Keeping the Spirit

CARD Bank, Inc.
Annual Report 2013

Our Vision

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

Our Mission

CARD MRI is committed to:

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

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

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

About the Cover

Many years ago, CARD Bank, Inc. dreamed of providing 24/7 financial access to its clients. The launch of "Matapat Savings" marked the realization of this dream. "Matapat," a Tagalog word for honest or truthful, is a significant Filipino value. This product is more than just a little plastic card, it is our commitment to take care of our clients' savings.

Today, there are 36 automated teller machines in different CARD Bank branches across the Philippines. With Matapat Savings, clients can check their balance and withdraw from it anytime of the day.

The President's Report

Robert Kennedy once said, "The future is not a gift. It is an achievement." The first step in winning the future is encouraging innovation. For the last 16 years, CARD Bank, Inc. has been reinventing itself while remaining anchored to CARD MRI's vision and mission. This is what our organization is all about.

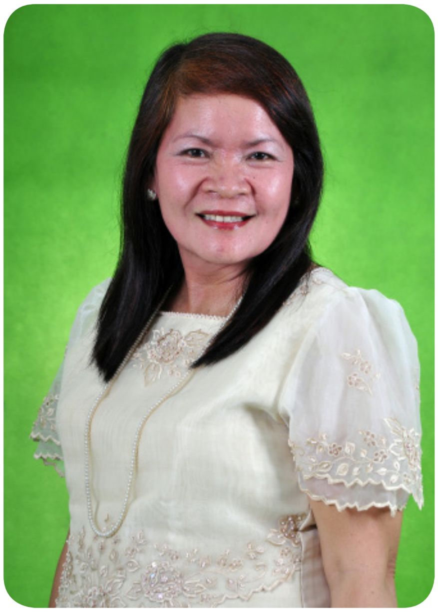
Innovation, expansion, and more progressive families defined our 2013. This year, CARD Bank, Inc. institutionalized the savings mobilization project with the help of Grameen Foundation. Along with this is the realization of our dream - the grand launch of Matapat Savings which aims to provide 24/7 banking access to members through the installation of more ATMs in different areas. This is not your ordinary ATM because it is anchored in the value of honesty. It is a breakthrough product that is empowering for the members.

These projects proved to be enabling as the number of clients with savings reached a total of 1,039,639. Our key figures are a testimony of our commitment to the members and their families. With much gusto, I am pleased to present to you our performance this year.

Performance Indicators as of December 2013	
Microfinance clients	789,617
Clients with loans	401,023
Clients with savings	1,039,639
Amount of loans outstanding	PhP 3,701,900,533.26
Savings balance	PhP 3,170,369,651.35
Repayment rate	98.95%
PAR 1 rate	2.96%

Our accomplishments stemmed from taking risks and challenging the industry's established order. Our programs are bounded on the idea that every Filipino deserves the chance to shape his/her own destiny.

Achieving the future in a continuously evolving world will be challenging but we know that CARD, Bank Inc. will thrive because of our innovating spirit.



Dolores M. Torres
President and CEO

Innovation

With the help of Grameen Foundation, CARD Bank, Inc. institutionalized the savings mobilization project. The four-year endeavor came into full circle on October 2013. The focus given to savings mobilization paved way for the profitability of a savings officer. With this is the definition of caseload targets for account officers, unit managers, and savings officers. The savings mobilization project proved effective as the number of client with savings reached a total of 1,039,639.

Complementing the savings mobilization project is the grand launch of Matapat Savings. CARD Bank, Inc. assures its members that they can entrust their hard-earned money to this savings account. This innovation permits 24/7 access from members - allowing them to monitor their savings account and withdraw from it. This year, we installed additional 24 ATMs in CARD Bank, Inc. branches located in Marinduque, Mindoro, Quezon, Masbate, Bicol, Baguio, La Trinidad, and Davao.

Another empowering project that is on its pilot phase is the mobile financial system. We are exploring if members can do financial transactions using their mobile phones. It is currently tested in nine centers across Laguna and Quezon. This project received favorable response during the initial stage. Its rollout is scheduled this 2014.

This year, we also launched the FCDU product account in San Pablo Branch that enables us to accept foreign currency deposits from the public. We also rolled out the Maagap Gift card and the enhanced CARD Sulit Padala in all CARD Bank branches.

Expansion

We have a total of 54 branches in Luzon, Visayas, and Mindanao and a total of 789,617 microfinance clients nationwide. As we continue our expansion across the country, we also take into consideration the continuous growth of our members and other institutions. Our members who are qualified to higher forms of banking services are transitioned to CARD SME Bank, Inc.

Aside from this, we were able to share our expertise in compliance, security, and audit through an in-sourcing arrangement with Rizal Rural Bank (Taytay, Rizal), Inc.

Our pursuit of excellence was also distinguished by Bangko Sentral ng Pilipinas. CARD Bank, Inc. was given the Hall of Fame Award by being a consistent Financial Inclusion Champion awardee from 2011 to 2013.

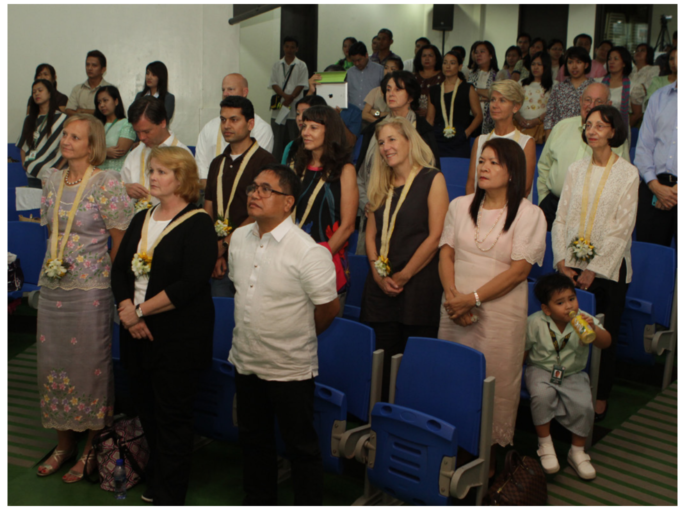
More progressive families

We also afford the respect and recognition to our clients by creating the “Galing ni Nanay Awards.” This ceremony honors the micro entrepreneurs who pursue excellence in their chosen venture and create opportunities to the community. Nanay Ernanie Llema, a crab meat producer from Masbate, bagged the GNN Micro Entrepreneur of the Year. With her are five more empowered awardees who are enabling their own families and communities through their livelihood ventures.

More empowered members means more progressive families. Aside from the products and services intended for the members, we also launched the Maagap Savings for kids. A savings caravan was launched to promote the importance of savings among children. This is done in partnership with elementary schools within the scope of CARD Bank, Inc. branches.

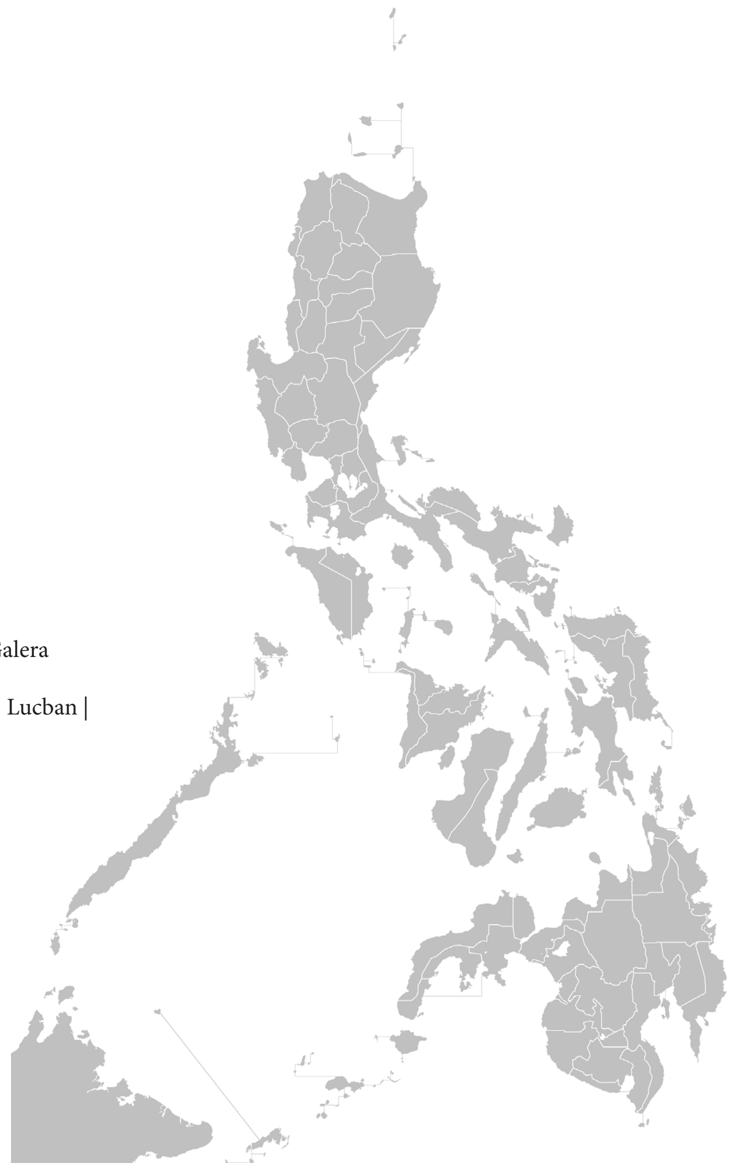
With another exciting year ahead of us, I ask God to continuously bless CARD Bank, our clients, and our management and staff.

Our Major Partners



Bancnet, Philippines
Banco De Oro (BDO), Philippines
Grameen Foundation, USA
People's Credit and Finance Corporation, Philippines
Small Business Corporation, Philippines
Women's World Banking, USA
Xpress Money, Abu Dhabi
Micro Ventures, Inc., Philippines
Globe Banko, Philippines
Bank of the Philippine Islands, Philippines
Security Bank, Philippines
Land Bank of the Philippines, Philippines

Our Areas of Coverage



[Head office: San Pablo City, Laguna
Bank branches: 54
Microbanking offices (MBOs): 333]

Luzon

Bicol: Sipocot | Daet | Pili | Goa | Naga | Sorsogon | Legazpi | Ligao | Libmanan | Nabua
Laguna: San Pablo City | Bay
Marinduque: Mogpog | Torrijos | Gasan | Sta. Cruz
Masbate: Masbate | Cataingan | Dimasalang | Aroroy
NCR: Las Piñas | Mandaluyong | Makati | Pasay
Northern Luzon: La Trinidad | Baguio
Oriental Mindoro: Calapan | Pinamalayan | Roxas | Puerto Galera
Occidental Mindoro: San Jose | Sablayan | Mamburao
Quezon: Dolores | Lucena | Gumaca | Tagkawayan | Quezon | Lucban | Candelaria | Infanta | Mulanay | Atimonan | Tiaong

Visayas

Antique: Culasi | San Jose
Capiz: Roxas City
Iloilo: Estancia | Iloilo City | Miag-ao | Passi
Tacloban: Tacloban City

Mindanao

Davao: Magallanes | Matina | Buhangin

Our Team

Management Committee

Dolores M. Torres
President and CEO

Lorenza dT. Bañez
Executive Vice President

Lourdes B. Dijan
Senior Vice President for Finance

Marivic M. Austria
Senior Vice President for Risk and Audit

Lyneth L. Derequito
Chief Compliance Officer

Marissa M. De Mesa
First Vice President for Operations

Glenda C. Magpantay
Assistant Vice President for Operations

Marlyn M. Marudo
Assistant Vice President for Operations

Ronnie D. Fallega
Assistant Vice President for Operations

Gaudencio M. Mendoza
Assistant Vice President for Operations

Herminigilda P. Manuba
Assistant Vice President for Operations

Board of Directors

Dr. Jaime Aristotle B. Alip
Chairman

Dolores M. Torres
Director

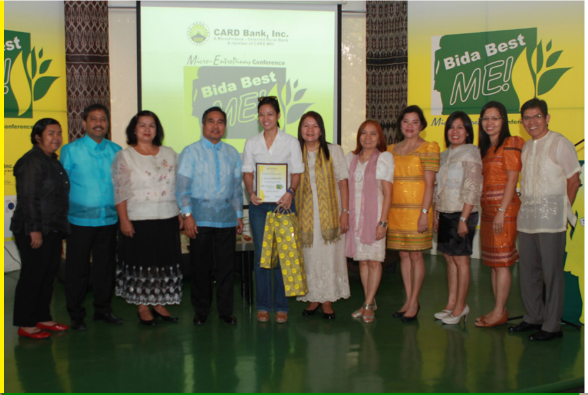
Lorenza dT. Bañez
Treasurer

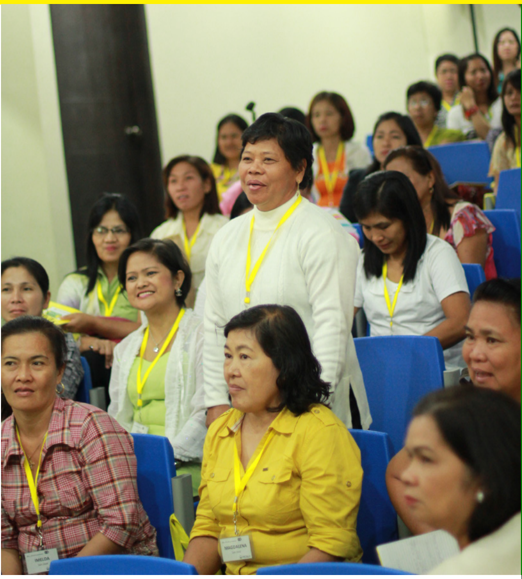
Luisa P. Cadaing
Director

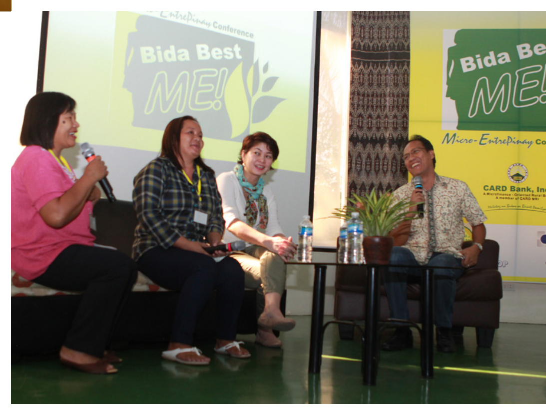
Gilberto M. Llanto, Ph.D.
Independent Director
Audit Committee Chairperson

Malvarosa P. Perote
Independent Director/
Governance and Risk Committee
Chairperson

Annabille D. Cereno
Director

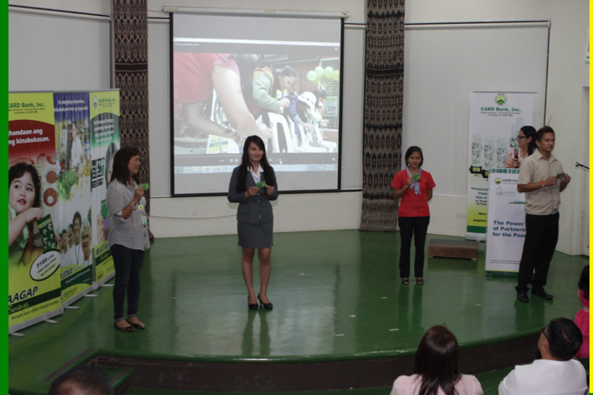


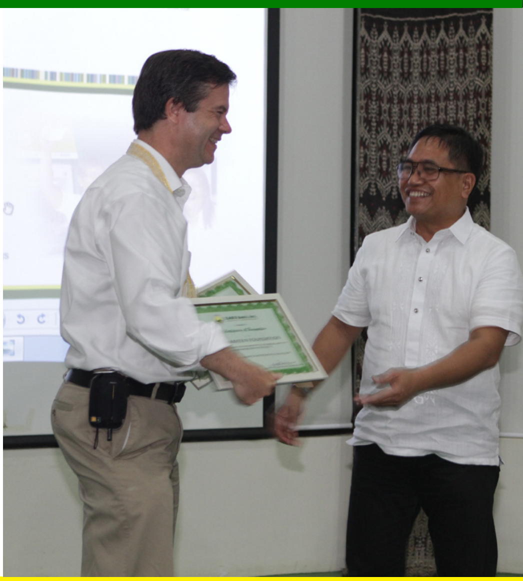




Micro-Entrepinay Conference

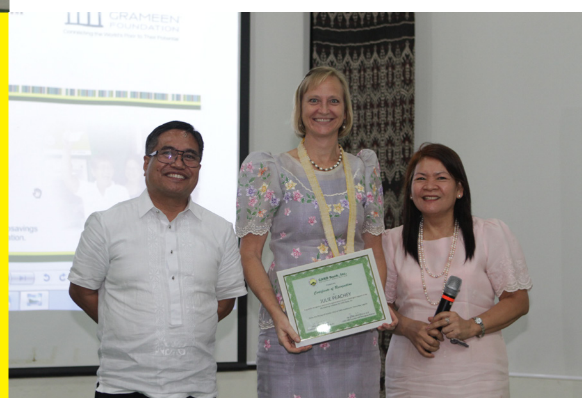
CARD Bank, Inc. held its first Micro-Entrepinay Conference at CARD-MRI Development Institute (CMDI) last November 2013. With the theme "Bida Best ME," the event empowered micro-entrepreneurs by equipping them with knowledge and skills in building and managing a business.

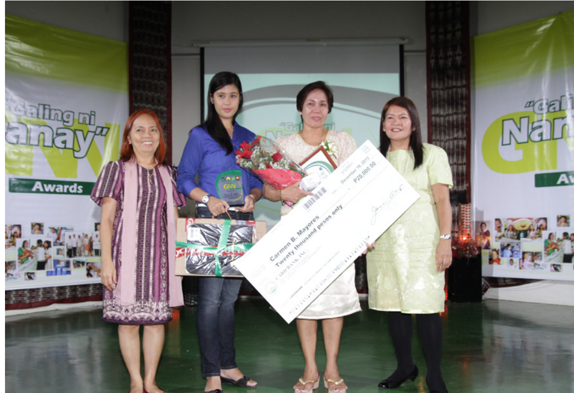


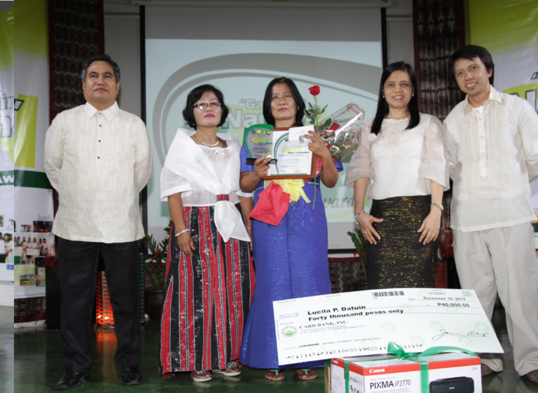


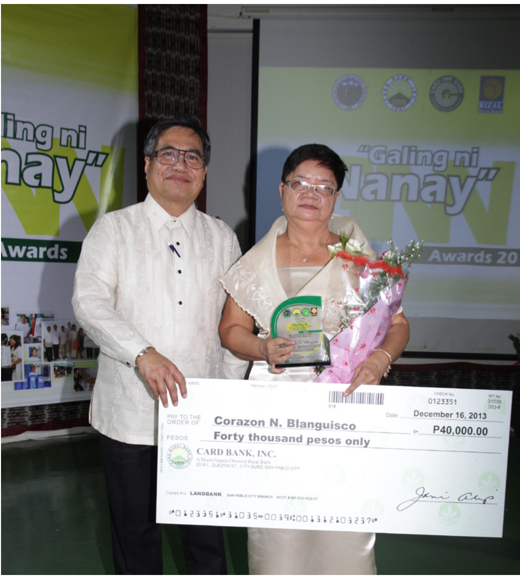
Closing Ceremony of Savings Mobilization Project

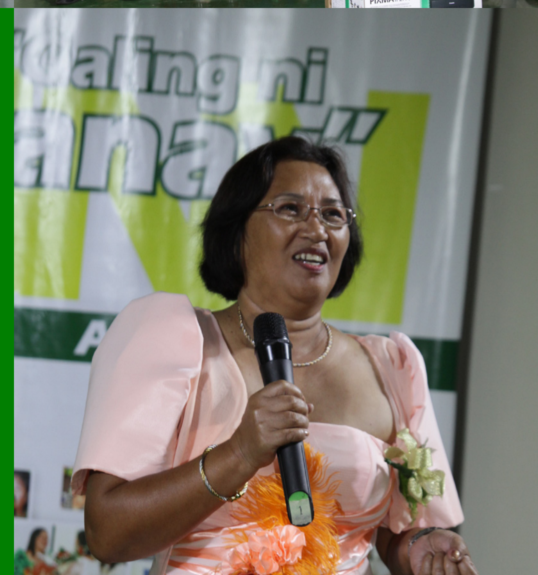
A closing ceremony was organized to recognize the assistance given by Grameen Foundation in institutionalizing the savings mobilization project.

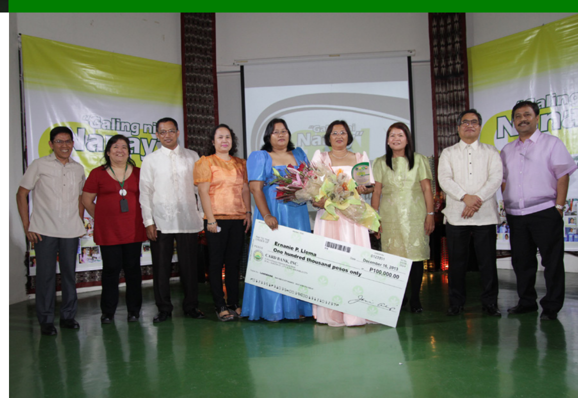


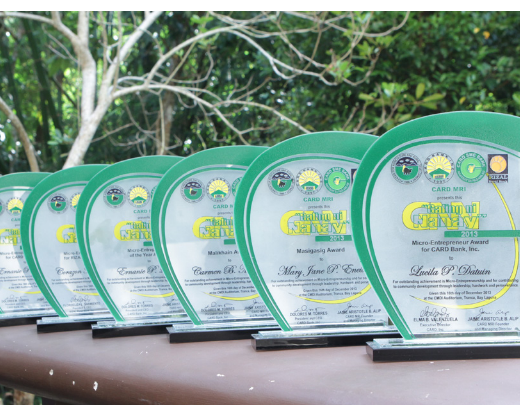






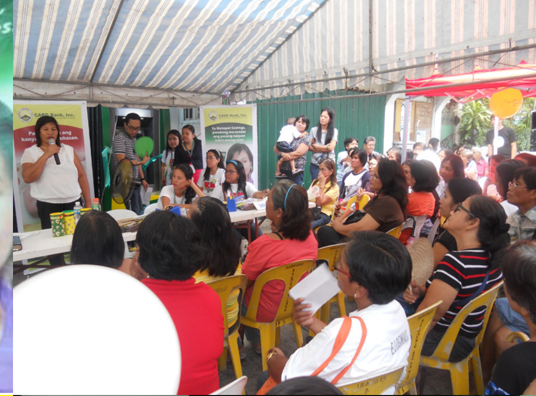


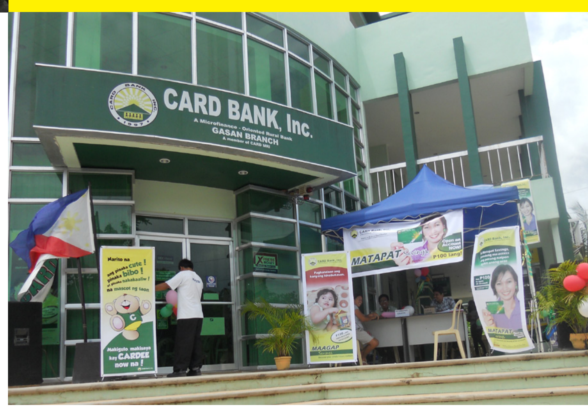




Galing ni Nanay Awards

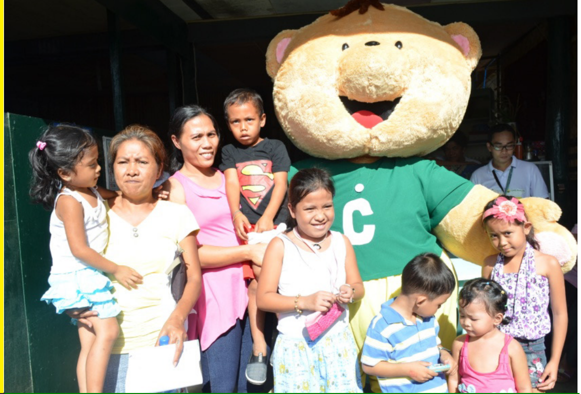
The second *Galing ni Nanay* Awards was held last December 2013 to recognize the outstanding micro-entrepreneurs of CARD MRI.

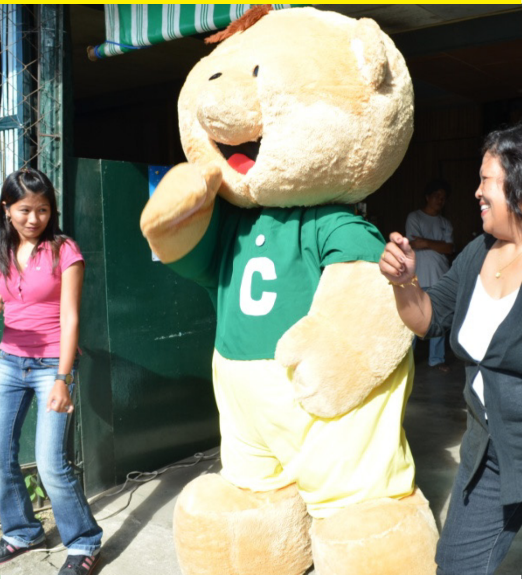


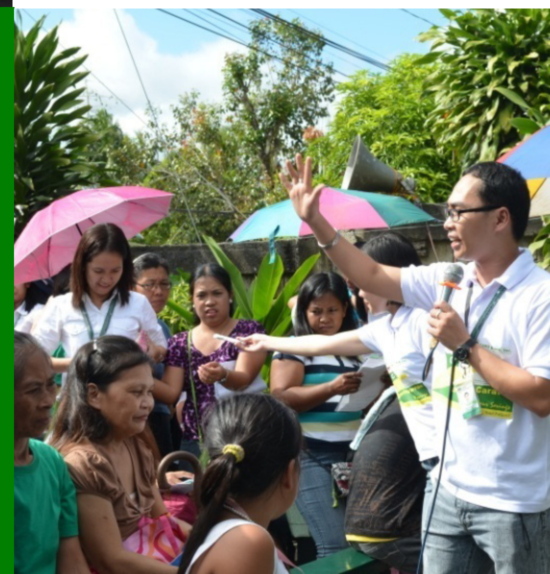


Matapat Savings Grand Launch

The grand launch of Matapat Savings promoted the importance of savingst.



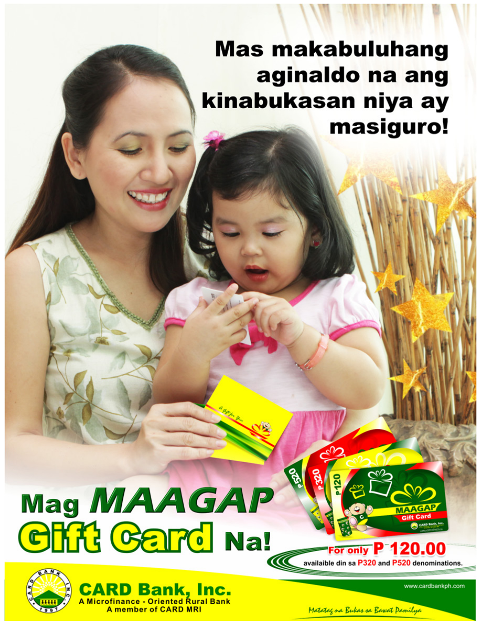




School Caravan

Last July 2013, a School Caravan was held at Mogpog Elementary School in Marinduque. The activities during the said event included poster-making and financial education for kids.

New Services



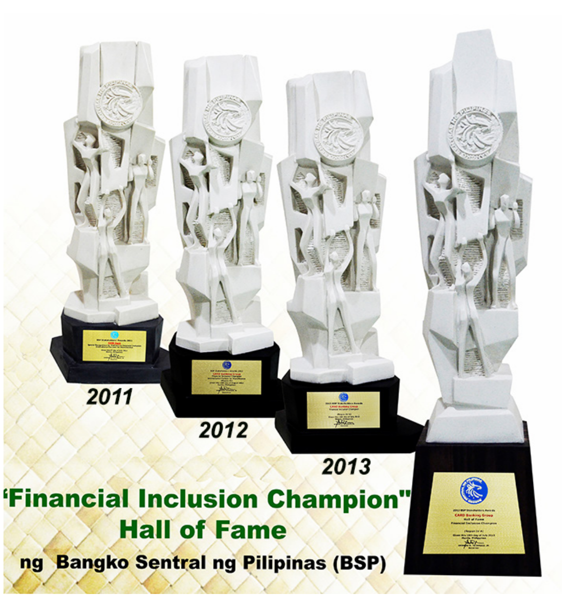
Maagap Gift Card

The Maagap Gift Card is one of the savings mobilization strategies of CARD Bank, Inc. launched last December 2013. It aims to increase the number of accounts and savings balances of Maagap Savings Account. It is a gift card packed with prepaid deposit amount and a coin bank worth 20 pesos. The prepaid amount can be used as initial or additional deposit to Maagap Account. It can be bought in three denominations such as P120, P320 and P520.

Rebranding of CARD Remittance Services from CARD Bilis to CARD Sulit Padala

CARD Remittance Services dubbed as CARD Sulit Padala was re-launched last December 2013. CARD Bank, Inc. has always been responsive to the changing needs of its members. This is 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.

Award



CARD Bank, Inc., for the third straight year, received the Financial Inclusion Champion Award from the Bangko Sentral ng Pilipinas (BSP) during the 10th Awards Ceremony and Appreciation Lunch themed, "Hand in Hand in Sustaining a Steadfast and Strong Economy." This elevated the bank to becoming a Hall of Fame awardee for the said category.

Financial Statements

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

STATEMENTS OF FINANCIAL POSITION

	December 31		January 1
	2013	2012 (As restated - Notes 2 and 23)	2012 (As restated - Notes 2 and 23)
ASSETS			
Cash and other cash items	**₱46,793,184**	₱30,509,853	₱47,378,785
Due from Bangko Sentral ng Pilipinas (Notes 6 and 13)	**73,783,424**	56,867,923	21,296,742
Due from other banks (Note 6)	**515,817,666**	380,291,993	107,624,397
Available-for-sale investments (Note 7)	–	14,790,418	14,790,418
Loans and receivables (Notes 8 and 22)	**3,645,076,091**	2,962,496,894	2,628,711,237
Investment in an associate (Note 9)	**12,278,368**	–	–
Held-to-maturity investments (Note 10)	**322,318,389**	312,950,255	353,555,248
Property and equipment (Note 11)	**295,237,778**	252,824,028	202,844,551
Deferred tax assets (Note 21)	**118,671,804**	113,576,997	74,877,337
Intangibles (Note 12)	**7,175,850**	6,736,874	7,296,886
Other assets (Note 12)	**54,466,469**	39,824,221	20,952,114
	₱5,091,619,023	₱4,170,869,456	₱3,479,327,715
LIABILITIES AND EQUITY			
Liabilities			
Deposit liabilities (Notes 13 and 22)			
Demand	**₱103,688,850**	₱45,505,758	₱35,254,160
Savings	**3,066,680,759**	2,406,349,244	1,994,101,191
	3,170,369,609	2,451,855,002	2,029,355,351
Bills payable (Note 14)	**423,432,686**	535,266,562	578,661,329
Income tax payable	**70,704,357**	53,613,556	72,565,292
Other liabilities (Notes 15 and 22)	**438,011,388**	438,650,127	325,741,144
	4,102,518,040	3,479,385,247	3,006,323,116
Equity			
Capital stock (Note 17)			
Preferred stock	**420,929,800**	249,927,200	203,834,300
Common stock	**361,443,500**	213,061,100	155,178,400
	782,373,300	462,988,300	359,012,700
Deposit for future stock subscription (Note 17)	–	63,117,425	–
Surplus (Note 17)	**398,895,728**	353,465,347	250,888,972
Remeasurement loss on retirement liabilities (Note 19)	**(189,972,221)**	(187,940,155)	(136,750,365)
Share in associate's other comprehensive loss (Note 9)	**(2,195,824)**	–	–
Net unrealized loss on available-for-sale investments (Note 7)	–	(146,708)	(146,708)
	989,100,983	691,484,209	473,004,599
	₱5,091,619,023	₱4,170,869,456	₱3,479,327,715

See accompanying Notes to Financial Statements.

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

STATEMENTS OF INCOME

	Years Ended December 31	
	2013	2012 (As restated - Notes 2 and 23)
INTEREST INCOME ON		
Loans and receivables (Note 8)	**₱1,600,356,558**	₱1,357,903,756
Investment securities (Notes 7 and 10)	**16,688,152**	20,180,803
Due from BSP and other banks (Note 6)	**7,128,815**	7,656,991
	1,624,173,525	1,385,741,550
INTEREST EXPENSE ON		
Deposit liabilities (Notes 13 and 22)	**74,277,480**	60,084,520
Bills payable (Note 14)	**9,188,163**	23,822,077
	83,465,643	83,906,597
NET INTEREST INCOME	**1,540,707,882**	1,301,834,953
Miscellaneous (Note 18)	**38,217,320**	14,114,894
TOTAL OPERATING INCOME	**1,578,925,202**	1,315,949,847
OPERATING EXPENSES		
Compensation and benefits (Notes 19 and 22)	**545,279,875**	436,822,857
Transportation and travel	**93,618,266**	93,441,607
Taxes and licenses	**92,912,974**	78,620,161
Members training and development (Note 22)	**58,605,417**	38,021,132
Depreciation and amortization (Notes 11 and 12)	**49,228,873**	43,080,347
Stationery and office supplies	**45,791,048**	44,240,657
Occupancy (Notes 20 and 22)	**43,395,072**	39,820,530
Provision for credit losses (Note 8)	**37,570,646**	27,055,888
Security, messengerial and janitorial	**33,554,228**	28,658,090
Information technology	**29,852,595**	29,364,700
Employee trainings (Note 22)	**21,768,804**	13,960,178
Postage, telephone and cable	**17,304,856**	13,309,572
Power, light and water	**17,151,728**	14,847,147
Insurance	**14,226,177**	19,549,398
Professional fees	**9,727,855**	3,296,673
Seminars and meetings	**8,806,206**	9,618,437
Repairs and maintenance	**8,311,405**	11,581,281
Program monitoring and evaluation	**4,636,511**	6,152,471
Miscellaneous (Note 18)	**42,343,171**	19,743,937
	1,174,085,707	971,185,063
INCOME BEFORE SHARE IN NET INCOME OF AN ASSOCIATE	**404,839,495**	344,764,784
SHARE IN NET INCOME OF AN ASSOCIATE (Note 9)	**3,724,192**	–
INCOME BEFORE TAX	**408,563,687**	344,764,784
PROVISION FOR INCOME TAX (Note 21)	**122,515,826**	90,196,473
NET INCOME	**₱286,047,861**	₱254,568,311

See accompanying Notes to Financial Statements.

CARD BANK, INC.
(A MICROFINANCE-ORIENTED RURAL BANK)
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2013	2012
NET INCOME	**₱286,047,861**	₱254,568,311
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that may not be classified to the statement of income:		
Remeasurement loss on retirement liabilities (Note 19)	**(2,902,952)**	(73,128,272)
Income tax effect	**870,886**	21,938,482
	(2,032,066)	(51,189,790)
Items that may be reclassified to the statement of income:		
Realized gain on available-for-sale investment (Note 7)	**209,583**	–
Income tax effect	**(62,875)**	–
	146,708	–
Share in associate's other comprehensive loss (Note 9)	**(2,195,824)**	–
	(2,049,116)	(51,189,790)
TOTAL COMPREHENSIVE INCOME	**₱281,966,679**	₱203,378,521

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)	Deposit for Future Stock Subscription (Note 17)	Surplus (Note 17)	Share in Associate's Other Comprehensive Loss (Note 9)	Remeasurement Loss on Retirement Liabilities (Note 19)	Net Unrealized Loss on Available-for-sale Investments (Note 7)	Total
Balance at January 1, 2013, as previously reported	**₱249,927,200**	**₱213,061,100**	**₱63,117,425**	**₱349,095,434**	**₱–**	**₱–**	**(₱146,708)**	**₱875,054,451**
Effect of restrospective application of PAS 19 (Revised) (Notes 2 and 23)	–	–	–	**4,369,913**	–	**(187,940,155)**	–	**(183,570,242)**
Balance at January 1, 2013, as restated	**249,927,200**	**213,061,100**	**63,117,425**	**353,465,347**	–	**(187,940,155)**	**(146,708)**	**691,484,209**
Total comprehensive income	–	–	–	**286,047,861**	**(2,195,824)**	**(2,032,066)**	**146,708**	**281,966,679**
Collection of subscription receivable	**115,460,700**	**8,493,075**	–	–	–	–	–	**123,953,775**
Transfers and movements of deposits for future stock subscription	**45,719,600**	**17,394,025**	**(63,117,425)**	–	–	–	–	**(3,800)**
Stock dividends	**8,849,400**	**99,997,600**	–	**(112,817,106)**	–	–	–	**(3,970,106)**
Cash dividends	**972,900**	**22,497,700**	–	**(127,800,374)**	–	–	–	**(104,329,774)**
Balance at December 31, 2013	**₱420,929,800**	**₱361,443,500**	**₱–**	**₱398,895,728**	**(₱2,195,824)**	**(₱189,972,221)**	**₱–**	**₱989,100,983**
Balance at January 1, 2012, as previously stated	₱203,834,300	₱155,178,400	₱–	₱255,217,842	₱–	₱–	(₱146,708)	₱614,083,834
Effect of restrospective application of PAS 19 (Revised) (Notes 2 and 23)	–	–	–	(4,328,870)	–	(136,750,365)	–	(141,079,235)
Balance at January 1, 2012, as restated	203,834,300	155,178,400	–	250,888,972	–	(136,750,365)	(146,708)	473,004,599
Total comprehensive income	–	–	–	254,568,311	–	(51,189,790)	–	203,378,521
Collection of subscription receivable	565,700	57,882,700	–	–	–	–	–	58,448,400
Deposit for future stock subscriptions	–	–	63,117,425	–	–	–	–	63,117,425
Issuance of shares	45,527,200	–	–	–	–	–	–	45,527,200
Cash dividends	–	–	–	(151,991,936)	–	–	–	(151,991,936)
Balance at December 31, 2012	₱249,927,200	₱213,061,100	₱63,117,425	₱353,465,347	₱–	(₱187,940,155)	(₱146,708)	₱691,484,209

See accompanying Notes to Financial Statements.

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

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱408,563,687**	₱344,764,784
Adjustments for:		
Depreciation and amortization (Notes 11 and 12)	**49,228,873**	43,080,347
Provision for credit losses (Note 8)	**37,570,646**	27,055,888
Share in the net income of an associate (Note 9)	**(3,724,192)**	–
Amortization of premium or discount on held-to-maturity securities (Note 10)	**3,613,794**	1,128,557
Gain on disposal of property and equipment (Note 18)	**(964,765)**	(798,164)
Unrealized loss on foreign exchange transactions	**346,831**	75,833
Amortization of premium or discount on bills payable (Note 14)	**235,209**	–
Operating income before changes in operating assets and liabilities:	**494,870,083**	415,307,245
Decrease (increase) in the amounts of:		
Loans and receivables	**(720,149,843)**	(360,841,545)
Other assets	**(12,392,248)**	(8,122,107)
Increase (decrease) in the amounts of:		
Deposit liabilities	**718,421,703**	422,499,651
Other liabilities (Notes 15 and 24)	**(7,676,718)**	38,393,094
Net cash generated from operations	**473,072,977**	507,236,338
Income taxes paid	**(109,711,820)**	(125,909,387)
Net cash provided by operating activities	**363,361,157**	381,326,951
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property and equipment (Notes 11 and 24)	**(89,082,624)**	(93,105,245)
Held-to-maturity investments (Note 10)	**(40,677,597)**	(90,243,218)
Intangibles (Note 12)	**(998,976)**	–
Advances to an associate (Note 12)	**(13,000,000)**	(10,750,000)
Proceeds from:		
Maturity of held-to-maturity investments	**27,695,669**	129,719,654
Disposal of property and equipment	**964,766**	1,403,597
Redemption of available-for-sale investments	**15,000,000**	–
Net cash used in investing activities	**(100,098,762)**	(62,975,212)
CASH FLOWS FROM FINANCING ACTIVITIES		
Availment of bills payable	**423,197,477**	620,500,000
Settlement of bills payable	**(535,266,562)**	(663,894,767)
Proceeds from (Note 17):		
Collection of subscriptions receivable - common stock	**8,493,075**	57,882,700
Collection of subscriptions receivable - preferred stock	**115,460,700**	565,700
Issuance - preferred stock	–	45,527,200

(Forward)

	Years Ended December 31	
	2013	2012
Transfers and movements of deposits for future stock subscription (Note 24)	**(₱3,800)**	₱63,117,425
Dividends paid (Note 17)	**(106,164,853)**	(150,604,319)
Net cash used in financing activities	**(94,283,963)**	(26,906,061)
EFFECTS OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS	**(253,927)**	(75,833)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**168,724,505**	291,369,845
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and other cash items	**30,509,853**	47,378,785
Due from Bangko Sentral ng Pilipinas	**56,867,923**	21,296,742
Due from other banks	**380,291,993**	107,624,397
	467,669,769	176,299,924
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and other cash items	**46,793,184**	30,509,853
Due from Bangko Sentral ng Pilipinas	**73,783,424**	56,867,923
Due from other banks	**515,817,666**	380,291,993
	₱636,394,274	₱467,669,769

OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS

	Years Ended December 31	
	2013	2012
Interest received	**₱1,651,640,448**	₱1,366,348,516
Interest paid	**81,423,357**	82,458,285
Dividend received	**607,826**	607,826

See accompanying Notes to Financial Statements.

CARD BANK, INC.
(A MICROFINANCE-ORIENTED RURAL BANK)
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 microinsurance 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 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, 2013 and 2012, the Bank is 29.61% 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. 58 P. Burgos, corner M. Paulino Street, San Pablo City. As at December 31, 2013 and 2012, the Bank has 54 and 51 branches, respectively.

2. **Summary of Significant Accounting Policies**

Basis of Preparation

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

The accompanying financial statements provide comparative information in respect of the previous years. An additional statement of financial position at the beginning of the earliest year presented is included when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements. A statement of financial position as at January 1, 2012 is presented in the 2013 financial statements due to the retrospective application of certain accounting policies as discussed in Note 23.

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

Presentation of Financial Statements
The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery (asset) or settlement (liability) within 12 months after the reporting date (current) and more than 12 months after the reporting date (noncurrent) is presented in Note 16.

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

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

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

PFRS 7, *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* (Amendments)
These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation*. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the reporting date:

a) The gross amounts of those recognized financial assets and recognized financial liabilities;
b) The amounts that are set-off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
c) The net amounts presented in the statement of financial position;
d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
    i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
    ii. Amounts related to financial collateral (including cash collateral); and
e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments have no impact on the Bank's financial position or performance.

PFRS 12, *Disclosure of Interests in Other Entities*
PFRS 12 includes all of the disclosures related to consolidated financial statements that were previously in PAS 27, as well as all the disclosures that were previously included in PAS 31, *Interest in Joint Ventures* and PAS 28, *Investments in Associates*. PFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

The adoption of PFRS 12 will affect disclosures only and have no impact on the Bank's financial position or performance. PFRS 12 disclosures are provided in Note 9.

PFRS 13, *Fair Value Measurement*
PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. PFRS 13 defined fair value as an exit price. PFRS 13 also requires additional disclosures. This standard should be applied prospectively as at the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13.

The Bank does not anticipate that the adoption of this standard will have a significant impact on its financial position and performance but would only affect its disclosures. Fair value hierarchy is provided in Note 4.

PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI* (Amendments)
The amendments to PAS 1 introduced a grouping of items presented in OCI. Items that will be reclassified (or "recycled") to the statement of income at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Bank's financial position or performance.

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

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

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

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

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

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

The changes in accounting policies have been applied retrospectively. The effects of adoption on the financial statements are as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Increase (decrease) in:			
Statements of financial position			
Other assets			
Retirement assets	**(₱27,345,173)**	(₱27,345,173)	(₱26,902,771)
Deferred tax asset	**70,255,229**	78,672,961	60,462,529
Other liabilities			
Retirement liabilities	**206,838,924**	234,898,030	174,638,993
Surplus	**26,043,353**	4,369,913	(4,328,870)
Remeasurement loss on retirement liabilities	**(189,972,221)**	(187,940,155)	(136,750,365)

	2013	2012
Statements of income		
Compensation and benefits	**30,962,058**	(12,426,833)
Income before income tax	**30,962,058**	(12,426,833)
Provision for income tax	**(9,288,617)**	3,728,050
Net income	**21,673,441**	8,698,783
Statements of comprehensive income		
Net income	**21,673,441**	8,698,783
Other comprehensive income:		
Remeasurement loss on retirement liabilities	**(2,902,952)**	(73,128,272)
Income tax effect	**870,886**	21,938,482
Total comprehensive income	**19,641,375**	(42,491,007)

The adoption did not have an impact on the statement of cash flows.

The revised PAS 19 also requires more extensive disclosures. These have been provided in Note 19. The Bank obtained the services of an external actuary to compute the impact to the financial statements upon adoption of the standard. The Bank chose to close to 'Remeasurement loss on retirement liabilities' the net effect of all transition adjustments as at January 1, 2012 (the transition date) upon retrospective application of PAS 19 (Revised).

PAS 28*, Investments in Associates and Joint Ventures* (as revised in 2011)
As a consequence of the issuance of the new PFRS 11, and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

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

PFRS 1, *First-time Adoption of PFRS – Borrowing Costs*
The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Bank as it is not a first-time adopter of PFRS.

PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information*
The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. During the period, the Bank restated its 2012 and 2011 financial statements to effect the retrospective application of revised PAS 19 (see Note 23). As a result the Bank has not included comparative information in the notes to the financial statements in respect to the opening statement of financial position at January 1, 2012.

PAS 16, *Property, Plant and Equipment - Classification of servicing equipment*
The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment has no significant impact on the Bank's financial position or performance.

PAS 32, *Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments*
The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The amendment has no significant impact on the Bank's financial position or performance.

Summary of Significant Accounting Policies

Fair Value Measurement

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

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

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

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

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

Foreign Currency Transactions

For financial reporting purposes, foreign currency-denominated monetary assets and liabilities are translated into their equivalents in Philippine peso based on the Philippine Dealing System (PDS) closing rate at the end of the year and foreign currency-denominated income and expenses, at the PDS weighted average rate for the year.

Foreign exchange differentials arising from foreign currency transactions and restatements of foreign currency-denominated assets and liabilities are recognized in the statement of income in the year in which the rates change.

Cash and Cash Equivalents

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

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

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

Initial recognition of financial instruments

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

As at December 31, 2013 and 2012, the Bank had no financial instruments at FVPL.

Determination of fair value

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

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

'Day 1' difference

Where the transaction price in a non-active market is different from the fair value or from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Bank recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of income in 'Miscellaneous' unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the 'Day 1' difference amount.

AFS investments
AFS investments are those which are designated as such or do not qualify to be classified as designated at FVPL, 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 equity securities.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities is recognized 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 gain (loss) on AFS investments' under 'OCI' in the statement of comprehensive income.

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

Loans and receivables, amounts due from BSP and other banks
This accounting policy relates to the statement of financial position captions 'Due from BSP', 'Due from other banks', and 'Loans and receivables'. These are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'AFS investments' or 'Financial assets at FVPL'.

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

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

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

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, 'Deposit liabilities', 'Bills payable' and similar financial liabilities not qualified as and not designated as FVPL, are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

Classification of Financial Instruments between Debt and Equity
A financial instrument is classified as debt if it provides for a contractual obligation to:
a. deliver cash or another financial asset to another entity; or
b. exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Bank; or
c. satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Bank does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Derecognition of Financial Assets and Liabilities
Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:
a. the rights to receive cash flows from the asset have expired; or
b. the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
c. the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred the control over the asset.

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

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

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

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

Financial asset carried at amortized cost
For loans and receivables, due from BSP, due from other banks and HTM investments, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

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

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

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

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

When a financial asset is uncollectible, it is written off against the related allowance for credit losses. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the loan loss provision and are recognized in the statement of income.

If, subsequently, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the provision. The amount of the reversal is recognized in the statement of income.

Restructured receivables
Where possible, the Bank seeks to restructure receivables, which may involve extending the payment arrangements and the agreement of new receivable conditions. Once the terms have been renegotiated, the receivable is no longer considered past due. Management continuously reviews restructured receivables to ensure that all criteria are met and that future payments are likely to occur.

The receivables continue to be subjected to an individual or collective impairment assessment, calculated using the receivable's original EIR. The difference between the recorded value of the original receivable and the present value of the restructured cash flows, discounted at the original EIR, is recognized in 'Provision for credit losses' in the statement of income.

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 is 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 rate of interest used to discount future cash flows for the purpose of measuring impairment loss. 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.

Investment in an Associate
An associate pertain to all entities over which the Bank has 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. Investment in an associate is accounted for under the equity method of accounting.

Under the equity method, investment in an associate is carried in the statement of financial position at cost plus post-acquisition changes in the Bank's share in the net assets of the associate. The Bank's share in an associate's post-acquisition earnings is recognized in statement of income, and its share of post-acquisition movements in the associate's OCI is recognized directly in OCI. Distributions received from an associate reduce the carrying amount of the investment. When the Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Bank does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. Profits and losses resulting from transactions between the Bank and an 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.

Property and Equipment
Property and equipment are carried at cost less accumulated depreciation and any impairment loss. The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs to bring the asset to its working condition and location for its intended use.

Expenditures incurred after items of property and equipment have been put into operation, such as repairs and maintenance are normally charged against statement of income in the year in which the costs are incurred.

In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation and amortization is computed using the straight-line method over the estimated useful lives (EUL) of the respective assets, 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 property and equipment follows:

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

The EUL and the depreciation and amortization method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

Construction in progress represents structures under construction and is measured using the percentage of completion of the project, or the amount billed by the contractor if the former is not present. This cost includes cost of construction, equipment, and other direct costs. Cost also includes interest on borrowed funds incurred during the construction period. Construction in progress is not depreciated until such time that the relevant assets are completed and are ready for use.

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization are removed from the accounts, and any resulting gain or loss is reflected in the statement of income.

Intangibles

Goodwill

Goodwill is initially measured at cost being the excess of the acquisition cost over the net fair value of the acquired identifiable assets, liabilities and contingent liabilities.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired is, from the acquisition date, allocated to each of the cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether the acquired other assets or liabilities are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Other intangibles

Other intangibles are recognized only when their cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to those assets will flow to the Bank.

After initial recognition, other intangibles are carried at cost less any accumulated amortization and impairment losses. Other intangibles, which have finite useful lives, are amortized over the useful economic life of five years. The amortization method and period are reviewed at least at each reporting date.

Impairment of Nonfinancial Assets

Property and equipment, investment in an associate and other assets

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

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

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

An impairment loss is charged to statement of income in the year in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income. After such a reversal, the depreciation 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.

Goodwill

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash generating units) to which the goodwill relates. Goodwill sometimes cannot be allocated on a non-arbitrary basis to individual cash operating unit, but only to the groups of cash-generating units. As a result, the lowest level within the Bank at which the goodwill is monitored for internal management purposes sometimes comprises a number of cash-generating units to which the goodwill relates but cannot be allocated.

Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated (or to the aggregate carrying amount of a group of cash-generating units to which the goodwill relates but cannot be allocated), an impairment loss is recognized immediately in the statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Bank performs its impairment test of goodwill annually.

Other intangibles

Intangible assets with indefinite useful lives are tested for impairment annually at reporting date either individually or at the cash generating-unit level, as appropriate or when circumstances indicate that the intangible asset may be impaired. Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The Bank assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Bank has concluded that it is acting as a principal in recognizing interest income, loan fees, service fees, penalties and charges, grants and donations, and rental income, except commission income. The following specific recognition criteria must also be met before the revenue is recognized:

Interest income

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

The carrying amount of the financial asset is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount adjusted for interest received is recorded as 'Interest income'. Interest income is recognized even if no principal and interest collections were made during the period.

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR used to discount the future recoverable cash flows.

'Unearned interest income', which represents discounted interest from salary loans, is recognized as income over the terms of the receivable from customers using the EIR method and shown as deduction from receivable from customers.

Loan fees, commission income, services fees, penalties and bank charges

Loan fees are recognized over the term of the credit lines granted to each borrower. Commissions are accrued when earned. Service fees, penalties and bank charges are recognized only upon collection or where there is a reasonable degree of certainty as to their collectibility. These items are reported under 'Miscellaneous income' in the statement of income.

Grants and donations

Grants and donations are recognized when there is a reasonable assurance that the Bank will comply with the conditions attaching to it, and that grant will be received. Grants for a specific purpose or with condition are initially recognized as a liability under 'Other liabilities' in the statement of financial position, otherwise recorded as 'Grants and donations' in the statement of income under 'Miscellaneous 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 income'.

Expense Recognition

Expenses are recognized when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Expenses are recognized when incurred.

Interest Expense

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

Retirement Benefits

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

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

Defined benefit costs comprise the following:

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

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

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in 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 or qualifying insurance policies. Plan assets are not available to the creditors of the Bank, nor can they be paid directly to the Bank. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

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

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

Bank as lessee

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

Bank as lessor

Leases where the Bank does not transfer substantially all the risks and benefits of ownership of the asset 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 income in the period in which they are earned.

Income Taxes

Current tax

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

Deferred tax

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

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

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

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

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

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

Current tax and deferred tax relating to items recognized directly in equity is recognized in other comprehensive income, and not in the net income.

Equity

Capital stock is measured at par value for all shares issued and outstanding. When the Bank issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax. The subscribed capital stock is reported in equity less the related subscription receivable not collectible currently.

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

Dividends on preferred and common shares are recognized as a liability and deducted from equity when approved by the BOD of the Bank and the BSP. Dividends for 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 represents payments made on subscription of shares which cannot be directly credited to 'Preferred stock' or 'Common stock' pending registration with the SEC of the amendment to the Articles of Incorporation increasing capital stock. The paid-up subscription can be classified under equity if the nature of the transaction gives rise to a contractual obligation of the Bank to deliver its own shares to the subscriber in exchange of the subscription amount. In addition, deposit for future stock subscription shall be classified under equity if all of the following elements are present as at reporting date:

a. The unissued authorized capital stock of the entity is insufficient to cover the amount of shares indicated in the contract;
b. There is BOD approval on the proposed increase in authorized capital stock (for which a deposit was received by the corporation);
c. There is stockholders' approval of said proposed increase; and
d. The application for the approval of the proposed increase has been filed with the Commission.

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

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

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

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

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

Future Changes in Accounting Policies
The Bank will adopt the standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Bank does not expect the adoption of these new and amended PFRS, PAS and Philippine Interpretations to have significant impact on its financial statements.

Effective in 2014

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

Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)
These amendments are effective for annual periods beginning on or after January 1, 2014. The amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments will not have a significant impact on the financial statements of the Bank.

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

PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The Bank does not anticipate that these amendments will have material impact in its future financial statements.

PAS 32, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (Amendments)
The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Bank's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

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

PFRS 9*, Financial Instruments*
PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement.* Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value

either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in the statement of income, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in the statement of income. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

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

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

Philippine Interpretation 15, *Agreements for the Construction of Real Estate*
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Bank.

Annual Improvements to PFRSs (2010-2012 cycle)

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

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

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

PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments will not have a material effect in the financial statements of the Bank.

PFRS 13, *Fair Value Measurement – Short-term Receivables and Payables*
The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. This amendment has no impact on the Bank's financial position or performance.

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

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

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

PAS 24, *Related Party Disclosures – Key Management Personnel*
The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after

July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Bank's financial position or performance.

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

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

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

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

Annual Improvements to PFRSs (2011-2013 cycle)

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

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

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

PFRS 13, *Fair Value Measurement – Portfolio Exception*
The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

PAS 40, *Investment Property*
The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual

periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Bank's financial position or performance.

3. Significant Accounting Judgments and Estimates

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

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

<u>Judgments</u>

(a) Going concern

The management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

(b) Operating leases

Bank as lessee

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

Bank as lessor

The Bank has entered into commercial property lease on one of its owner-occupied buildings. The Bank has determined that it retains all the significant risks and rewards of ownership over the property which is leased out as operating lease. In determining whether or not there is indication of operating lease treatment, the Bank considers retention of ownership title to the leased property, period of lease contract relative to the estimated useful economic life of the leased property and bearer of executory costs, among others.

(c) Assessment of functional currency

PAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires management to determine its functional currency such that it must faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the Bank. In making this judgment, the Bank considers the following:

- the currency that mainly influences sales prices for financial instruments and services;
- the currency in which funds from financing activities are generated; and
- the currency in which receipts from operating activities are usually retained.

(d) *Fair value of financial instruments*
Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models.

The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Refer to Note 4 for the fair value measurement of financial assets and liabilities.

(e) *Classification of investments*
Held-to-maturity
The classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than in certain specific circumstances - for example, selling more than an insignificant amount close to maturity - it will be required to reclassify the entire portfolio as AFS investments. The investments would therefore be measured at fair value and not at amortized cost (see Note 10).

Available-for-sale
The classification is a residual one. If the financial asset does not fall under the other classifications of investments, the Bank classifies it as an AFS investment (see Note 7).

(f) *Financial assets not quoted in an active market*
The Bank classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether the asset is quoted in an active market is the determination on whether the quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

Estimates

(a) *Credit losses on loans and receivables*
The Bank reviews its loans and receivables to assess impairment annually. In determining whether an impairment loss should be recorded in the statement of income, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of customers or national or local economic conditions that correlate with defaults on the loans and receivables. Past-due accounts for more than 90 days, and loans wherein the borrower requested moratorium but no subsequent collection is made after the moratorium period ends as at yearend, fall under specific loan loss. As at December 31, 2013 and 2012, the carrying values of loans and receivables and related allowance for credit losses are disclosed in Note 8.

(b) *Impairment of AFS debt investment*
The Bank reviews its AFS debt investment at each reporting date to assess whether it is impaired. This requires similar judgment applied to the individual assessment of loans and receivables (see Note 7).

(c) *Recognition of deferred tax assets*
The amount of deferred tax asset recognized by the Bank is based on the estimate of future taxable income. Significant management judgment is required to determine the amount of

deferred tax asset that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning.

The Bank reviews the carrying amount of deferred tax asset at each reporting date and reduces this to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized (see Note 21).

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

In determining the appropriate discount rate, management considers the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as at reporting date, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The present value of the retirement liability and fair value of plan assets are disclosed in Note 19.

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

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

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

Goodwill
The Bank's management conducts an annual review for any impairment in value of the goodwill. Goodwill is written down for impairment when the net present value of the forecasted future cash flows from the business is insufficient to support its carrying value. The Bank used its weighted average cost of capital in discounting the expected cash flows from specific CGUs. The weighted average cost of capital incorporate the percentage ratio of interest on deposits generated, net of income on reserves, to loanable funds, net of reserve requirements (see Note 12).

(f) *Estimated useful lives of property and equipment and other intangibles*
The Bank estimates the useful lives of its property and equipment and other intangibles. This estimate is reviewed periodically to ensure that the periods of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property and equipment. Refer to Note 2 for the estimated useful lives.

4. Fair Value Measurement

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

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

Fair values of noncurrent loans and receivables are estimated based on the discounted cash flow methodology using interest rates offered for similar loans to borrowers with similar credit ratings. Where the instrument reprices on a quarterly basis or has a relatively short maturity, the carrying amounts approximated fair values.

The fair value of held-to-maturity investments is determined by obtaining market quotation for the same instrument and adjusting that quotation for transaction costs to arrive at the settlement price of the security.

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 with maturities consistent with those remaining for the liability being valued, if any.

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 for which fair value is disclosed as at December 31, 2013 and 2012 (in thousands):

	2013		
	Carrying Value	**Quoted Price in Active Markets (Level 1)**	**Significant unobservable inputs (Level 3)**
Financial Assets			
Loans and receivables:			
Receivable from customers	**₱3,551,673**	**₱–**	**₱3,645,973**
Unquoted debt securities classified as loans	**20,000**	**–**	**18,538**
Held-to-maturity investments	**322,318**	**332,433**	**–**
Financial Liabilities			
Deposit liabilities:			
Savings	**3,066,681**	**–**	**3,171,657**

	2013		
	Carrying Value	Quoted Price in Active Markets (Level 1)	Significant unobservable inputs (Level 3)
Financial Assets			
Loans and receivables:			
Receivable from customers	₱2,890,152	₱–	₱2,898,893
Held-to-maturity investments	312,950	330,025	–
Financial Liabilities			
Deposit liabilities:			
Savings	2,406,349	–	2,406,886

The Bank's unquoted AFS investments in 2012 are carried at cost less any impairment because the fair value could not be reliably determined.

As at December 31, 2013 and 2012, the Bank has no financial instruments carried at fair value which are measured based on Level 1.

There were no transfers between fair value categories for assets and liabilities measured at fair value in 2013 and 2012.

5. **Financial Risk Management Objectives and Policies**

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

- Credit risk
- Market risk
- Liquidity risk

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

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

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

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

Management of credit risk
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 deeply committed on the credit repayment design they undertake. In general, borrowers are also perpetual savers. Consequently, their

savings balances are pledged and 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 Area 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 is a major program 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 by their ownership of the Bank's preferred stock, opportunity for their children to avail scholarship program and a chance to become a regular staff of the CARD-MRI. Maximum loan amount per account holder is far 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 bases. 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 over-all credit operations. Identified existing and potential risks are acted upon appropriately. Monthly reports are submitted during BOD meetings.

Maximum exposure to credit risk
The maximum credit exposure of the Bank's financial instruments is equal to their carrying value except for receivable from customers with collaterals, financial effect amounting to ₱5.0 million and ₱0.8 million as at December 31, 2013 and 2012, respectively.

Credit enhancement for receivable from customers pertains to deposit hold-out from pledge savings equivalent to 15% of the original amount of the loan to the member and real estate mortgage as at December 31, 2013 and 2012 (see Note 13).

The Bank assessed that it has no credit risk exposures relating to off-balance sheet items.

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

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

	2013			
	Loans and Receivables*	**AFS Investment**	**HTM Investments**	**Total**
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	**₱2,322,557**	**₱–**	**₱–**	**₱2,322,557**
Agriculture, hunting and forestry	**689,658**	**–**	**–**	**689,658**
Financial institutions	**569,067**	**–**	**–**	**563,820**
Real estate, renting and business activities	**235,927**	**–**	**–**	**235,927**
Fishing	**206,200**	**–**	**–**	**206,200**
Other community, social and personal service activities	**147,268**	**–**	**–**	**147,268**
Education	**108,142**	**–**	**–**	**108,142**
Government	**73,783**	**–**	**322,318**	**396,101**
Manufacturing	**28,339**	**–**	**–**	**28,339**
Health and social work	**4,128**	**–**	**–**	**4,128**
	4,385,069	**–**	**322,318**	**4,702,140**
Less allowance for credit losses	**150,392**	**–**	**–**	**150,392**
Total	**₱4,234,677**	**₱–**	**₱322,318**	**₱4,551,748**

**Consist of due from BSP and other banks, receivable from customers, unquoted debt securities classified as loans and other receivables.*

	2012			
	Loans and Receivables*	AFS Investment	HTM Investments	Total
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	₱1,858,203	₱–	₱–	₱1,858,203
Agriculture, hunting and forestry	611,317	–	–	611,317
Financial institutions	380,292	14,790	–	395,082
Real estate, renting and business activities	116,773	–	–	116,773
Fishing	164,781	–	–	164,781
Other community, social and personal service activities	214,900	–	–	214,900
Education	86,777	–	–	86,777
Government	56,868	–	312,950	369,818
Manufacturing	28,702	–	–	28,702
Health and social work	1,001	–	–	1,001
	3,519,614	14,790	312,950	3,847,354
Less allowance for credit losses	119,957	–	–	119,957
Total	₱3,399,657	₱14,790	₱312,950	₱3,727,397

**Consist of due from BSP and other banks, receivable from customers and other receivables.*

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, 2013 and 2012:

	2013				
	Neither past due nor impaired				
	High grade	**Standard grade**	**Past due but not impaired**	**Impaired**	**Total**
Due from BSP	**₱73,783,424**	**₱–**	**₱–**	**₱–**	**₱73,783,424**
Due from other banks	**512,888,360**	**2,929,306**	**–**	**–**	**515,817,666**
Receivable from customers					
Microfinance loans	**–**	**3,198,749,386**	**12,063,175**	**89,668,236**	**3,300,480,797**
Other loans	**–**	**393,430,284**	**1,479,024**	**6,510,430**	**401,419,738**
Other receivables:					
Accrued interest receivable	**–**	**45,592,563**	**–**	**–**	**45,592,563**
Accounts receivable	**–**	**27,810,876**	**–**	**190,439**	**28,001,315**
Unquoted debt securities classified as loans	**–**	**20,000,000**	**–**	**–**	**20,000,000**
Held-to-maturity investments	**322,318,389**	**–**	**–**	**–**	**322,318,389**
	₱908,990,173	**₱3,688,512,415**	**₱13,542,199**	**₱96,369,105**	**₱4,707,413,892**

	2012				
	Neither past due nor impaired				
	High grade	Standard grade	Past due but not impaired	Impaired	Total
Due from BSP	₱56,867,923	₱–	₱–	₱–	₱56,867,923
Due from other banks	379,297,992	994,001	–	–	380,291,993
Receivable from customers					
Microfinance loans	–	2,292,382,302	11,028,752	67,029,507	2,370,440,561
Other loans	–	624,686,337	3,649,728	11,332,183	639,668,248
Other receivables:					
Accrued interest receivable	–	68,845,692	–	–	68,845,692
Accounts receivable	–	3,308,890	–	190,439	3,499,329
Unquoted debt securities classified as loans	–	–	–	–	–
Held-to-maturity investments	312,950,255	–	–	–	312,950,255
	₱1,498,232,340	₱2,990,217,222	₱14,678,480	₱78,552,129	₱3,832,564,001

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

Aging analysis of past due but not impaired loans and receivables

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

	2013			
	Less than 30 Days	**31 to 60 Days**	**61 to 90 Days**	**Total**
Microfinance	**₱3,302,275**	**₱5,002,563**	**₱3,758,337**	**₱12,063,175**
Agri-Agra	**154,802**	**87,069**	**56,184**	**298,055**
Regular	**670,308**	**286,313**	**224,348**	**1,180,969**
	₱4,127,385	**₱5,375,945**	**₱4,038,869**	**₱13,542,199**

	2012			
	Less than 30 Days	31 to 60 Days	61 to 90 Days	Total
Microfinance	₱1,621,401	₱4,789,895	₱4,617,456	₱11,028,752
Agri-Agra	266,155	471,750	672,245	1,410,150
Regular	1,243,688	333,699	662,191	2,239,578
	₱3,131,244	₱5,595,344	₱5,951,892	₱14,678,480

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, 2013 and 2012, the Bank's outstanding restructured receivables tagged as impaired account amounted to ₱0.5 million.

Market Risk

Market risk is the risk of loss to future earnings, fair values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates. The Bank's market risk is very minimal with its placements in government securities.

Interest rate risk

The Bank's receivables earn fixed interest rates ranging from 16.0% to 28.0% per annum with equivalent EIR ranging from 32.8% to 52.6% in 2013 and 32.8% to 51.8% in 2012. The shortest term of loan is one month while the longest term is ten years in 2013 and 2012. The Bank's interest rate is consistent with the market rate. The Bank's HTM investments earn fixed interest rates ranging from 5.0% to 7.0% per annum in 2013 and from 5.8% to 9.1% per annum in 2012.

The Bank's savings deposit liabilities include compulsory and voluntary savings that earn 2.0% per annum in 2013 and 2012. Special savings deposits have interest rates of 2.5% to 6.0% in 2013 and 2012.

The Bank pays fixed interest rates to its creditors from 4.3% to 9.0% in 2013 and from 5.3% to 9.0% in 2012 per annum, and payable within one year to three years.

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

The Bank has fixed interest rates therefore the sensitivity analysis was not presented.

Foreign currency risk
The Bank's exposure to foreign exchange risk is minimal as it arises mainly from deposit accounts in and deposit liabilities to local banks that are denominated in foreign currency.

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

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

	2013					
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	Total
Financial Assets						
Cash and other cash items	**₱53,899**	**₱–**	**₱–**	**₱–**	**₱–**	**₱53,899**
Due from BSP	**73,783**	–	–	–	–	**73,783**
Due from other banks	**173,763**	**342,422**	–	–	–	**516,185**
Loans and receivable - gross	**283,679**	**248,715**	**1,666,475**	**2,051,283**	**27,474**	**4,277,626**
HTM investments	–	**65,908**	**4,011**	**52,523**	**232,843**	**355,285**
Total Financial Assets	**585,124**	**657,045**	**1,670,486**	**2,103,806**	**260,317**	**5,276,778**
Financial Liabilities						
Deposit liabilities	**230,850**	**256,571**	**1,064,405**	**1,475,534**	**145,010**	**3,172,370**
Bills payable	–	–	**212,500**	**212,500**	–	**425,000**
Accounts payable	**28,963**	**6,107**	**35,546**	**1,717**	–	**72,333**
Accrued interest	–	**3,000**	**2,088**	**1,234**	**10,202**	**16,524**
Dividends payable	**4238**	–	–	–	–	**4,238**
Accrued expenses	**694**	**9,072**	**15,622**	**29,830**	**64,146**	**119,364**
Total Financial Liabilities	**264,745**	**274,750**	**1,330,161**	**1,720,815**	**219,358**	**3,809,829**
Net	**₱320,379**	**₱382,295**	**₱340,325**	**₱382,991**	**₱40,959**	**₱1,466,949**

	2012					
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	Total
Financial Assets						
Cash and other cash items	₱30,510	₱–	₱–	₱–	₱–	30,510
Due from BSP	56,868	–	–	–	–	56,868
Due from other banks	155,050	165,859	60,167	–	–	381,076
AFS investment	–	–	–	15,600	–	15,600
Loans and receivable - gross	69,639	113,386	1,091,585	2,180,524	4,946	3,460,080
HTM investments	–	4,237	4,423	37,188	314,836	360,684
Total Financial Assets	312,067	283,482	1,156,175	2,233,312	319,782	4,304,818
Financial Liabilities						
Deposit liabilities	279,293	189,230	157,428	1,775,348	64,338	2,465,637
Bills payable	–	25,000	5,720	616,581	–	647,301
Accounts payable	7,614	206	1,059	66,724	–	75,603
Accrued interest	–	2,118	9,962	2,637	–	14,717
Dividends payable	2,103	–	–	–	–	2,103
Accrued expenses	73,567	–	–	–	23,320	96,887
Total Financial Liabilities	362,577	216,554	174,169	2,461,290	87,658	3,302,248
Net	(₱50,510)	₱66,928	₱982,006	(₱227,978)	₱232,124	₱1,002,570

6. Due from BSP and Other Banks

The 'Due from BSP' account represents the aggregate balance of peso deposit accounts with BSP which the Bank maintains primarily to meet reserve requirements and to serve as a clearing account for interbank claims. Due from BSP earned interest at nil in 2013 and an annual rate ranging from nil to 0.1% in 2012.

Due from other banks represent funds deposited with domestic banks which are used by the Bank as part of its working funds. As at December 31, 2013 and 2012, due from other banks include USD-denominated deposits amounting to US$115.4 thousand (₱4.7 million) and US$50.4 thousand (₱2.2 million), respectively. Peso-denominated deposits earn interest at annual rates ranging from 0.5% to 1.0% in 2013 and 2012.

Interest income on due from BSP and other banks follows:

	2013	2012
Due from other banks	**₱7,128,815**	₱7,552,063
Due from BSP	**–**	104,928
	₱7,128,815	₱7,656,991

7. Available-for-sale Investments

This account pertains to the Bank's investment in 150,000 redeemable (at the option of the Bank) preferred shares of SBC with a minimum holding period of three years starting July 30, 2010 for alternative compliance with mandatory resource credit allocation for medium enterprises.

AFS investments include net unrealized loss of ₱0.1 million as at December 31, 2012 and reported under the equity section of the statement of financial position. The redeemable preferred shares matured on July 30, 2013 and was redeemed at face value of ₱15.0 million, resulting to a realized gain of ₱0.1 million, with preferred dividends of ₱0.6 million reported under 'Miscellaneous'.

8. **Loans and Receivables**

This account consists of:

	2013	2012
Receivable from customers		
Microfinance loans	**₱3,300,480,796**	₱2,370,463,960
Agri-Agra	**151,344,267**	532,493,274
Regular loans	**249,591,433**	106,664,728
Restructured	**484,038**	510,246
	3,701,900,534	3,010,132,208
Less unearned interest income	**26,280**	23,400
	3,701,874,254	3,010,108,808
Other receivables:		
Accrued interest receivable	**45,592,563**	68,845,692
Accounts receivable	**28,001,315**	3,499,329
Unquoted debt securities classified as loans	**20,000,000**	–
	3,795,468,132	3,082,453,829
Less allowance for credit losses	**150,392,041**	119,956,935
	₱3,645,076,091	₱2,962,496,894

Receivable from customers are loans extended to borrowers engaged in various micro-businesses. These earn annual fixed interest rates ranging from 16.0% to 28.0% per annum with equivalent EIR of 32.8% to 52.6% in 2013 and 32.8% to 51.8% in 2012.

Interest income on loans and receivables amounted to ₱1.6 billion and ₱1.4 billion in 2013 and 2012, respectively.

BSP Reporting

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

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

	2013	2012
Total NPLs	**₱109,720,863**	₱89,908,926
Loss NPLs fully covered by allowance for credit losses	**99,273,288**	82,456,704
Balance at end of year	**₱10,447,575**	₱7,452,222

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

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

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

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

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

	2013	2012
Secured portion		
Deposit hold - out (Note 13)	**₱920,403,866**	₱748,019,416
Deed of assignment	**4,567,202**	–
Real estate mortgage	**3,000,000**	–
Salary of employees	**–**	2,369,602
Small and medium enterprise	**–**	997,079
Unsecured portion	**2,773,929,466**	2,258,746,111
Balance at end of year	**₱3,701,900,534**	₱3,010,132,208

The Bank's loans amounting to ₱454.9 million and ₱575.0 million are used to secure bills payable in 2013 and 2012, respectively (see Note 14).

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

	2013		2012	
	Amount	**%**	Amount	%
Wholesale and retail trade	**2,322,557**	**61.2%**	1,858,203	60.3%
Agriculture, hunting and forestry	**689,658**	**18.2%**	611,317	19.8%
Real estate renting and business activities	**235,927**	**6.2%**	116,773	3.8%
Fishing	**206,200**	**5.4%**	164,781	5.3%
Other community, social and personal service activities	**147,268**	**3.9%**	214,900	7.0%
Education	**108,142**	**2.8%**	86,777	2.8%
Financial institutions	**53,249**	**1.4%**	–	–
Manufacturing	**28,339**	**0.7%**	28,702	0.9%
Health and social work	**4,128**	**0.1%**	1,001	0.0%
	₱3,795,468	**100.00%**	₱3,082,454	100.00%

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

	2013	2012
Balance at beginning of year	**₱119,956,935**	₱103,295,188
Provision for credit losses	**37,570,646**	27,055,888
Accounts written-off	**(7,325,979)**	(10,394,141)
Balance at end of year	**₱150,201,602**	₱119,956,935
Individual impairment	**₱96,178,666**	₱77,389,497
Collective impairment	**54,022,936**	42,567,438
Total allowance for credit losses	**₱150,201,602**	₱119,956,935
Gross amounts of loans individually determined to be impaired, before deducting any individually assessed impairment losses	**₱96,178,666**	₱78,361,690

As at December 31, 2013 and 2012, allowance for credit losses on other receivable amounted to ₱0.2 million.

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. Investment in an Associate

This account consists of:

Acquisition cost	₱10,750,000
Share in net income of an associate	3,724,192
Share in associate's other comprehensive loss	(2,195,824)
	₱12,278,368

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

On October 11, 2012, the Bank entered into agreement with the shareholders of RRBI to purchase 40.0% of their shareholdings subject to BSP's approval. On January 25, 2013, the BSP approved the transaction.

The reconciliation of the RRBI's summarized financial information to the carrying amount of the investment in an associate is as follows:

Current assets	₱214,051,827
Noncurrent assets	33,807,348
Current liabilities	(224,085,647)
Noncurrent liabilities	(15,605,570)
Equity	8,167,958
Proportion of the Bank's ownership	40%
Proportionate share in associate's equity	3,267,183
Goodwill	9,011,185
Carrying amount of the investment	₱12,278,368

Summarized statement of income and statement of comprehensive income of RRBI:

Revenue	₱43,051,530
Net income	9,310,481
Other comprehensive income	(5,489,560)
Total comprehensive income	₱3,820,921

10. **Held-to-maturity Investments**

This account represents investments in government securities bearing annual interest rates ranging from 5.0% to 9.1% in 2013 and 5.8% to 9.1% in 2012.

The rollforward analysis of this account follows:

	2013	2012
Face Value		
Balance at beginning of year	**₱304,194,708**	₱352,371,081
Acquisitions	**37,000,000**	81,543,281
Redemptions	**(27,695,669)**	(129,719,654)
Balance at end of year	**313,499,039**	304,194,708
Net premium		
Balance at beginning of year	**8,755,547**	1,184,167
Acquisitions	**3,677,597**	8,699,937
Amortization	**(3,613,794)**	(1,128,557)
Balance at end of year	**8,819,350**	8,755,547
Carrying value	**₱322,318,389**	₱312,950,255

Interest income earned from held-to-maturity investments amounted to ₱16.7 million and ₱20.2 million in 2013 and 2012, respectively.

11. Property and Equipment

The composition of and movements in this account follow:

	2013						
	Furniture, Fixtures and Equipment	**Building**	**Land**	**Transportation Equipment**	**Leasehold Improvements**	**Construction in Progress**	**Total**
Cost							
Balance at beginning of year	**₱118,743,554**	**₱94,598,025**	**₱93,057,263**	**₱50,811,499**	**₱45,567,924**	**₱1,333,500**	**₱404,111,765**
Additions	**41,297,248**	**9,214,862**	**21,949,648**	**574,404**	**1,809,464**	**16,236,998**	**91,082,624**
Disposals	**(1,799,239)**	**(19,800)**	**–**	**(4,893,037)**	**–**	**–**	**(6,712,076)**
Reclassification	**–**	**1,333,500**	**–**	**–**	**–**	**(1,333,500)**	**–**
Balance at end of year	**158,241,563**	**105,126,587**	**115,006,911**	**46,492,866**	**47,377,388**	**16,236,998**	**488,482,313**
Accumulated Depreciation and Amortization							
Balance at beginning of year	**76,700,368**	**12,643,687**	**–**	**31,911,327**	**30,032,355**	**–**	**151,287,737**
Depreciation and amortization	**23,118,666**	**10,291,785**	**–**	**8,877,646**	**6,380,776**	**–**	**48,668,873**
Disposals	**(1,799,239)**	**(19,800)**	**–**	**(4,893,036)**	**–**	**–**	**(6,712,075)**
Balance at end of year	**98,019,795**	**22,915,672**	**–**	**35,895,937**	**36,413,131**	**–**	**193,244,535**
Net Book Value	**₱60,221,768**	**₱82,210,915**	**₱115,006,911**	**₱10,596,929**	**₱10,964,257**	**₱16,236,998**	**₱295,237,778**

	2012						
	Furniture, Fixtures and Equipment	Building	Land	Transportation Equipment	Leasehold Improvements	Construction in Progress	Total
Cost							
Balance at beginning of year	₱94,254,230	₱71,163,296	₱72,115,289	₱38,341,550	₱40,522,495	₱2,931,500	₱319,328,360
Additions	27,783,625	20,503,229	20,941,974	16,779,195	5,763,722	1,333,500	93,105,245
Disposals	(3,294,301)	–	–	(4,309,246)	(718,293)	–	(8,321,840)
Reclassification	–	2,931,500	–	–	–	(2,931,500)	–
Balance at end of year	118,743,554	94,598,025	93,057,263	50,811,499	45,567,924	1,333,500	404,111,765
Accumulated Depreciation and Amortization							
Balance at beginning of year	61,393,798	3,912,065	–	27,963,093	23,214,853	–	116,483,809
Depreciation and amortization	18,580,511	8,731,622	–	8,257,480	6,950,722	–	42,520,335
Disposals	(3,273,941)	–	–	(4,309,246)	(133,220)	–	(7,716,407)
Balance at end of year	76,700,368	12,643,687	–	31,911,327	30,032,355	–	151,287,737
Net Book Value	₱42,043,186	₱81,954,338	₱93,057,263	₱18,900,172	₱15,535,569	₱1,333,500	₱252,824,028

Depreciation and amortization presented in the statement of income follow:

	2013	2012
Property and equipment	**₱48,668,873**	₱42,520,335
Other intangibles (Note 12)	**560,000**	560,012
	₱49,228,873	₱43,080,347

Cost of fully depreciated assets still in use as at December 31, 2013 and 2012 amounted to ₱55.8 million and ₱61.9 million, respectively.

12. Intangibles and Other Assets

Intangible assets consist of:

	2013	2012
Goodwill	**₱5,200,000**	₱5,200,000
Other intangibles	**1,975,850**	1,536,874
	₱7,175,850	₱6,736,874

Goodwill represents the excess of acquisition cost over the net assets of the branches acquired from local rural banks.

Other intangibles pertain to subscription agreement with Bancnet's automated teller machine (ATM) network system for the Bank's ATM savings accounts. Amortization is included in 'Depreciation and amortization' in the statement of income.

The movements of other intangibles follow:

	2013	2012
Cost		
Balance at beginning of year	**₱2,800,000**	₱2,800,000
Additions	**998,976**	–
Balance at end of year	**3,798,976**	2,800,000
Accumulated Amortization		
Balance at beginning of year	**1,263,126**	703,114
Amortization	**560,000**	560,012
Balance at end of year	**1,823,126**	1,263,126
Net Book Value	**₱1,975,850**	₱1,536,874

Other asset account consists of:

	2013	2012
Stationeries and supplies	**₱30,413,975**	₱16,136,660
Advances to an associate	**13,000,000**	10,750,000
Refundable deposits	**8,589,700**	7,478,023
Prepaid expenses	**2,462,794**	5,459,538
	₱54,466,469	₱39,824,221

Advance to an associate as at December 31, 2012 represents fund held in escrow for the acquisition of 40.0% shareholdings in Rizal Rural Bank (Taytay), Inc. (RRBI). This has been reclassified to investment in an associate in 2013. In 2013, the Bank has made additional deposit as subscription for future increase in authorized capital stock. The increase in the authorized capital stock of RRBI has not yet been approved by the Securities and Exchange Commission (SEC).

13. **Deposit Liabilities**

The Bank's savings deposit liabilities include pledge savings amounting to ₱2.0 billion and ₱1.7 billion as at December 31, 2013 and 2012, respectively. These represent the ₱50.0 per week aggregate compulsory savings collected from each member for 2013 and 2012. Under an assignment agreement, the pledge savings balances serve as security for loans granted by the Bank to its members. The pledge savings earn annual interest of 2.0%. Pledge savings requirement is equivalent to 15.0% of the original loan amount (see Note 8).

Savings deposits earn annual interest rate ranging from 1.5% to 6.0% in 2013 and 2012. Interest expense on deposit liabilities amounted to ₱74.3 million and ₱60.1 million in 2013 and 2012, respectively.

Under existing BSP regulations, deposit liabilities of the Bank are subject to liquidity reserves equivalent to 0.0% and statutory reserves equivalent to 6.0% for demand and 3.0% for savings. In March 2012, BSP issued Circular 753 effective April 6, 2012 unifying the liquidity and statutory reserves requirements to 4.0% for demand and 2.0% for savings, with cash in vault no longer eligible as reserve.

As at December 31, 2013 and 2012, available reserves pertain to Due from BSP of ₱73.8 million and ₱56.9 million for 2013 and 2012, respectively.

As at December 31, 2013 and 2012, the Bank is compliant with the applicable reserve requirements.

14. **Bills Payable**

Bills payable represent borrowings from financing institutions, which are subject to certain terms and conditions bearing annual interest rates ranging from 4.3% to 9.0% in 2013 and from 5.3% to 9.0% in 2012. Maturity period for outstanding bills payable ranges from six months to one year in 2013 and in 2012.

Interest expense on bills payable amounted to ₱9.2 million and ₱23.8 million in 2013 and 2012, respectively.

The Bank has available funds from its loan facilities amounting to ₱885.0 million and ₱234.8 million in 2013 and 2012, respectively.

Borrowings are secured by receivables from customers amounting to ₱454.9 million and ₱575.0 million as at December 31, 2013 and 2012 (see Note 8).

15. Other Liabilities

This account consists of the following:

	2013	2012
Financial liabilities		
Accrued expenses	**₱119,364,076**	₱96,887,043
Accounts payable	**72,333,667**	75,603,459
Accrued interest	**16,524,001**	14,716,924
Dividends payable (Note 17)	**4,237,809**	2,102,782
	212,459,553	189,310,208
Nonfinancial liabilities		
Retirement liabilities (Note 19)	**206,838,924**	234,898,030
Accrued taxes	**11,002,693**	8,353,391
Withholding taxes payable	**7,426,700**	5,823,454
Others	**283,518**	265,044
	225,551,835	249,339,919
	₱438,011,388	₱438,650,127

Accrued expenses include vacation leaves, accrued rent, PDIC premium and other operating expenses.

Accounts payable include due to suppliers and contractors, due to staff, rebates to borrowers, due to SSS for collection remittances, and due to related parties (see Note 22).

16. Maturity Analysis of Assets and Liabilities

The following table shows an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from reporting dates (in thousands):

	2013			2012		
	Within one Year	**Beyond One Year**	**Total**	Within one Year	Beyond One Year	Total
Financial Assets						
Cash and other cash items	**₱46,793**	**₱–**	**₱46,793**	₱30,510	₱–	₱30,510
Due from BSP	**73,783**	**–**	**73,783**	56,868	–	56,868
Due from other banks	**515,818**	**–**	**515,818**	380,292	–	380,292
AFS investment	**–**	**–**	**–**	14,790	–	14,790
Loans and receivables	**3,769,898**	**25,596**	**3,795,494**	3,077,614	4,863	3,082,477
Refundable deposits		**8,590**	**8,590**		7,478	7,478
Investment in an associate	**–**	**12,278**	**12,278**			
HTM investments	**106,426**	**215,892**	**322,318**	27,882	285,068	312,950
Nonfinancial Assets						
Property and equipment	**–**	**488,482**	**488,482**	151,288	252,824	404,112
Deferred tax asset	**–**	**118,672**	**118,672**	–	113,577	113,577
Intangibles	**–**	**8,999**	**8,999**	–	8,000	8,000
Other assets	**307**	**45,571**	**45,878**	16,137	16,209	32,346
Total Assets	**₱4,513,025**	**₱924,080**	**5,437,105**	₱3,755,381	₱688,019	4,443,400
Less: Allowance for credit and impairment losses			**(150,392)**			(119,957)
Unearned interest			**(26)**			(23)
Accumulated depreciation and amortization			**(195,068)**			(152,551)
			₱5,091,619			₱4,170,869

(Forward)

	2013			2012		
	Within one Year	**Beyond One Year**	**Total**	Within one Year	Beyond One Year	Total
Financial liabilities						
Deposit liabilities	**₱3,025,360**	**₱145,010**	**₱3,170,370**	₱2,391,159	₱60,696	₱2,451,855
Bills payable	**423,432**	**–**	**423,432**	535,267	–	535,267
Other liabilities:						
Accounts payable	**72,334**	**–**	**72,334**	75,603	–	75,603
Accrued expenses	**55,218**	**64,146**	**119,364**	73,567	23,320	96,887
Accrued interest	**5,395**	**11,129**	**16,524**	14,717	–	14,717
Dividends payable	**4,238**	**–**	**4,238**	2,103	–	2,103
Nonfinancial liabilities						
Income tax payable	**70,704**	**–**	**70,704**	53,614	–	53,614
Other liabilities:						
Retirement liability	**–**	**206,839**	**206,839**	–	234,898	234,898
Accrued taxes	**11,002**	**–**	**11,002**	8,353	–	8,353
Withholding taxes payable	**7,427**	**–**	**7,427**	5,823	–	5,823
Others	**284**	**–**	**284**	265	–	265
Total Liabilities	**₱3,675,394**	**₱427,124**	**₱4,102,518**	₱3,160,471	₱318,914	₱3,479,385

17. **Equity**

Capital Stock

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

	2013		2012	
	Shares	**Amount**	Shares	Amount
Preferred stock - ₱200 par value, 2,500,000 authorized shares				
Issued and outstanding	**2,104,170**	**₱420,834,000**	1,249,335	₱249,867,000
Subscribed	**2,366**	**473,200**	665	133,000
Subscription receivable	**–**	**(377,400)**	–	(72,800)
	2,106,536	**₱420,929,800**	1,250,000	₱249,927,200
Common stock - ₱100 par value, 5,000,000 authorized shares				
Issued and outstanding	**2,013,194**	**₱201,319,400**	1,876,144	₱187,614,400
Subscribed	**2,111,782**	**211,178,200**	623,856	62,385,600
Subscription receivable	**–**	**(51,054,100)**	–	(36,938,900)
	4,124,976	**₱361,443,500**	2,500,000	₱213,061,100

Preferred stock provides annual dividend rate of 8.0% and has the following features: (a) cumulative; (b) nonparticipating; and (c) non-redeemable.

Deposit for Future Stock Subscriptions

Deposit for future stock subscriptions amounting to ₱63.1 million as at December 31, 2012 represents paid-up subscription for the Bank's proposed increase in authorized capital stock from ₱500.0 million to ₱1.0 billion, consisting of 5.0 million common shares with par value of ₱100.0 per share and 2.5 million preference shares with par value of ₱200.0 per share.

Board of director's approval and two-thirds (2/3) majority approving vote from shareholders were obtained on a regular meeting held on March 17, 2012. The BSP approved the increase in authorized capital stock on October 2, 2012. The amended articles of incorporation were submitted to the SEC for approval on October 11, 2012 which was subsequently approved on January 4, 2013.

The paid-up subscription has been received in the form of cash and was classified under equity satisfying the definition of PAS 32, *Financial Instruments - Presentation* in which the transaction gives rise to contractual obligation of the Bank to deliver its own shares to the subscriber in exchange of the subscription amount. Also, the Bank satisfies the requirements provided by SEC in its recently issued SEC Financial Reporting Bulletin No. 6 as classifying the paid-up subscription under equity.

Information about the subscribed capital for the future increase in authorized capital stock and the corresponding paid amount:

	Common Shares			**Preferred Shares**		
	Shares	**Subscribed Amount**	**Paid Amount**	**Shares**	**Subscribed Amount**	**Paid Amount**
CARD Inc.	188,850	₱18,885,000	₱15,625,000	–	₱–	₱–
CARD members/stockholders	–	–	–	120,443	24,088,600	30,073,400
CARD MBA	–	–	–	186,978	37,395,600	15,625,000
CARD EMPC	38,450	200	1,300,000	–	–	–
Stockholders	140,809	14,080,900	288,425	3,513	702,600	24,400
Directors/stockholders	101,459	10,145,900	167,100	–	–	–
Key management/stockholders	155,432	15,543,200	3,500	1,566	313,200	10,600
Total	625,000	₱58,655,200	₱17,384,025	312,500	₱62,500,000	₱45,733,400

Dividend Declaration

On March 16, 2013, the BOD declared 4.0% and ₱20.0 per share cash and stock dividends to preferred and common stockholders, respectively, which were approved by the BSP on April 29, 2013. The cash dividends amounted to ₱75.3 million, which were paid on May 3, 2013 to preferred and common stockholders of record as at February 28, 2013. Stock dividends amounted to ₱75.3 million. Dividends per share to preferred and common stockholders amounted to ₱16.0 and ₱40.0, respectively.

The BOD declared another 4.0% cash dividend to preferred stockholders and ₱20.0 per share cash and stock dividends to common stockholders, on August 17, 2013 which were approved by the BSP on September 17, 2013. The cash dividends amounted to ₱52.5 million, which were partially paid on September 23, 2013 to preferred and common stockholders of record as at July 31, 2013. Stock dividends amounted to ₱37.5 million. Dividends per share to preferred and common stockholders amounted to ₱8.0 and ₱20.0, respectively.

On March 17, 2012, the BOD declared an 8.0% and ₱30.0 per share cash dividends to preferred and common stockholders, respectively, which were approved by the BSP on May 4, 2012. The cash dividends amounted to ₱92.0 million, which were paid on May 9, 2012 to preferred and common stockholders of record as at February 9, 2012. Dividends per share to preferred and common stockholders amounted to ₱16.0 and ₱30.0, respectively.

The BOD declared another 4.0% and ₱20.0 per share cash dividends to preferred and common stockholders, respectively, on July 21, 2012 which were approved by the BSP on September 25, 2012. The cash dividends amounted to ₱60.0 million, which were partially paid on September 27, 2012 to preferred and common stockholders of record as at June 30, 2012. Dividends per share to preferred and common stockholders amounted to ₱8.0 and ₱20.0, respectively.

Capital Management

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

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

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

Regulatory Qualifying Capital

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

Under current banking regulations, the combined capital accounts of each bank should not be less than an amount equal to ten percent (10.0%) 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 other related interests (DOSRI);
- deferred tax asset or liability; and
- other regulatory deductions.

Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board of the BSP. Under BSP Circular No. 360, effective July 1, 2003, the capital-to-risk assets ratio is to be inclusive of a market risk charge.

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments. As at December 31, 2013 and 2012, the Bank was in compliance with the risk-based capital adequacy ratio (CAR). The following table sets the CAR as reported to the BSP (amounts in millions):

	2013	2012
Tier 1 capital	**₱692.2**	₱520.6
Tier 2 capital	**445.3**	337.9
Gross qualifying capital	**1,137.5**	858.5
Less required deductions	**–**	–
Total qualifying capital	**₱1,137.5**	₱858.5
Risk weighted assets	**₱4,590.93**	₱3,361.5
Tier 1 capital ratio	**15.1%**	15.5%
Total CAR	**24.8%**	25.5%

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings including current year profit less accrued dividends, net long positions in own shares and goodwill. The other component of regulatory capital is Tier 2 capital, which includes revaluation reserves. Certain adjustments are made to PFRS-based results and reserves, as prescribed by the BSP.

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

BSP Circular No. 560 dated January 31, 2007 which took effect on February 22, 2007, requires the deduction of unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates from capital accounts for purposes of computing CAR.

The Monetary Board recently approved the Revised Risk-Based Capital Adequacy Framework for stand-alone thrift banks (TBs), rural banks (RBs) and cooperative banks (Coop Banks) which takes effect on January 1, 2012. Currently, these banks are covered by Circular No. 280 dated March 29, 2001, as amended, which is primarily based on Basel 1.

The change upgrades these banks to higher capital adequacy standards, the so-called Basel 1.5 framework. The revised Basel 1.5 framework involves only a few key changes to the existing framework which include the following:

- On credit risk, the foreign currency-denominated credit exposures to the Philippine National Government (NG) and BSP will now carry a 100.0% risk weight, based on the country's current sovereign rating of "BB+", from the existing 0.0% risk weight. The new risk weight, however, will be phased-in over a three-year period, i.e., only 1/3 of the applicable risk weight will be applied starting January 1, 2012, 2/3 starting January 1, 2013 and the full risk weight starting January 1, 2014. Meanwhile, peso-denominated exposures to the Philippine NG/BSP will continue to be 0.0% risk-weighted.
- Exposures to government corporations which carry an explicit guarantee of the NG shall be 0.0% risk-weighted only if peso-denominated. Those that are FCY-denominated will follow the risk weight of the FCY-denominated exposures to NG/BSP.
- The assignment of 150.0% risk weight (from 100.0%) to Real and Other Properties Acquired (ROPA). The 150.0% risk weight shall, however, be gradually implemented over a three-year period, i.e., 115.0% risk weight shall be applied by January 1, 2012, 130.0% by January 1, 2013 and 150.0% by January 1, 2014. This revision is aligned with the BSP's thrust of reducing the level of non-performing assets of banks to strengthen the overall asset quality of the banking system.
- Another new element in the revised framework is the capital requirement for operational risk. For this purpose, the simplest approach, i.e., the Basic Indicator Approach (BIA) with minor modification shall be used. The modification entails a capital charge of 12.0% of the average positive annual gross income during the last three years of a bank. This was originally proposed at 15.0% but has been lowered to be consistent with the generally retail portfolio of the smaller banks. Moreover, it shall also be subject to staggered implementation over a three-year period, i.e., 4.0% capital charge shall be applied by January 1, 2012, 8.0% by January 1, 2013 and 12.0% by January 1, 2014, to allow banks time to adjust.
- Designed to enhance market discipline, another new element in the revised framework is the disclosure requirements in the Annual Reports and Quarterly Published Balance Sheet. The items that would now need to be disclosed are the banks' (a) components of qualifying capital; (b) capital requirements for credit, market and operational risks; and (c) total and tier 1 CARs.

The adoption of this revised risk-based capital adequacy framework for stand-alone TBs, RBs and Coop Banks represents BSP's commitment to align existing prudential regulations with international standards consistent with the BSP's goal of promoting the soundness and stability of individual banks and of the banking system as a whole.

On October 29, 2010, BSP issued the Circular No. 696, which states that rural banks with head office in cities other than Metro Manila, Cebu and Davao are required to comply with the minimum capital requirement of ₱25.0 million. As at December 31, 2012, the Bank was in compliance with the above capitalization requirement.

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

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

18. Miscellaneous Income and Expenses

Miscellaneous income consists of:

	2013	2012
Grants and donations	**₱25,495,980**	₱4,020,000
Fees and other charges	**5,416,971**	3,061,822
Recoveries of written off account	**4,173,990**	4,625,051
Gain on disposal of property and equipment	**964,765**	798,164
Income from cash remittances	**736,836**	872,469
Dividend income	**607,826**	607,826
Others	**820,952**	129,562
	₱38,217,320	₱14,114,894

Others consist of realized foreign exchange gains (loss), rental income and other non-recurring income.

Miscellaneous expense consists of the following:

	2013	2012
Calamity assistance	**₱19,846,250**	₱2,966,292
Scholarship allowance	**13,357,995**	10,052,035
Service charges	**1,891,543**	654,373
Medical and other related expenses	**1,619,508**	1,311,698
Advertising and promotions	**1,148,869**	1,196,713
Banking fees	**491,396**	651,368
Membership fees and dues	**262,298**	796,625
Others	**3,725,312**	2,114,833
	₱42,343,171	₱19,743,937

Others consist of various 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. (formerly Rural Bank of Sto. Tomas, Inc.), CARD MRI Insurance Agency (CAMIA), Inc., CARD Business Development Service Foundation (BDSF), Inc., CARD MRI Information Technology, Inc. (CMIT), BotiCARD, Inc., CARD Leasing and Finance Co. (CLFC), RRBI, and CARD, Inc. maintain a funded and formal noncontributory defined benefit retirement plan - the CARD MRI Multi-Employer Retirement Plan (MERP) - covering all of their regular employees. MERP has a projected unit cost format and is financed solely by the Bank and its related parties. MERP complies with the requirement of Republic Act No. 7641 (Retirement Law). MERP provides lump sum benefits equivalent 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 early retirement after completion of at least one year of service with the participating companies

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

		Net benefit cost in statement of income*					**Remeasurements in other comprehensive income**					
	January 1, 2013 (As restated - Note 2 and 23)	**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 financial assumptions**	**Subtotal**	**Contribution by employer**	**December 31, 2013**
Present value of defined benefit obligation	**₱422,754,500**	**₱64,674,129**	**₱26,210,779**	**₱90,884,908**	**(₱2,724,181)**	**(₱806,864)**	**₱–**	**₱8,395,222**	**(₱22,635,216)**	**(₱14,239,994)**	**₱–**	**₱495,868,369**
Fair value of plan assets	**(187,856,470)**	**–**	**(14,854,408)**	**(14,854,408)**	**₱2,724,181**	**806,864**	**17,142,946**	**–**	**–**	**17,142,946**	**(106,992,558)**	**(289,029,445)**
Net defined benefit liability (asset)	**₱234,898,030**	**₱64,674,129**	**₱11,356,371**	**₱76,030,500**	**₱–**	**₱–**	**₱17,142,946**	**₱8,395,222**	**(₱22,635,216)**	**₱2,902,952**	**(₱106,992,558)**	**₱206,838,924**

Changes in net defined benefit liability of funded funds in 2012 are as follow:

		Net benefit cost in statements of income*					Remeasurements in other comprehensive income					
	January 1, 2012 (As restated Note 2 and 23)	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 financial assumptions	Subtotal	Contribution by employer	December 31, 2012 (As restated - Notes 2)
Present value of defined benefit obligation	₱273,396,500	₱50,190,513	₱19,153,450	₱69,343,963	₱9,543,535	(₱1,663,032)	₱–	₱7,050,434	₱65,083,100	₱72,133,534	₱–	₱422,754,500
Fair value of plan assets	(98,757,507)	–	(9,860,077)	(9,860,077)	(9,543,535)	1,663,032	994,738	–	–	994,738	(72,353,121)	(187,856,470)
Net defined benefit liability (asset)	₱174,638,993	₱50,190,513	₱9,293,373	₱59,483,886	₱–	₱–	₱994,738	₱7,050,434	₱65,083,100	₱73,128,272	(₱72,353,121)	₱234,898,030

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

The maximum economic benefit 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 of the end of the reporting period are as follow:

	December 31, 2013	December 31, 2012
Cash and cash equivalents	**₱156,682,862**	₱113,277,451
Investments:		
Debt securities - Government bonds	**105,322,330**	74,579,019
Equity securities	**1,820,886**	–
Loans	**17,862,020**	–
Mutual funds	**3,988,606**	–
Other assets	**3,352,741**	–
Fair value of plan assets	**₱289,029,445**	₱187,856,470

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

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

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

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:

	2013	2012
Discount rates	**6.4%**	6.0%
Future salary increases	**12.0%**	12.0%

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

	Increase (Decrease) in Basis Points	Increase (Decrease) in Present Value of Obligation
Discount rates	+250 bps	(₱223,272,407)
	-100 bps	141,203,544
Future salary increases	+250 bps	286,371,340
	-100 bps	(100,181,313)

The Bank plans to contribute ₱158.3 million to the defined benefit retirement plan in 2014.

The average duration of the defined benefit obligation at the end of the reporting period is 28.0 years.

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

	2013	2012
Less than 1 year	**₱–**	₱–
More than 1 year to 5 years	**5,443,200**	19,797,755
More than 5 years to 10 years	**15,603,908**	50,894,081
More than 10 years to 15 years	**28,146,549**	86,366,613
More than 15 years to 20 years	**254,836,675**	213,091,981
More than 20 years to 25 years	**1,978,657,492**	1,110,210,597
More than 25 years	**25,181,481,388**	15,442,831,720

20. Lease Contracts

As Lessee

The Bank leases the premises occupied by some of its branches in which lease payments are subjected to escalation clauses ranges from 3.0% to 10.0%. The lease contracts are for the periods ranging from one to ten years and are renewable upon mutual agreement between the Bank and the lessors such as CARD, Inc., employees and third-party lessors.

The future aggregate minimum lease payments under non-cancelable operating leases follow:

	2013	2012
Within one year	**₱6,676,666**	₱39,352,222
Beyond one year but not more than five years	**12,208,920**	11,684,613
Beyond five years	**–**	1,194,238
	₱18,885,586	₱52,231,073

As Lessor

The Bank's operating lease pertains to lease contract entered into with BDSF in 2012 which is renewable every year. Operating lease income included under 'Miscellaneous income' amounted to ₱17,850.

21. Income Taxes

Income taxes include corporate income tax, as discussed below, and final taxes paid at the rate of 20.0%, which is a 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 computation of the taxable income of the Bank already effected recently issued Revenue Regulations (RR) 4-2011 prescribing the proper allocation of costs and expenses amongst income earnings of banks and other financial institutions for income tax reporting purposes.

Starting July 1, 2008, the optional standard deduction (OSD) equivalent to 40.0% of gross income may be claimed as an alternative deduction in computing for the RCIT. In 2013 and 2012 RCIT computations, the Bank elected to claim itemized deductions instead of 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 for a service company like the Bank is limited to the actual EAR paid or incurred but not to exceed 1.0% of 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:

	2013	2012
Current:		
RCIT	**₱121,206,616**	₱101,371,098
Final tax	**5,596,006**	5,586,553
	126,802,622	106,957,651
Deferred	**(4,286,796)**	(16,761,178)
	₱122,515,826	₱90,196,473

Components of net deferred tax assets are as follows:

	2013	2012
Retirement liabilities	**₱62,051,677**	₱70,469,409
Allowance for credit and impairment losses	**45,060,480**	35,987,081
Accrued rent and vacation leave	**8,478,864**	7,039,858
Unrealized loss on AFS	**–**	62,875
Unrealized foreign exchange loss	**104,049**	17,774
Unamortized past service cost	**2,976,734**	–
	₱118,671,804	₱113,576,997

In 2013, income tax effect arising from retirement liabilities recognized in the statement of income and other comprehensive income amounted to ₱4.3 million and ₱0.8 million, respectively.

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

	2013	2012
Statutory income tax	**₱122,569,106**	₱103,429,435
Income tax effects of:		
Nondeductible interest expense and other nondeductible expenses	**2,944,799**	2,755,942
Interest income subject to final tax	**(1,549,084)**	(2,764,785)
Share in the net income of an associate	**(1,117,258)**	–
Nontaxable income	**(331,737)**	(187,323)
Movements in unrecognized deferred tax asset	**–**	(13,036,796)
Provision for income tax	**₱122,515,826**	₱90,196,473

22. **Related Party Transactions**

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

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

Transactions with retirement plans

Under PFRS, certain post-employment benefit plans are considered as related parties. CARD MRI's MERP is managed by the CARD Employee Multipurpose Cooperative (EMPC). The plan assets are invested in time deposits and special savings accounts and government bonds (see Note 19). As at December 31, 2013 and 2012, the retirement funds do not hold or trade the Bank's shares.

Remunerations of Key Management Personnel

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

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

	2013	2012
Short-term employee benefits	**₱13.3**	₱13.4
Post employment benefits	**6.4**	2.9
	₱19.7	₱16.3

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

Other related party transactions

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

Loans receivables

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

Deposit liabilities, accounts receivable and accounts payable

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

	December 31, 2013		
Category	**Amount/Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Key Management Personnel			
Deposit liabilities		**₱13,879,215**	Savings accounts with annual interest rates ranging from 2.0% to 4.5%
Deposits	**₱156,688,194**		
Withdrawals	**(147,034,568)**		
Accounts receivable		**4,849,322**	Salary loan granted to employees under fringe benefit program approved by BSP payable in either five or ten years
Disburses of salary loan	**2,926,398**		
Collections	**(446,678)**		
CARD, Inc. (shareholder)			
Deposit liabilities		**33,293,815**	Savings accounts with annual interest rates ranging from 1.5% to 4.0%
Deposits	**74,159,262**		
Withdrawals	**(147,383,097)**		
Accounts receivable		**1,902**	Expenses Travelling , electricity and communication and postage
Share in expenses	**1,110,150**		
Collections	**(1,108,248)**		
Accounts payable		**346,168**	Payments of weekly dues of CARD, Inc. clients remitted thru CARD Bank and other assets due to transition
Collections	**1,476,056**		
Remittances	**(1,141,888)**		
CMDI (other related party)			
Deposit liabilities		**12,522,693**	Savings accounts with annual interest rates ranging from 2.5% to 3.5%
Deposits	**128,371,113**		
Withdrawals	**(130,562,182)**		
Accounts receivable		**–**	Travelling expenses
Share in expenses	**118,651**		
Collections	**(122,849)**		
Accounts payable		**1,583,032**	Billed expense for trainings and meetings
Share in expenses	**3,166,065**		
Remittances	**(3,192,362)**		
CARD MBA (shareholder)			
Deposit liabilities		**240,314,761**	Savings accounts with annual interest rates ranging from 1.5% to 5.0%
Deposits	**1,688,447,632**		
Withdrawals	**(1,518,363,808)**		
Accounts receivable		**79,233**	Expenses of seminars and meetings, postage and messengerial
Share in expenses	**3,915,213**		
Collections	**(3,952,640)**		
Accounts payable		**18,343,132**	Pertains to collection of loan redemption fund and provident and life insurance contributions on behalf of CARD MBA
Collections	**795,869,645**		
Remittances	**(778,685,531)**		
CAMIA (other related party)			
Deposit liabilities		**3,090,827**	Savings accounts with annual interest rates ranging from 1.5% to 4%%
Deposits	**177,570,444**		
Withdrawals	**(175,120,394)**		
Accounts receivable		**–**	Travelling expenses
Share in expenses	**6,984**		
Collections	**(6,984)**		
CARD BDSF (other related party)			
Deposit liabilities		**7,123,201**	Savings accounts with annual interest rates ranging from 1.5% to 4.0%
Deposits	**126,151,631**		
Withdrawals	**(137,729,215)**		
Accounts receivable		**9,954**	Electricity, postage and messengerial
Share in expenses	**240,414**		
Collections	**(230,460)**		
Accounts payable		**412,097**	Billed for product promotions and livelihood trainings
Share in expenses	**1,626,158**		
Remittances	**(1,214,061)**		
CARD SME Bank (other related party)			
Accounts receivable		**–**	Messengerial expenses
Share in expenses	**126,126**		
Collections	**(126,126)**		

(Forward)

	December 31, 2013		
Category	Amount/Volume	Outstanding Balance	Nature, Terms and Conditions
CARD MERP (retirement plan)			
Deposit liabilities		**₱165,417,709**	Savings accounts with annual interest rates ranging from 1.5% to 6.0%
Deposits	**₱535,548,148**		
Withdrawals	**(493,267,807)**		
CMIT (other related party)			
Deposit liabilities		**20,826,607**	Savings accounts with annual interest rates ranging from 3.8% to 4.0%
Deposits	**72,038,683**		
Withdrawals	**(68,580,142)**		
Accounts receivable		**169,538**	Billed for seminars and meetings and messengerial
Share in expenses	**235,909**		
Collections	**(66,371)**		
Accounts payable		**17,286**	Communication and postage
Share in expenses	**34,572**		
Remittances	**(704,075)**		
BotiCARD (other related party)			
Deposit liabilities		**3,416,265**	Savings accounts with annual interest rates ranging from 2.0% to 3.5%
Deposits	**36,054,403**		
Withdrawals	**(36,254,557)**		
Accounts receivable		**6,944**	Travelling expenses
Share in expenses	**12,067**		
Collections	**(5,123)**		
CARD EMPC (shareholder)			
Deposit liabilities		**22,126,762**	Savings accounts with annual interest rates ranging from 1.5% to 3.5%
Deposits	**332,472,949**		
Withdrawals	**(331,746,717)**		
Accounts receivable		**–**	Charges for medical/dental reimbursement of employees and share in communication and postage expenses
Share in expenses	**349,651**		
Collections	**(378,167)**		
Accounts payable		**5,679**	Health premiums collected from employees on behalf of EMPC
Collections	**23,211,491**		
Remittances	**(23,211,318)**		
CLFC (other related party)			
Deposit liabilities		**3,723,120**	Checking and savings account with annual interest rates ranging from 1.5%% to 3.5%
Deposits	**43,558,724**		
Withdrawals	**(39,835,604)**		
Accounts receivable		**–**	Postage, travelling and messengerial
Share in expenses	**55,302**		
Collections	**(55,302)**		
Accounts payable		**120,000**	Printing of supplies
Collections	**120,000**		
Remittances	**–**		
RRBI (associate)			
Accounts receivable		**–**	Benefits of transferred employees to RRBI
Share in expenses	**63,289**		
Collections	**(63,289)**		
Accounts payable		**266,040**	Stockholders' give aways and share in benefits of of transferred CARD Bank employees to RRBI
Collections	**266,040**		
Remittances	**–**		

	December 31, 2012		
Category	Amount/Volume	Outstanding Balance	Nature, Terms and Conditions
Key Management Personnel			
Deposit liabilities		₱4,225,589	Savings accounts with annual interest rates ranging from 2.0% to 4.5%
Deposits	₱43,975,704		
Withdrawals	(47,653,018)		
Accounts receivable		2,369,602	Salary loan granted to employees under fringe benefit program approved by BSP payable in either five or ten years
Disburses of salary loan	1,184,512		
Collections	(189,398)		
CARD, Inc. (shareholder)			
Deposit liabilities		106,517,650	Savings accounts with annual interest rates ranging from 1.5% to 4.0%
Deposits	1,145,676,591		
Withdrawals	(1,119,266,883)		

(Forward)

	December 31, 2012		
Category	Amount/Volume	Outstanding Balance	Nature, Terms and Conditions
Accounts receivable		₱–	Mostly shared expenses in fuel, transportation, electricity and communication and postage
Share in expenses	₱6,192,884		
Collections	(6,343,977)		
Accounts payable		12,000	Payments of weekly dues of CARD, Inc. clients remitted thru the Bank and other assets due to transition
Collections	37,612		
Remittances	(425,737)		
CMDI (other related party)			
Deposit liabilities		14,713,762	savings accounts with annual interest rates ranging from 2.5% to 3.5%
Deposits	142,439,816		
Withdrawals	(142,921,067)		
Accounts receivable		4,198	Mostly shared expenses in fuel and transportation
Share in expenses	123,998		
Collections	(122,803)		
Accounts payable		1,609,330	Mostly shared expenses in trainings and meetings
Share in expenses	1,758,274		
Remittances	(686,789)		
CARD MBA (shareholder)			
Deposit liabilities		70,230,937	Savings accounts with annual interest rates ranging from 1.5% to 5.0%
Deposits	1,256,894,924		
Withdrawals	(1,249,222,016)		
Accounts receivable		116,660	Mostly shared expenses in seminars and meetings, postage and agency-hired personnel
Share in expenses	4,056,203		
Collections	(3,959,349)		
Accounts payable		1,159,018	Pertains to collection of loan redemption fund and provident and life insurance contributions on behalf of MBA
Collections	42,144,428		
Remittances	(42,008,375)		
CAMIA (other related party)			
Deposit liabilities		640,777	Savings accounts with annual interest rates ranging from 1.5% to 3.8%
Deposits	113,772,855		
Withdrawals	(114,373,027)		
Accounts receivable		–	Shared expenses in fuel and transportation
Share in expenses	4,115		
Collections	(4,115)		
Accounts payable		–	Pertains to collection of insurance premiums from the Bank employees on behalf of CAMIA
Collections	–		
Remittances	(6,390)		
CARD BDSF (other related party)			
Deposit liabilities		18,700,785	Savings accounts with annual interest rates ranging from 1.5% to 4.0%
Deposits	158,251,969		
Withdrawals	(142,241,896)		
Accounts receivable		–	Mostly shared expenses in electricity, postage and agency-hired personnel
Share in expenses	341,317		
Collections	(341,317)		
Accounts payable		–	Mostly expenses for supplies and shared cost incurred during members' convention
Share in expenses	4,076,322		
Remittances	(4,537,919)		
CARD SME Bank (other related party)			
Accounts receivable		–	Shared expenses in fuel and transportation
Share in expenses	34,047		
Collections	(34,047)		
CARD MERP (retirement plan)			
Deposit liabilities		123,137,368	Savings accounts with annual interest rates ranging from 1.5% to 6.0%
Deposits	657,281,115		
Withdrawals	(591,547,325)		
CMIT (other related party)			
Deposit liabilities		17,368,066	Savings accounts with annual interest rates ranging from 3.8% to 4.3%
Deposits	235,337,897		
Withdrawals	(235,789,448)		
Accounts receivable		–	Mostly shared expenses in seminars and meetings and agency-hired personnel
Share in expenses	388,569		
Collections	(388,626)		
Accounts payable		686,789	Charges for system development and technical management and share in fuel expenses
Share in expenses	687,389		
Remittances	(600)		

(Forward)

	December 31, 2012		
Category	Amount/Volume	Outstanding Balance	Nature, Terms and Conditions
BotiCARD (other related party)			
Deposit liabilities		₱3,616,419	Savings accounts with annual interest rates ranging from 2.0% to 3.5%
Deposits	₱9,239,480		
Withdrawals	(5,623,061)		
Accounts receivable		–	Amount pertains to shared expenses in fuel and transportation
Share in expenses	2,792		
Collections	(2,792)		
CARD EMPC (shareholder)			
Deposit liabilities		21,400,530	Savings accounts with annual interest rates ranging from 1.5% to 3.5%
Deposits	321,251,816		
Withdrawals	(318,535,445)		
Accounts receivable		28,516	Charges for medical/dental reimbursement of Employees and share in communication and postage expenses
Share in expenses	394,110		
Collections	(365,594)		
Accounts payable		5,505	Health premiums collected from employees on behalf of CARD EMPC
Collections	50,329,776		
Remittances	(50,331,468)		

Others

Other related party transactions of the Bank are as follows:

	2013	2012	**Nature, Terms and Conditions**
Statement of Financial Position			
Key management personnel			
Dividends paid	**₱61,008,956**	₱50,235,108	Relates to common and preference shares of the Bank held by key management personnel
RRBI (associate)			
Deposit for future stock subscription	**13,000,000**	10,750,000	Pertains to other investments of the Bank in RRBI
CARD, Inc. (shareholder)	**29,819,746**		
Subscription receivable	**2,347,200**		
Dividends paid		37,131,988	Relates to common and preference shares of the Bank held by CARD, Inc.
CARD MBA (shareholder)	**12,843,480**		
Dividends paid		14,400,000	Relates to preference shares of the Bank held by CARD MBA
CARD EMPC (shareholder)	**6,030,400**		
Subscriptions receivable	**1,832,400**		
Dividends paid		7,500,000	Relates to common shares of the Bank held by CARD EMPC
Statement of Comprehensive Income			
Key management personnel			
Interest expense	**351,770**	103,757	Pertains to interest on savings accounts with annual rates ranging from 2.0% to 4.5%
RRBI (associate)			
Equity in net earnings	**3,724,192**	–	
Share in other comprehensive loss	**(2,195,824)**	–	Pertains to the Bank's share in income and other comprehensive income of RRB
CARD, Inc. (shareholder)			
Occupancy expense	**4,320,000**	4,320,000	Certain establishments owned by CARD, Inc. are being leased to the Bank. The lease contracts have a three-year term with no escalation clause
Interest expense	**951,583**	1,642,161	Pertains to interest on savings accounts with annual rates ranging from 1.5% to 4.0%
CMDI (other related party)			
Seminars and trainings expense	**25,972,004**	11,945,468	The Bank engaged CMDI for training and development of its members and employees (shown as part of 'Employee trainings' and 'Members training and development' in the statement of comprehensive income)
Interest expense	**185,967**	401,608	Pertains to interest on savings accounts with annual rates ranging from 2.5% to 3.5%

(Forward)

Statement of Comprehensive Income			
CARD MBA (shareholder)			
Interest expense	**₱2,788,185**	₱5,818,269	Pertains to interest on savings accounts with annual rates ranging from 1.5% to 5.0%
CAMIA (other related party)			
Interest expense	**185,967**	223,262	Pertains to interest on savings accounts with annual rates ranging from 1.5% to 3.8%
CARD BDSF (other related party)			
Rent income	**17,850**	11,400	An establishment owned by the Bank is being leased to CARD BDSF. The lease contract has a one-year term with no escalation clause
Interest expense	**274,255**	196,030	Pertains to interest on savings accounts with annual rates ranging from 1.5% to 4.0%
CARD MERP (retirement plan)			
Contributions	**106,992,558**	72,353,121	This 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	**573,177**	5,342,999	Pertains to interest on savings accounts with annual rates ranging from 1.5% to 6.0%
CMIT (other related party)			
Information technology	**28,504,812**	29,364,699	This pertains to the CMIT's rendered services in relation to system maintenance agreement and upgrade of the Bank's core banking system (CBS)
Interest expense	**573,177**	738,945	Pertains to interest on savings accounts with annual rates ranging from 3.8% to 4.3%
BotiCARD (other related party)			
Interest expense	**94,262**	155,502	Pertains to interest on savings accounts with annual rates ranging from 2.0% to 3.5%
CARD EMPC (shareholder)			
Interest expense	**334,403**	408,284	Pertains to interest on savings accounts with annual rates ranging from 1.5% to 3.5%

Transitioned branches from CARD, Inc. to the Bank were 15 and 28 in 2013 and 2012, 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 December 5, 2012 to be opened within 3 years from date of approval and January 27, 2012 and August 29, 2012 for 2012 additional branches.

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, 2013 and 2012, the Bank is in compliance with the regulatory requirements.

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

As at December 31, 2013 and 2012, there were no loans, other credit accommodations and guarantees classified as DOSRI accounts under the existing regulations, as shown in the table below (as reported to BSP):

	2013	2012
Total outstanding DOSRI accounts	**₱–**	₱–
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. Restatement in the 2012 and 2011 Financial Statements

Change in accounting policy

In 2013, the Bank made certain adjustments to apply the change in accounting policy on the accounting for retirement obligation in accordance with amended PAS 19, *Employee Benefits* (effective January 1, 2013) with retrospective application that requires the restatement of the latest comparative period and the beginning balance of the latest comparative period.

The Bank reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The Bank obtained the services of an external actuary to compute the impact to the financial statements upon adoption of the standard. The Bank chose to close to 'Remeasurement loss on retirement liabilities' the net effect of all transition adjustments as at January 1, 2012 (the transition date) upon retrospective application of PAS 19 (Revised).

The effects of the change in accounting policy made are detailed below:

	As at December 31, 2012		
	As previously reported	Change in accounting policy (Note 2)	As restated
Statement of Financial Position			
ASSETS			
Other assets			
Retirement assets	₱27,345,173	(₱27,345,173)	₱–
Deferred tax assets	34,904,036	78,672,961	113,576,997
LIABILITIES AND EQUITY			
Other liabilities			
Retirement liabilities	–	234,898,030	234,898,030
Surplus	349,095,434	4,369,913	353,465,347
Other comprehensive loss			
Remeasurement loss on retirement liabilities	–	(187,940,155)	(187,940,155)

	For the year ended December 31, 2012		
	As previously reported	Change in accounting policy (Note 2)	Reclassification of accounts
Statement of Income			
Compensation and benefits	₱449,249,690	(₱12,426,833)	₱436,822,857
Provision for income tax	86,468,423	3,728,050	90,196,473
Statement of Comprehensive Income			
Remeasurement loss on retirement liabilities	–	(73,128,272)	(73,128,272)
Income tax effect	–	21,938,482	21,938,482

	As at January 1, 2012		
	As previously reported	Change in accounting policy (Note 2)	As restated
Statement of Financial Position			
ASSETS			
Retirement asset	₱26,902,771	(₱26,902,771)	₱–
Deferred tax assets	14,414,808	60,462,529	74,877,337
LIABILITIES AND EQUITY			
Retirement liabilities	–	174,638,993	174,638,993
Surplus	255,217,842	(4,328,870)	250,888,972
Other comprehensive loss			
Remeasurement loss on retirement liabilities	–	(136,750,365)	(136,750,365)

24. Notes to Statements of Cash Flows

The following is the summary of noncash activities in 2013:

Noncash operating activities:	
Actuarial loss on retirement liabilities	₱2,032,066
Noncash investing activities:	
Acquisition of land on account	2,000,000
Noncash financing activities:	
Transfer of deposit for future subscription to common stock	17,394,025
Transfer of deposit for future subscription to preferred stock	45,719,600

25. Approval for the Release of Financial Statements

The accompanying financial statements of the Bank were approved and authorized for issue by the BOD on April 12, 2014.

26. **Supplementary Information Required under Revenue Regulations 15-2010**

On November 25, 2010, the BIR issued RR 15-2010 prescribing the manner of compliance in connection with the preparation and submission of financial statements accompanying the tax returns. It includes provisions for additional disclosure requirements in the notes to the financial statements, particularly on taxes and licenses paid or accrued during the year. The components of 'Taxes and licenses' recognized in the statement of income for the year ended December 31, 2013, follow:

Gross receipt tax (GRT)	₱85,693,495
Business permits and licenses	4,830,546
Documentary stamp (DST)	448,212
Real property tax	436,014
Others	1,504,707
	₱92,912,974

GRT in 2013 consists of taxes on:

Interest income on loans	₱81,298,721
Other income	4,394,774
	₱85,693,495

DST in 2013 consists of taxes on:

Special savings	₱352,175
Increase in authorized capital stock	95,887
Others	150
	₱448,212

Withholding taxes in 2013 are categorized into:

Paid:	
Withholding taxes on compensation and benefits	₱17,593,011
Final withholding tax on interest expense and dividends declared	19,328,417
Expanded withholding tax	4,870,994
	41,792,422
Accrued:	
Withholding taxes on compensation and benefits	5,023,663
Final withholding tax on interest expense and dividends declared	1,235,373
Expanded withholding tax	1,159,288
	7,418,324
	₱49,210,746

CARD Bank, Inc.

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CARD MRI

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