Deposit for Future Stock Subscriptions (DFS)

On January 17, 2015, the BOD and the stockholders approved and ratified the increase in the Bank's capitalization from ₱1.0 billion to ₱2.0 billion by increasing its authorized preferred and common stock by ₱0.5 billion each. As at December 31, 2015, DFS amounting to ₱68.3 million was classified as liability as the Bank has yet to file the application for the increase in capital stock with the SEC.

In December 2015, the application for the increase in capital stock was filed by the Bank with the BSP. In January 2016, the Bank filed the application for increase in capital stock with the SEC. The Bank's application was subsequently approved by the BSP and the SEC on June 7 and August 16, 2016, respectively.

The rollforward of DFS follows:

	2016	2015
DFS at beginning of year	**₱68,288,110**	₱–
Additional DFS (Note 15)	–	68,288,110
Conversion to paid-in capital	**(68,288,110)**	–
DFS at end of year	**₱–**	₱68,288,110

Dividend Declaration

Cash and stock dividends

On March 19, 2016, the BOD declared cash dividends of 12.0% and ₱25.0 per share to its preferred and common stockholders, respectively. Cash dividends declared amounting to ₱185.0 million were paid starting April 19, 2016 to preferred and common stockholders of record as at February 29, 2016.

On August 20, 2016, the BOD declared another cash dividend of 4.0% and ₱10.0 per share to its preferred and common stockholders, respectively. Cash dividends declared amounting to ₱70.0 million were paid starting September 1, 2016 to preferred and common stockholders.

On April 18, 2015, the BOD declared cash dividends of 8.0% and ₱15.0 per share to its preferred and common stockholders, respectively. These were approved by the BSP on June 19, 2015. Cash dividends declared amounting to ₱114.8 million were paid starting July 14, 2015 to preferred and common stockholders of record as at March 31, 2015.

On September 19, 2015, the BOD declared another cash dividend of 4.0% and ₱10.0 per share to its preferred and common stockholders, respectively, which were approved by the BSP on November 24, 2015. Cash dividends declared amounting to ₱70.0 million were paid starting December 11, 2015 to preferred and common stockholders.

Subsequent Event

On March 18, 2017, the BOD declared cash dividends of 20.0% and ₱30.0 per share to its preferred and common stockholders, respectively, and ₱30.0 per share of stock dividends to its common stockholders of record as at February 28, 2017.

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

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

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

Regulatory Qualifying Capital
Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's unimpaired capital (regulatory capital) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRS in some aspects. The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BSP guidelines. As at December 31, 2016 and 2015, the Bank was in compliance with the risk-based capital adequacy ratio (CAR).

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 consistent with the BSP's goal of promoting the soundness and stability of individual banks and of the banking system as a whole. BSP Circular No. 688 replaced BSP Circular No. 280 which is primarily based on Basel 1.

Under current banking regulations, the combined capital accounts of each bank should not be less than an amount equal to ten percent (10.0%) of its risk assets. The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio to total equity excluding:

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

Risk assets consist of total assets after exclusion of cash and other cash items, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board of the BSP.

Under BSP Circular No. 360, effective July 1, 2003, the 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, the BSP issued BSP Circular No. 854 which amends the provisions of the Manual of Regulations for Banks on the minimum capitalization of banks and on the prerequisites for the grant of authority to establish a branch. Based on this circular, the Bank is required to maintain a minimum capitalization of ₱400.0 million.

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings including current year profit. 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, 2016 and 2015, as reported to the BSP, is shown in the table below (amounts in millions):

	2016	2015
Tier 1 capital	**₱1,501.1**	₱1,117.0
Tier 2 capital	**598.9**	577.1
Total qualifying capital	**₱2,100.0**	₱1,694.1
Risk weighted assets	**₱8,186.0**	₱8,960.0
Tier 1 capital ratio	**18.3%**	12.5%
Tier 2 capital ratio	**7.3%**	6.4%
Total CAR	**25.6%**	18.9%

As at December 31, 2016 and 2015, the Bank's CAR is in compliance with the regulatory requirements.

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

Financial Performance

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

	2016	2015
Return on average equity	**33.1%**	32.3%
Return on average assets	**7.4%**	7.3%
Net interest margin	**35.9%**	38.3%

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.

18. Miscellaneous Income and Expenses

Miscellaneous income consists of:

	2016	2015
Deposit-related fees and other charges	**₱9,147,297**	₱8,579,888
Recoveries of written-off account	**2,501,032**	3,655,810
Gain on disposal of property and equipment	**972,556**	1,940,537
Commission income	**504,470**	740,393
Rental income	**1,868,857**	–
Others (Note 22)	**2,165,292**	2,695,044
	₱17,159,504	₱17,611,672

Others include service charges on remittances, management fees to RBI, donation from private institutions and insurance claims for transportation equipment.

Miscellaneous expense consists of the following:

	2016	2015
Representation and entertainment (Note 21)	**₱10,497,637**	₱8,219,007
Scholarship allowance	**10,039,762**	14,288,612
Other donations and charitable expenses (Note 22)	**5,368,203**	10,140,176
Medical and other related expenses	**4,936,027**	6,306,622
Advertising and promotions	**530,595**	656,833
Penalties and other service charges	**115,333**	3,705,538
Calamity assistance	**–**	4,495,535
Others	**16,091,490**	13,775,147
	₱47,579,047	₱61,587,470

Others include notarial and other legal expenses, foreign currency exchange loss, loss on derecognition of asset and other small value expenses that are non-recurring.

19. Retirement Benefits

The Bank, CARD MRI Development Institute, Inc. (CMDI), CARD Mutual Benefit Association (MBA), Inc., CARD SME Bank, Inc., CARD MRI Insurance Agency (CAMIA), Inc., CARD Business Development Service Foundation, Inc. (BDSFI), Inc., CARD MRI Information Technology, Inc. (CMIT), CARD Employees Multi-Purpose Cooperative (EMPC), Responsible Investments for Solidarity and Empowerment Financing Co. (RISE), BotiCARD Inc., CARD Leasing and Finance Corporation (CLFC), RBI, CARD, Inc. and Mga Likha ni Inay Inc. (MLNI), maintain a funded and formal noncontributory defined benefit retirement plan - the CARD MRI Multi-Employer Retirement Plan (MERP) - covering all of their regular employees and CARD Group Employees' Retirement Plan (Hybrid Plan) applicable to employees hired on or after July 1, 2016. MERP is valued using the projected unit cost method and is financed solely by the Bank and its related parties.

MERP and Hybrid Plan comply with the requirement of Republic Act No. 7641 (Retirement Law). MERP provides lump sum benefits equivalent to up to 120.0% 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.

Hybrid Plan provides a retirement benefit equal to 100.0% of the member's employer accumulated value (the Bank's contributions of 8.0% plan salary to Fund A plus credited earnings) and 100.0% of the Member's Employee accumulated value (member's own contributions up to 10.0% of plan salary to Fund B plus credited earnings), if any. Provided that in no case shall 100.0% of the Employee Accumulated Value in Fund A be less than 100.0% of plan salary for every year of credited service.

In 2016, total retirement expense related to Hybrid Plan amounting to ₱0.9 million is presented under 'Compensation and benefits' in the statements of income.

The latest actuarial valuation report covers reporting period as at December 31, 2016.

Changes in net retirement asset in 2016 and 2015 are as follows:

2016

		Net benefit cost in statement of income*					Remeasurements in other comprehensive income							
	January 1	**Current service cost**	**Net interest**	**Subtotal**	**Transfer to the Plan**	**Benefits paid**	**Return on plan assets (excluding amount included in net interest)**	**Experience adjustments**	**Actuarial changes arising from changes in demographic assumptions**	**Actuarial changes arising from changes in financial assumptions**	**Effect of asset ceiling**	**Subtotal**	**Contribution by employer**	**December 31**
Fair value of plan assets	**(₱463,919,873)**	**₱–**	**(₱25,183,212)**	**(₱25,183,212)**	**(₱2,863,055)**	**₱4,156,619**	**₱14,266,413**	**₱–**	**₱–**	**₱–**	**₱–**	**₱14,266,413**	**(₱109,800,000)**	**(₱583,343,108)**
Present value of defined benefit obligation	**322,340,211**	**34,523,622**	**15,665,734**	**50,189,356**	**2,863,055**	**(4,156,619)**	**–**	**23,713,367**	**(8,863,715)**	**(67,296,507)**	**–**	**(52,446,855)**	**–**	**318,789,148**
Effect of asset ceiling	**15,478,743**	**–**	**752,267**	**752,267**	**–**	**–**	**–**	**–**	**–**	**–**	**28,880,346**	**28,880,346**	**–**	**45,111,356**
Net retirement liability (asset)	**(₱126,100,919)**	**₱34,523,622**	**(₱8,765,211)**	**₱25,758,411**	**₱–**	**₱–**	**₱14,266,413**	**₱23,713,367**	**(₱8,863,715)**	**(₱67,296,507)**	**₱28,880,346**	**(₱9,300,096)**	**(₱109,800,000)**	**(₱219,442,604)**

**The net benefit cost is included in 'Compensation and benefits' in the statements of income.*

2015

		Net benefit cost in statement of income*					Remeasurements in other comprehensive income							
	January 1	Current service cost	Net interest	Subtotal	Transfer to the Plan	Benefits paid	Return on plan assets (excluding amount included in net interest)	Experience adjustments	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Effect of Asset Ceiling	Subtotal	Contribution by employer	December 31
Fair value of plan assets	(₱371,515,908)	₱–	(₱18,411,347)	(₱18,411,347)	(₱7,211,673)	₱490,045	₱8,596,526	₱–	₱–	₱–	₱–	₱8,596,526	(₱75,867,516)	(₱463,919,873)
Present value of defined benefit obligation	275,892,902	30,439,958	12,304,823	42,744,781	7,211,673	(490,045)	–	19,594,140	8,227,465	(30,840,705)	–	(3,019,100)	–	322,340,211
Effect of asset ceiling	8,022,959	–	357,824	357,824	–	–	–	–	–	–	7,097,960	7,097,960	–	15,478,743
Net retirement liability (asset)	(₱87,600,047)	₱30,439,958	(₱5,748,700)	₱24,691,258	₱–	₱–	₱8,596,526	₱19,594,140	₱8,227,465	(₱30,840,705)	₱7,097,960	₱12,675,386	(₱75,867,516)	(₱126,100,919)

**The net benefit cost is included in 'Compensation and benefits' in the statements of income.*

The maximum economic benefit of plan assets available is a combination of expected refunds from the plan and reduction in future contributions. The fair value of plan assets by each class as at the end of the reporting period are as follow:

	2016	2015
Cash and other cash items	**₱242,320,727**	₱188,861,781
Government securities	**286,071,460**	212,057,770
Mutual funds	**3,033,384**	3,618,576
Loans and receivables	**44,042,405**	48,989,939
Other assets	**7,875,132**	10,391,807
Fair value of plan assets	**₱583,343,108**	₱463,919,873

All plan assets do not have quoted prices in an active market except for government securities. Cash and other cash items are deposited in reputable financial institutions and related parties and are deemed to be standard grade. Mutual fund, loans and receivables 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 risk 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:

	2016	2015
Discount rates		
January 1	**4.9%**	4.5%
December 31	**5.9%**	4.9%
Future salary increases	**7.0%**	7.0%

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 if all other assumptions were held constant:

	Increase (decrease) in present value of obligation			
	2016		2015	
	+100	**-100**	+100	-100
Discount rates	**(₱53,054,545)**	**₱67,296,507**	(₱64,519,753)	(₱83,591,100)
Future salary increases	**62,237,615**	**(50,484,796)**	77,363,714	(61,674,061)

The Bank plans to contribute ₱156.0 million to the defined benefit retirement plan in 2017.

As at December 31, 2016, the average duration of defined benefit obligations is 18.9.

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

	2016	2015
Less than 1 year	**₱–**	₱5,375,160
More than 1 year to 5 years	**5,761,914**	6,490,698
More than 5 years to 10 years	**11,898,767**	6,738,901
More than 10 years to 15 years	**34,730,275**	50,752,196
More than 15 years to 20 years	**286,691639**	345,596,419
More than 20 years to 25 years	**963,765,857**	1,542,425,475
More than 25 years	**11,032,199,741**	21,507,296,653

20. Leases

Office spaces
The Bank leases the premises occupied by some of its branches in which lease payments are subjected to escalation clauses at 3.0% to 10.0% starting either on the second or third year of lease. The lease contracts are for the periods ranging from one (1) to ten (10) years and are renewable upon mutual agreement between the Bank and the lessors.

Lease expense presented under ‘Rent’ in the statements of income amounted to ₱74.2 million and ₱60.6 million in 2016 and 2015, respectively.

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

	2016	2015
Within one year	**₱57,396,647**	₱44,115,136
Beyond one year but not beyond five years	**89,368,956**	61,879,374
	₱146,765,603	₱105,994,510

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

Lease for transportation equipment recorded under ‘Rent’ in 2016 and 2015 amounted to ₱21.4 million and ₱11.9 million, respectively. Lease for IT equipment recorded under ‘Rent’ amounted to ₱11.0 million and ₱3.3 million in 2016 and 2015, respectively.

Future minimum rental lease payments on the operating leases of the Bank follow:

	2016	2015
Within one year	**₱18,236,965**	₱13,560,700
Beyond one year but not beyond five years	**3,056,433**	2,459,400
	₱21,293,398	₱16,020,100

21. Income Taxes

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

Income taxes include corporate income tax, as discussed below, and 20.0% final withholding tax on gross interest income from government securities and other deposit substitutes.

Current tax regulations provide that RCIT rate shall be 30.0%. It further states that nondeductible interest expense shall likewise be reduced to 33.0% of interest income subjected to final tax.

The Bank allocates common expenses in computing its taxable income based on Revenue Regulations 4-2011, which prescribes the proper allocation of costs and expenses amongst income earnings of banks and other financial institutions for income tax reporting purposes.

An optional standard deduction (OSD) equivalent to 40.0% of gross income may be claimed as an alternative deduction in computing for the RCIT. For the 2016 and 2015 RCIT computation, the Bank elected to claim itemized expense deductions instead of the OSD.

Current tax regulations also provide for the ceiling on the amount of entertainment, amusement and recreation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense is limited to the actual EAR paid or incurred but not to exceed 1.0% of the Bank's net revenue. The regulations also provide for MCIT of 2.0% 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.

Provision for income tax consists of:

	2016	2015
Current:		
RCIT	**₱244,647,386**	₱211,354,802
Final tax	**7,037,757**	5,546,257
	251,685,143	216,901,059
Deferred	**11,743,318**	937,243
	₱263,428,461	₱217,838,302

Components of net deferred tax assets are as follows:

	2016	2015
Deferred tax asset		
Allowance for credit and impairment losses	**₱79,995,902**	₱67,720,334
Accrued rent and vacation leave	**14,135,244**	12,678,899
Unamortized past service cost	**2,914,831**	3,044,568
Unrealized loss on AFS investments	**1,535,566**	359,083
Unrealized foreign exchange loss	**–**	54,967
	98,581,543	83,857,851
Deferred tax liability		
Retirement asset	**(65,832,781)**	(37,830,276)
Unrealized foreign exchange gain	**(78,051)**	–
	(65,910,832)	(37,830,276)
	₱32,670,711	₱46,027,575

The income tax effect arising from retirement asset recognized in 2016 and 2015 in other comprehensive income amounted to a provision of ₱2.8 million and benefit of ₱3.8 million, respectively.

As at December 31, 2016 and 2015, the Bank has no unrecognized deferred tax assets.

The income tax effect arising from unrealized losses on AFS investment recognized in statements of other comprehensive income amounted to a benefit of ₱1.2 million and ₱0.7 million in 2016 and 2015, respectively.

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

	2016	2015
Statutory income tax	**₱281,291,250**	₱220,316,293
Income tax effects of:		
Nontaxable income	**(19,179,332)**	(11,028,242)
Nondeductible interest expense and other expenses	**4,386,596**	10,616,944
Interest income subject to final tax	**(3,070,053)**	(2,066,693)
Provision for income tax	**₱263,428,461**	₱217,838,302

22. **Related Party Transactions**

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. The Bank's related parties include:

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

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 2005.

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

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

	2016	2015
Short-term employee benefits	**₱39.1**	₱30.2
Post-employment benefits	**2.4**	1.9
	₱41.5	₱32.1

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 Group, also qualify as related party transactions.

Deposit liabilities, accounts receivable, accounts payable and miscellaneous income

Deposit liabilities, accounts receivable, accounts payable and miscellaneous income held by the Bank for key management personnel, shareholder and other related parties as at December 31, 2016 and 2015 follow:

	December 31, 2016		
Category	**Amount/Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Key Management Personnel			
Deposit liabilities		**₱40,869,511**	These are demand and savings accounts with annual interest rates ranging from nil to 4.5%.
Deposits	**₱276,876,218**		
Withdrawals	**(257,021,781)**		
Regular loans		**4,501,437**	These are salary loans granted to officers under fringe benefit program approved by BSP payable in either five or ten years with fixed annual interest rates ranging from 6.0% to 28.0%
Disbursements of salary loan	**710,000**		
Collections	**(918,303)**		
Shareholders*			
Deposit liabilities		**210,493,859**	These are demand and savings accounts maintained by shareholders with the Bank with annual interest rates ranging from nil to 4.3%.
Deposits	**3,162,468,809**		
Withdrawals	**(3,157,680,617)**		
Accounts receivable		**1,004,915**	This amount represents the shareholders' share in expenses still payable to the Bank.
Share in expenses	**10,424,969**		
Collections	**(9,809,131)**		
Accounts payable		**320,110**	This amount represents the Bank's share in expenses still payable to its shareholders.
Share in expenses	**17,004,934**		
Remittances	**(22,991,186)**		
Other Related Parties**			
Deposit liabilities		**112,758,247**	These are demand and savings accounts with annual interest rates ranging from nil to 4.3%
Deposits	**743,870,024**		
Withdrawals	**(724,943,626)**		
Accounts receivable		**20,545**	This amount represents other related parties' share in expenses still payable to the Bank.
Share in expenses	**17,135,516**		
Collections	**(17,763,418)**		
Accounts payable		**1,071,073**	This amount represents the Bank's share in expenses still payable to its other related parties.
Share in expenses	**173,035,090**		
Remittances	**(173,994,186)**		
Retirement Plan			
Deposit liabilities		**156,396,362**	These are demand, savings, and special savings accounts with annual interest rates ranging from 1.5% to 4.3%.
Deposits	**347,323,206**		
Withdrawals	**(343,405,167)**		

**Include transactions with CARD EMPC, CARD MBA and CARD Inc.*
***Include transactions with BotiCARD, CMIT, CMDI, CLFC, MLNI and CAMIA*

	December 31, 2015		
	Amount/Volume	Outstanding Balance	Nature, Terms and Conditions
Key Management Personnel			
Deposit liabilities		₱21,015,074	These are demand and savings accounts with annual interest rates ranging from 1.5% to 4.5%.
Deposits	₱198,207,657		
Withdrawals	(191,071,798)		
Regular loans		4,709,740	These are salary loans granted to officers under fringe benefit program approved by BSP payable in either five or ten years with fixed annual interest rates ranging from 10.0% to 28.0%
Disbursements of salary loan	5,240,000		
Collections	(530,260)		
Shareholders*			
Deposit liabilities		205,705,667	These are demand and savings accounts maintained by shareholders to the Bank with annual interest rates ranging from nil to 4.3%.
Deposits	4,113,371,485		
Withdrawals	(4,203,401,156)		
Accounts receivable		389,077	This amount represents the shareholders' share in expenses still payable to the Bank.
Share in expenses	18,656,369		
Collections	(18,267,292)		
Accounts payable		6,306,362	This amount represents the Bank's share in expenses still payable to its shareholders.
Share in expenses	889,861,631		
Remittances	(896,167,992)		

(Forward)

	December 31, 2015		
	Amount/Volume	Outstanding Balance	Nature, Terms and Conditions
Other Related Parties**			
Deposit liabilities		₱93,831,849	These are demand and savings accounts with annual interest rates ranging from nil to 4.3%.
Deposits	₱652,888,991		
Withdrawals	(609,759,856)		
Accounts receivable		648,447	This amount represents other related parties' share in expenses still payable to the Bank.
Share in expenses	2,842,909		
Collections	(2,194,462)		
Accounts payable		2,030,169	This amount represents the Bank's share in expenses still payable to its other related parties.
Share in expenses	14,180,618		
Remittances	(16,116,151)		
Retirement Plan			
Deposit liabilities		152,478,323	Savings accounts with annual interest rates ranging from 1.5% to 6.0%.
Deposits	325,810,048		
Withdrawals	(338,749,434)		

**Include transactions with CARD EMPC, CARD MBA and CARD Inc.*
***Include transactions with BotiCARD, CMIT, CMDI, CLFC, MLNI and CAMIA*

Others
Other related party transactions of the Bank are as follows:

	2016	2015	Nature, Terms and Conditions
Statement of Financial Position			
Key management personnel			
Dividends paid	**₱30,063,450**	₱28,893,893	Relates to common and preference shares of the Bank held by key management personnel
Associate			
Other investments	**400,000**	400,000	Pertains to other investments of the Bank in RBI
Shareholders*			
Dividends paid	**89,195,867**	64,514,335	Pertains to dividends on common and preference shares of the Bank held by its shareholders
Statement of Comprehensive Income			
Key management personnel			
Interest expense	**313,409**	546,264	Pertains to interest on demand and savings accounts with annual rates ranging from nil to 4.5%
Associate			
Equity in net earnings	**63,917,586**	36,760,807	Pertains to the Bank's share in net income and other comprehensive income of RBI.
Share in other comprehensive loss	**(518,954)**	(9,742,074)	
Miscellaneous income	**180,000**	176,400	Pertains to management fee income for services to RBI regarding compliance tasks
Dividends received	**12,000,000**	10,400,000	Pertains to income received by the Bank from RBI as an associate
Shareholders*			
Rent	**6,986,708**	15,117,251	Certain establishments are being owned by shareholders leased to the Bank. The lease contracts have a three-year term with no escalation clause and five to six-year term with escalation clause of 10% every after 2 years.
Interest expense	**8,430,996**	7,479,961	Pertains to interest on savings accounts with annual interest rates ranging from 1.5% to 4.3%
Other related parties**			
Interest expense	**2,371,634**	2,637,848	Pertains to interest on savings accounts with annual interest rates ranging from 1.5% to 4.3%
Seminars and training	**24,690,529**	60,870,824	The Bank engaged CMDI for training and development of its members and employees (shown as part of 'Employee trainings' and 'Members training and development' and 'Seminars and meetings' in the statements of income.)
Information and technology	**80,831,125**	49,788,917	Pertains to the CMIT's rendered services in relation to system maintenance agreement and upgrade of the Bank's core banking system
Rent	**32,431,571**	19,272,279	Pertains to the rental of transportation and office equipment of the Bank to CLFC
Miscellaneous expense	**5,000,000**	10,000,000	Pertains to the Bank's donation to CMDI

(Forward)

	2016	2015	Nature, Terms and Conditions
Retirement Plan			
Contributions	**₱110,691,624**	₱75,867,516	Pertains to the funded and formal noncontributory defined benefit retirement plan of the Bank that is handled by CARD MERP (see Note 19)
Interest expense	**5,236,463**	5,255,524	

**Include transactions with CARD EMPC, CARD MBA and CARD Inc.*
***Include transactions with BotiCARD, CMIT, CMDI, CLFC, MLNI and CAMIA*

Transitioned branches from CARD, Inc. to the Bank were 28 and 16 in 2016 and 2015, respectively. The BOD passed a resolution for the transition of the branches from CARD, Inc. after receipt of approval from the BSP to establish additional microfinance-oriented branches on May 13, 2014 with 21 branches to be opened within three (3) years from date of approval.

Regulatory Reporting

As required by BSP, the Bank discloses loan transactions with investees and with certain DOSRI. Existing banking regulations limit the amount of individual loans to DOSRI, 70.0% of which must be secured, to the total of their respective deposits and book value of their respective investments in the lending company within the Bank.

In the aggregate, loans to DOSRI generally should not exceed total equity or 15.0% of total loan portfolio, whichever is lower. As at December 31, 2016 and 2015, the Bank is in compliance with the regulatory requirements.

BSP Circular No. 423 dated March 15, 2004 amended the definition of DOSRI accounts. On October 8, 2010, BSP Circular No. 695 is issued to provide guidance on the definition of Related Interest. BSP Circular No. 749, dated February 6, 2012, provides that related party transactions are expected to cover a wider definition than DOSRI under existing regulations and a broader spectrum of transactions (i.e., not limited to credit exposures).

As at December 31, 2016 and 2015, DOSRI accounts under the existing regulations are shown in the table below (as reported to BSP):

	2016	2015
Total outstanding DOSRI accounts	**₱452,001**	₱678,723
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**0.0%**	0.0%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	**0.0%**	0.0%
Percent of DOSRI accounts to total loans	**0.0%**	0.0%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**0.0%**	0.0%
Percent of past due DOSRI accounts to total DOSRI accounts	**0.0%**	0.0%
Percent of nonaccruing DOSRI accounts to total DOSRI accounts	**0.0%**	0.0%

23. Notes to Statements of Cash Flows

The following is the summary of noncash activities in 2016 and 2015:

	2016	2015
Noncash operating activities:		
Net foreign currency exchange gain (loss)	**(₱260,171)**	₱183,224
Noncash investing activities:		
Unpaid subscription on shares in an associate (Notes 10 and 15)	–	29,600,000
Unpaid acquisition of software costs (Note 12)	–	19,737,232
Reclassification from other investment to investment in an associate (Note 10)	–	19,600,000
Noncash financing activities:		
Application of cash dividends as collection of subscription receivable (Note 17)	–	17,079,800

24. Approval of the Issuance of the Financial Statements

The accompanying financial statements of the Bank were approved and authorized for issue by the BOD on March 18, 2017.

25. Supplementary Information Required under Revenue Regulations 15-2010

The components of 'Taxes and licenses' recognized in the statement of income for the year ended December 31, 2016, follow:

Gross receipt tax (GRT)	₱148,365,354
Business permits and licenses	6,383,511
Documentary stamp (DST)	4,357,389
Real property tax	1,274,428
Others	983,243
	₱161,363,925

GRT in 2016 consists of taxes on:

Interest income on loans	₱144,804,753
Other income	3,560,601
	₱148,365,354

DST in 2016 consists of taxes on special savings account, loans, and capital increase.

Withholding taxes in 2016 are categorized into:

Paid:	
Expanded withholding tax	₱16,001,652
Withholding taxes on compensation and benefits	27,985,455
Final withholding tax on interest expense and dividends declared	32,797,197
	76,784,304
Accrued:	
Expanded withholding tax	2,713,202
Withholding taxes on compensation and benefits	3,258,170
Final withholding tax on interest expense and dividends declared	5,089,809
	11,061,181
	₱87,845,485

Tax Assessment and Cases

The Bank has no outstanding tax assessment and legal cases filed in courts as at December 31, 2016.

CARD Bank, Inc.

A Microfinance - Oriented Rural Bank

A member of CARD MRI

CARD MRI

CARD Mutually Reinforcing Institutions

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