READY AND STRONGER FOR THE ASEAN INTEGRATION

CARD Bank, Inc.
ANNUAL REPORT 2015

ABOUT THE COVER

As Southeast Asian countries unite into one single region, CARD Mutually Reinforcing Institutions (CARD MRI) continues to synergize to bring socioeconomically challenged women, their families and their community a holistic approach to development. CARD Bank, Inc. is a microfinance-oriented rural bank geared towards helping its clients specially microentrepreneurs.

Each client in the covers of the annual reports represent an institution, completing a bigger picture. The blue, red, and yellow waves merge and unify the institution, signifying how the economic integration made our institutions stronger and united as a group.

Ester Shiela Vitto was once an employee in the metro who turned into a footwear line owner reaping an average annual income of 1.8 million pesos from her 10,000-peso capital. She is one of CARD Bank's more than 1.6 million clients who is now ready to grab the opportunities and to face the challenges of the ASEAN Economic Integration.

VISION

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

MISSION

CARD MRI is committed to:

> Empower socially-and-economically challenged women and families through continuous access to financial, microinsurance, educational, livelihood, health and other capacity-building services that eventually transform them into responsible citizens for their community and the environment;
> Enable the women members to gain control and ownership of financial and social development institutions; and
> Partner with appropriate agencies, private institutions, and people and community organizations to facilitate achievement of mutual goals.

10 member countries of the ASEAN region

BRUNEI DARUSSALAM

CAMBODIA

INDONESIA

LAO PDR

MALAYSIA

MYANMAR

PHILIPPINES

SINGAPORE

THAILAND

VIETNAM

What is the ASEAN *integration?*

10 SOUTHEAST ASIAN COUNTRIES
ONE SINGLE MARKET

FOR THE FREE FLOW OF

GOODS

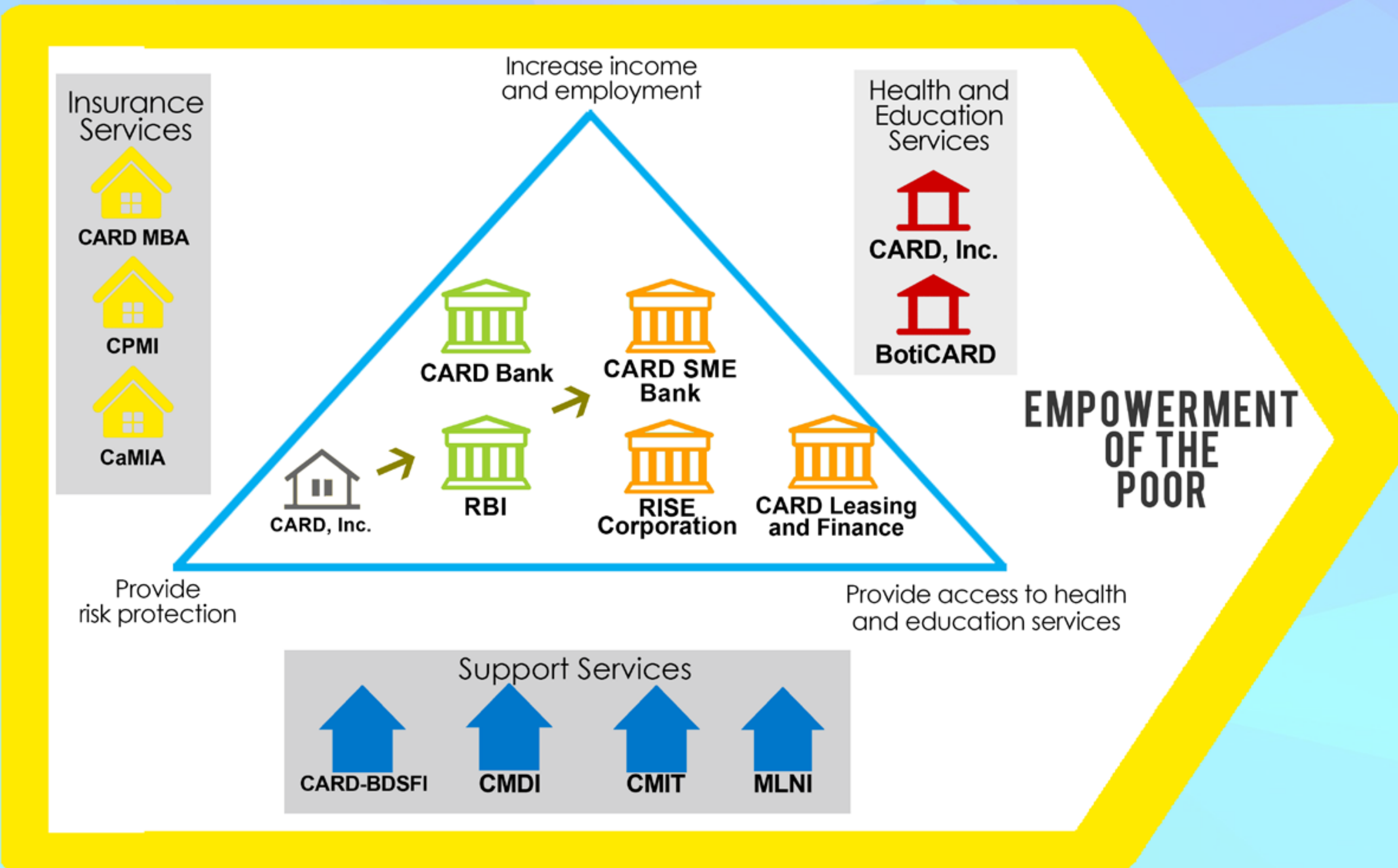
SERVICES

CAPITAL

LABOR

FOUNDED ON FOUR BASIC INITIATIVES

CREATING A SINGLE MARKET AND PRODUCTION BASE
INCREASING COMPETITIVENESS
PROMOTING EQUITABLE ECONOMIC DEVELOPMENT
INTEGRATING ASEAN WITH THE GLOBAL ECONOMY



5-8-40 CARD MRI STRATEGIC DIRECTION

Along with the introduction of the ASEAN integration, our stronghold to be versatile and pliant is the 5-8-40 CARD MRI Strategic Direction. We are confident that with the implementation of this 5-year strategic plan, we will be able to empower the poor by increasing income and employment and providing insurance, health and education services to them. Through 5-8-40, we aim to achieve a friendly environment for financial inclusion of a bigger unbanked, uninsured and unserved population.

FOCUS AREAS

FOCUS 1	FOCUS 2	FOCUS 3
INCOME AND EMPLOYMENT	**HEALTH AND EDUCATION**	**RISK PROTECTION**
We want to help improve income and create employment opportunities.	We want to improve health and reduce the incidence of sickness and death. We aspire to provide opportunities for higher education for deserving Nanays and children of poor families.	We aspire to provide risk protection against loss of life or property caused by sickness, death or catastrophic events.
How?	How?	How?
We are providing microfinance and SME loans to different businesses. We also provide non-financial and development services to our clients.	We are facilitating access to professional healthcare providers and facilities, universal healthcare, and affordable medicines. We will provide financing opportunities for higher education.	We are providing affordable life and non-life microinsurance.

STANDING ON SOLID GROUND

DR. DOLORES M. TORRES

President and CEO

In light of the 2015 ASEAN Economic Community, we are often asked where CARD Bank, Inc. stands in this period of integration. Our answer remains anchored to our core mission of poverty eradication. We stand for a nation and an ASEAN region where sustained growth and equitable development are present. We stand for our clients who want a better quality of life through products and services that are enabling and empowering.

This is the most opportune time for CARD Bank, Inc. to share its experiences on financial inclusion to countries that are still finding its way through it. It has been our breadth and depth for the past 18 years – the very core of our existence. With the freer flow of goods, services, investment capital, and skilled labor in the region, the institution is confident that we have created a steadfast foundation that will result to more opportunities and collaborations rather than competition. Our robust experiences are solidified by the triumphs and challenges we have tackled. We have the tested and proven practices in microfinance-oriented banking that we can share, not just in the Philippines, but to the whole ASEAN as well.

CARD Bank, Inc. stands on solid ground because of the heart we put in our programs and services, the way we stay ahead while remaining rooted to our core mission, and the strategic steps we take as we move forward.

SERVICE WITH A HEART

When members are asked why they remain loyal to the institution, their answer is quite simple – "service with a heart". Innate care for the clients is in the heart of every CARD Bank, Inc. employee. It is this passion that fires an innovative spirit, creating a driven and game changing landscape that redefine financial inclusion.

Our clients' seal of approval is evident in the institution's concluding figures for 2015. This year we have total of 1,688,673 clients, which include 1,657,251 savers. The products we offer, such as Matapat Savings, SIPAG Loan, and remittance services, underwent further refinement and gained positive response from our clients.

CARD Bank, Inc. believes in the power of a community. Nothing can generate innovation more than the conversations we constantly have with our clients. It's where inspired change and growth can truly happen. The institution's products and services arose from years of intent listening to their needs and immediately acting upon them. Our interventions are framed in the context of every Filipino's desire to a life well lived.

STAYING AHEAD BUT REMAINING GROUNDED

Even before the ASEAN Economic Community, our institution has been preparing for the inevitable change. We are ahead

Turn to page 8

Urdaneta Branch Opening

TAKING THE

PATHLESS TAKEN

ESTER SHIELA VITTO

CARD Bank, Inc. member from Oriental Mindoro and Citi Microentrepreneurship Regional Awardee for Luzon

When I decided to get married, I made a choice to go back to my hometown in Mindoro. During the earlier years of our marriage, my then OFW husband supported all of our family's needs. But I knew in my heart that this situation would not last forever.

My brother, who also resigned from work, decided to venture in a footwear business. I saw how the business operated and I joined the business later on. Due to some circumstances, my brother had to go back to Bataan. From then on, my husband and I were the sole in charge of running the footwear business.

RISING TO THE CHALLENGE

Taking the full responsibility for the business was quite a challenge for us. However, we grabbed the opportunity brought by this challenge. We strived to make quality sandals for men and it gladly paid off. Because of good customer feedback, our product became known not only in Mindoro, but also in different parts of the country.

We were then faced with another challenge: no customer would come back to our store after three years because our sandals were so sturdy. Instead of buying new pairs, our customers would just avail our free repair and maintenance services. This is when we realized the value of product innovation. As much quality as our sandals can offer, we also have to give our clients something new—slippers.

There was a time when I had to go back to doing an office job to help our business financially. When we thought we were already doing well, another challenge shook us. The place we rent for our store was taken back by the owner. Still determined to pursue our business, we relocated our store in Pinamalayan, Mindoro even after moving thrice.

HEADS UP

After all those challenges, the business stood strong. We have introduced new designs to the market and surprisingly, these became best sellers. More customers came and we eventually ventured to wholesale because of the influx of demand for the product.

I became a member of CARD Bank, Inc. in 2007. I borrowed money to add to our capital. Little did I know that CARD Bank, Inc. was more than that. They helped me in lots of ways especially in terms of providing me with trainings to improve my business. I became knowledgeable on how to manage the business and on practical topics that can help me as a person,

Turn to page 9

Awarding of Citi Microenterpreneur Regional Award to Mrs. Vitto

From Page 6

of the pack but that is not to say that we are complacent. It is quite the opposite. In fact, our team's sleeves are constantly rolled up as we come up with the best products and services that will prepare our clients to move up the ladder. This year, we focused on Konek2CARD – our mobile financial services, financial literacy for Overseas Filipino Workers (OFW), and preparation of children and youth in terms of financial aspects. We also installed more ATMs and introduced a queuing system for our banks to better serve our clients. More importantly, we are getting closer to the implementation of the Core Banking System. With this, we can enhance the delivery of our products and services and reach out to more communities in the country and in the ASEAN region.

STRATEGIC STEPS FORWARD

The institution, amidst the loyalty of its members, still feels challenged in ensuring that the clients and their families remain satisfied. As we take on the 5-8-40 strategy of CARD MRI, expect that CARD Bank, Inc. will enhance its existing programs, launch new products and services, improve efficiency, and strengthen its partnership with other organizations. Through our mobile financing service, Matapat and Maagap Savings, and staff training, we can guarantee that we are taking strategic steps forward.

CARD Bank 18th Savings Day

I am thankful to CARD Bank for giving me and my business the opportunity to grow. Only through CARD Bank that I was able to purchase 29 motorboats for my business which enabled me to reach vaster and deeper oceans. It allowed me to conquer the numbers and made me reap 1.5 million pesos average annual sales.

Ernanie Llema
CARD Bank Client, 2013 Galing ni Nanay Awardee

CARD Bank became my stronghold since the day I started my business. My family and I came from a very hopeless situation with empty stomachs almost every day. Then CARD Bank came to us and our world changed. They brought us the chance to live a different life, the life that we deserve. Through their perseverance, patience and genuine concern to us, we were able to build and create. Today, we stand as owners of three groceries, and supplier and dealer of coconuts and poultry feeds. We also own a house, elf trucks, jeepneys, car and other properties.

Hazel Ricafrente
CARD Bank Client, 2015 Gawad Maunlad Winner

From page 7
a woman, a wife and a citizen of this nation. With the newfound knowledge I got from the training, I registered the business to the Department of Trade and Industry (DTI) under the name "Bahag Footwear". CARD Bank continued to support us in making the business grow and helped us survive the market competition.

From our 10,000-peso capital from our wedding, we are now reaping 1.8 million pesos in terms of annual average sales. Bahag footwear has found its place in the market and is truly patronized by the Filipinos. We even sell the slippers as souvenir items. Today, Bahag Footwear is one of the most in demand footwear products in Mindoro. We have an average production of 70 pairs a day and have three branches in the area: Victoria, Bongabong and Pinamalayan. This is a testimony that giving up is never an option and hard work really pays off.

THE ASEAN INTEGRATION

Given the situation of my business, I can see better opportunities for expansion. Our products' quality is truly world-class and has been selected to be brought to different countries through the help of DTI.

While CARD Bank, Inc. has helped us in expanding, we do hope to be further introduced to more markets and clients. I am confident that our products will still standout despite the foreseen competition that the ASEAN Integration may bring. With CARD Bank by our side, we are confident that our brand will be better known and patronized by many.

A DREAM FOR ALL

My greatest dream is that Bahag Footwear become ready for franchise. I believe that by doing so, more people will benefit from it. I do not only dream of getting more clients and getting more profit, but also letting my employees, relatives, and friends have their own Bahag store. They are, after all, an important part in making our business a success. To share with them this success will always be my end-goal.

BLOSSOMED SUCCESS

Victoria De Torres
CARD Bank Client

I am a proud CARD member for 16 years. Back in 2000, I invested my initial 2000-peso loan to a buy-and-sell business. I sold anything under the sun— from jewelries to home supplies. I decided to be in the planting business with the influence of my older sister. We tried to propagate some plants and they grew. As my plants grew, my business also grew. I now have more than 30 workers and managed to be one of the plant suppliers of Vista Land, Rockwell Land, and Bonifacio Global City, which I'm very grateful for.

For me, CARD Bank is not just about loans, it is more than that. More than their fair and good policies, I love CARD Bank because they gave me the confidence and they empower the people especially women like me— that we can do and be better. They gave continuous efforts to improve my knowledge through different sessions on various topics from financial management to entrepreneurship, thus made me open minded regarding different issues and topics especially regarding insurance and ASEAN Integration.

CARD Bank helped me a lot specially in making connections and in business development as a whole.

RECOGNITIONS FOR CARD BANK, INC.

CARD Bank, Inc. always strive for excellence as we serve the Filipino people. This year, we were recognized by different award-giving bodies like Bangko Sentral ng Pilipinas (BSP) and Landbank. Our heads are up as we receive the following awards: Gawad Countryside Financial Institutions (CFI) 2015- National Winner for Rural Bank Category, Best CFI Availer- Agri-Agra Loan, and 2015 BSP Stakeholders Award- Outstanding Financial Inclusion Champion. Truly, these awards serve as inspiration for us to move deeper and wider to reach the underserved population.

CREATING IMPACT

ACCOMPLISHMENTS AS OF 2015

CLIENTS SERVED	1,688,673
CLIENTS AND SAVERS	1,657,251
ACTIVE CLIENTS WITH LOANS	666,573
LOANS DISBURSED	P15,088,658,903
SAVINGS	P4,512,766,572
HEAD OFFICE	1
REPAYMENT RATE	99.04%
FINANCIAL SELF-SUFFICIENCY	121%
OPERATING SELF-SUFFICIENCY	126%
BRANCHES	69
MICRO BANKING OFFICES/UNIT OFFICES	471
STAFF	2,998

Financial inclusion has always been one of our motivations in pursuing our cause. We exist because we need to serve the unserved and the marginalized. This year, we opened new branches in Tarlac, San Carlos, San Fernando, Urdaneta, Alaminos, Parañaque, Sariaya, Balangiga, Borongan, Catbalogan, Guiuan, and Malalag. Also, 59 new Micro-banking Offices (MBOs) were approved by the Bangko Sentral ng Pilipinas (BSP).

BANK OPENINGS

We believe that financial literacy should be fundamental to the Filipinos. We want to educate the youth in financial terms so that they will know how to handle money and hopefully apply it for a brighter future.

These are our stronghold in bringing financial literacy to the Filipino youth through school caravans and CARDEEskwela. This year, we have conducted three and two, respectively.

CARDEESKWELA & SCHOOL CARAVANS

Convenience of our clients is one of our priorities. We want them to feel like they are home whenever they are with us. This year, we have installed queuing system in 54 branches nationwide to uphold faster and more convenient transactions for our beloved clients.

QUEUING SYSTEM INSTALLATION

We want our clients to have easy access to our services so we continuously work on expansions. This year, CARD Bank ATM terminals were installed in six (6) branches such as Sariaya, Tarlac, Balangiga, Cataingan, Parañaque and Gumaca. Also, two (2) offsite ATM terminals were installed in Puregold, Calauan and LCC Aroroy (with a total of 57 ATM terminals and three (3) offsite ATMs since its rollout in 2012).

ATM TERMINALS INSTALLATION

OUR BOARD OF DIRECTORS

Dr. Jaime Aristotle B. Alip
Chairman

Dr. Dolores M. Torres
Vice Chairperson

Mercedita G. Medequiso
Independent Director
Governance and Risk Committee Chairperson

Marivic M. Austria
Director

Annabille D. Cereno
Independent Director

Lourdes B. Dijan
Corporate Secretary

Lorenza dT. Bañez
Treasurer

Dr. Gilberto M. Llanto
Independent Director
Audit Committee Chairperson

Ma. Luisa P. Cadaing
Director

Eduardo D. Jose, Jr.
Independent Director

Atty. Edgardo R. Marilim
Corporate Legal Counsel

OUR MANAGEMENT COMMITTEE

Dr. Dolores M. Torres
President and CEO

Lorenza dT. Bañez
Executive Vice President

Marivic M. Austria
Executive Vice President for Risk

Marissa M. De Mesa
Senior Vice President for Risk (OIC)

Edgar V. Cauyan
Senior Vice President for IT

Herminigilda P. Manuba
Assistant Vice President for Operations

Gaudencio M. Mendoza
Assistant Vice President for Operations

Lourdes B. Dijan
Executive Vice President for Finance

Lyneth L. Derequito
Senior Vice President for Compliance (OIC)

Ronnie D. Fallega
Chief Information Officer

Glenda C. Magpantay
Assistant Vice President for Operations

Erasto L. Panes
Assistant Vice President for Operations (OIC)

DIRECTORY

CARD Bank, Inc. Executive Office
20 M.L. Quezon St., City Subdivision,
San Pablo City, Laguna,
Philippines 4000
Tel No.: (63)(049) 562-4309
Fax No: (63)(049) 562-0009
e-mail: cb_sanpablo@cardbankph.com

LUZON

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

VISAYAS

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

MINDANAO

Davao: Davao, Buhangin, Matina, Malalag

OUR PARTNERS

Local

BancNet
Banco De Oro
Bank of the Philippine Island
BDO Remit
PeraLink
Development Bank of the Philippines
Globe Gcash
Land Bank of the Philippines
MoneyGram
People's Credit and Finance Corporation
PhilHealth
Planters Development Bank
Security Bank
Security Bank Corporation
Small Business Corporation
Social Security System
Trans-Fast
Union Bank of the Philippines
XOOM Global Money Transfer
XpressMoney
ARDCI NGO Group, Inc.
ASA Philippines
Alalay Sa Kaunlaran, Inc. (ASKI)
Bangko Kabayan
Bukidnon Integrated Network Of Home Industries, Inc. (BINHI)
Center For Community Transformation (CCT)
Daan sa Pag-Unlad, Inc (DSPI)
KFI Center for Community Development Foundation, Inc. (KCCDFI)
Life Bank Foundation
Pag-Inupdanay, Inc.
Rural Bank Of Talisayan/ Fonus
Taytay sa Kauswagan, Inc. (TSKI)
Tulay sa Pag-Unlad, Inc. (TSPI)
Uswag Development Foundation, Inc. (USWAG)
Microfinance Information Data Sharing, Inc. (MIDAS)

International

Grameen Foundation, USA
International Finance Corporation (IFC)
Women's World Banking
ATTF Luxembourg

AUDITED FINANCIAL STATEMENTS

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

	December 31	
	2015	2014
ASSETS		
Cash and other cash items	**₱100,838,896**	₱65,451,150
Due from Bangko Sentral ng Pilipinas (Notes 6 and 13)	**149,539,008**	124,989,147
Due from other banks (Note 6)	**1,158,855,488**	587,745,810
Available-for-sale investments (Note 7)	**136,508,213**	139,523,981
Loans and receivables (Notes 8 and 22)	**5,324,253,781**	4,308,142,574
Held-to-maturity investments (Note 9)	**238,220,396**	258,865,664
Investment in an associate (Notes 10 and 22)	**118,783,722**	62,164,989
Property and equipment (Note 11)	**519,858,626**	420,163,724
Retirement asset (Note 19)	**126,100,919**	87,600,047
Deferred tax assets (Note 21)	**46,027,575**	42,462,832
Other assets (Note 12)	**167,480,409**	63,088,812
	₱8,086,467,033	₱6,160,198,730

LIABILITIES AND EQUITY		
Liabilities		
Deposit liabilities (Notes 13 and 22)		
Demand	**₱152,278,885**	₱107,458,554
Savings	**4,360,487,687**	3,412,441,873
	4,512,766,572	3,519,900,427
Bills payable (Note 14)	**1,261,701,810**	881,954,896
Income tax payable	**106,109,509**	61,983,762
Other liabilities (Notes 15 and 22)	**439,805,859**	266,546,634
	₱6,320,383,750	₱4,730,385,719
Equity		
Capital stock (Note 17)		
Preferred stock	**499,884,000**	496,938,400
Common stock	**492,286,800**	470,438,900
	992,170,800	967,377,300
Surplus	**772,926,265**	441,202,779
Remeasurement gains on retirement liabilities (Note 19)	**9,997,169**	18,869,940
Share in the associate's other comprehensive income (loss) (Note 10)	**(8,173,090)**	1,568,984
Net unrealized gains (losses) on available for-sale investments (Note 7)	**(837,861)**	794,008
	1,766,083,283	1,429,813,011
	₱8,086,467,033	₱6,160,198,730

See accompanying Notes to Financial Statements.

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

STATEMENTS OF INCOME

	Years Ended December 31	
	2015	2014
INTEREST INCOME ON		
Loans and receivables (Note 8)	**₱2,429,605,719**	₱1,935,254,096
Investment securities (Notes 7 and 9)	**16,417,695**	16,864,075
Due from other banks (Note 6)	**8,262,581**	6,676,433
	2,454,285,995	1,958,794,604
INTEREST EXPENSE ON		
Deposit liabilities (Notes 13 and 22)	**102,803,409**	84,291,799
Bills payable (Note 14)	**24,436,751**	25,932,667
	127,240,160	110,224,466
NET INTEREST INCOME	**2,327,045,835**	1,848,570,138
Miscellaneous (Note 18)	**17,611,672**	14,556,648
TOTAL OPERATING INCOME	**2,344,657,507**	1,863,126,786
OPERATING EXPENSES		
Compensation and benefits (Notes 19 and 22)	**694,381,592**	623,545,744
Transportation and travel	**135,783,941**	124,932,531
Taxes and licenses	**131,176,178**	108,660,526
Occupancy (Notes 20 and 22)	**79,803,354**	56,324,882
Members training and development (Note 22)	**79,212,352**	100,512,897
Depreciation and amortization (Notes 11 and 12)	**73,812,754**	52,882,082
Stationery and office supplies	**63,767,561**	56,640,742
Information and technology (Note 22)	**60,233,514**	35,831,252
Provision for credit losses (Note 8)	**52,507,667**	38,525,203
Employee trainings (Note 22)	**49,240,958**	36,759,687
Security, messengerial and janitorial	**43,450,444**	37,248,041
Postage, telephone and cable	**35,896,351**	22,443,485
Power, light and water	**23,629,521**	19,587,898
Insurance	**19,515,081**	17,477,523
Management and other professional fees	**17,581,814**	13,172,918
Seminars and meetings (Note 22)	**10,285,783**	9,136,471
Repairs and maintenance	**8,373,443**	8,488,638
Program monitoring and evaluation	**6,790,893**	6,645,533
Miscellaneous (Notes 18 and 22)	**61,587,470**	44,861,375
	1,647,030,671	1,413,677,428
INCOME BEFORE SHARE IN NET INCOME OF THE ASSOCIATE	**697,626,836**	449,449,358
SHARE IN NET INCOME OF THE ASSOCIATE (Note 10)	**36,760,807**	13,121,813
INCOME BEFORE TAX	**734,387,643**	462,571,171
PROVISION FOR INCOME TAX (Note 21)	**217,838,302**	140,381,636
NET INCOME	**₱516,549,341**	₱322,189,535

See accompanying Notes to Financial Statements.

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

	Years Ended December 31	
	2015	2014
NET INCOME	**₱516,549,341**	₱322,189,535
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that may not be classified to the statement of income:		
Remeasurement gains (losses) on retirement liabilities (Note 19)	**(12,675,386)**	298,345,944
Income tax effect	**3,802,615**	(89,503,783)
	(8,872,771)	208,842,161
Items that may be reclassified to the statement of income:		
Unrealized gains (losses) on available-for-sale investments (Note 7)	**(2,331,240)**	1,134,297
Income tax effect	**699,371**	(340,289)
	(1,631,869)	794,008
Share in the associate's other comprehensive income (loss) (Note 10)	**(9,742,074)**	3,764,808
	(11,373,943)	4,558,816
TOTAL COMPREHENSIVE INCOME	**₱496,302,627**	₱535,590,512

See accompanying Notes to Financial Statements.

CARD BANK, INC.
(A MICROFINANCE-ORIENTED RURAL BANK)
STATEMENTS OF CHANGES IN EQUITY

	Preferred Stock (Note 17)	Common Stock (Note 17)	Surplus (Note 17)	Remeasurement Gains (Losses) on Retirement Liabilities (Note 19)	Share in an Associate's Other Comprehensive Income (Loss) (Note 10)	Net Unrealized Gain on Available-for-sale Investments (Note 7)	Total
Balance at January 1, 2015	**₱496,938,400**	**₱470,438,900**	**₱441,202,779**	**₱18,869,940**	**₱1,568,984**	**₱794,008**	**₱1,429,813,011**
Total comprehensive income	**–**	**–**	**516,549,341**	**(8,872,771)**	**(9,742,074)**	**(1,631,869)**	**496,302,627**
Collection of subscription receivable (Notes 17 and 23)	**2,945,600**	**21,847,900**	**–**	**–**	**–**	**–**	**24,793,500**
Cash dividends (Note 17)	**–**	**–**	**(184,825,855)**	**–**	**–**	**–**	**(184,825,855)**
Balance at December 31, 2015	**₱499,884,000**	**₱492,286,800**	**₱772,926,265**	**₱9,997,169**	**(₱8,173,090)**	**(₱837,861)**	**₱1,766,083,283**
Balance at January 1, 2014	₱420,929,800	₱361,443,500	₱398,895,728	(₱189,972,221)	(₱2,195,824)	₱–	989,100,983
Total comprehensive income	–	–	322,189,535	208,842,161	3,764,808	794,008	535,590,512
Collection of subscription receivable (Notes 17 and 23)	1,063,200	22,371,048	–	–	–	–	23,434,248
Issuance of new shares	74,945,400	–	–	–	–	–	74,945,400
Stock dividends (Note 17)	–	86,624,352	(86,624,352)	–	–	–	–
Cash dividends (Note 17)	–	–	(193,258,132)	–	–	–	(193,258,132)
Balance at December 31, 2014	₱496,938,400	₱470,438,900	₱441,202,779	₱18,869,940	₱1,568,984	₱794,008	₱1,429,813,011

See accompanying Notes to Financial Statements.

CARD BANK, INC.
(A MICROFINANCE-ORIENTED RURAL BANK)
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱734,387,643**	₱462,571,171
Adjustments for:		
Depreciation and amortization (Notes 11 and 12)	**73,812,754**	52,882,082
Provision for credit losses (Note 8)	**52,507,667**	38,525,203
Share in the net income of an associate (Note 10)	**(36,760,807)**	(13,121,813)
Amortization of premium on available-for-sale investments (Note 7)	**684,527**	455,316
Amortization of premium on held-to-maturity investments (Note 9)	**2,668,767**	5,535,382
Retirement expense (Note 19)	**24,691,258**	79,774,489
Gain on disposal of property and equipment (Note 18)	**(1,940,537)**	(683,562)
Net unrealized loss on foreign exchange transactions	**183,224**	104,500
Amortization of discount on bills payable (Note 14)	**4,028,347**	4,362,279
Operating income before changes in operating assets and liabilities:	**854,262,843**	630,405,047
Increase in the amounts of:		
Loans and receivables	**(1,068,618,874)**	(701,174,811)
Other assets	**(70,948,780)**	(15,372,980)
Increase in the amounts of:		
Deposit liabilities	**992,866,145**	349,530,818
Other liabilities	**121,582,245**	29,516,294
Net cash generated from operations	**829,143,579**	292,904,368
Income taxes paid	**(172,775,311)**	(162,737,330)
Contribution to retirement fund (Note 19)	**(75,867,516)**	(75,867,516)
Net cash provided by operating activities	**580,500,752**	54,299,522
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property and equipment (Note 11)	**(173,167,008)**	(176,982,436)
Available-for-sale investments	**–**	(138,845,000)
Held-to-maturity investments (Note 9)	**(34,859,499)**	(48,233,415)
Software costs (Notes 12 and 23)	**(14,046,232)**	(981,000)
Dividends received from associate (Note 10)	**10,400,000**	–
Additional investment to/advances to an associate (Notes 10, 12 and 23)	**(40,000,000)**	(20,000,000)
Proceeds from:		
Maturity of held-to-maturity investments (Note 10)	**52,836,000**	106,150,758
Disposal of property and equipment	**1,940,537**	1,348,582
Net cash used in investing activities	**(₱196,896,202)**	(₱277,542,511)

(Forward)

	Years Ended December 31	
	2015	2014
CASH FLOWS FROM FINANCING ACTIVITIES		
Availment of bills payable (Note 14)	**₱1,310,718,567**	₱1,179,159,932
Settlement of bills payable (Note 14)	**(935,000,000)**	(725,000,000)
Proceeds from (Note 17):		
Issuance of preferred stock	**–**	74,945,400
Collection of subscriptions receivable on common stock	**4,886,900**	22,371,048
Collection of subscriptions receivable on preferred stock	**2,826,800**	1,063,200
Dividends paid (Note 17)	**(135,806,308)**	(187,400,258)
Net cash provided by financing activities	**247,625,959**	365,139,322
EFFECTS OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS	**(183,224)**	(104,500)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**631,047,285**	141,791,833
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and other cash items	**65,451,150**	46,793,184
Due from Bangko Sentral ng Pilipinas	**124,989,147**	73,783,424
Due from other banks	**587,745,810**	515,817,666
	778,186,107	636,394,274
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and other cash items	**100,838,896**	65,451,150
Due from Bangko Sentral ng Pilipinas	**149,539,008**	124,989,147
Due from other banks	**1,158,855,488**	587,745,810
	₱1,409,233,392	₱778,186,107

OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS

	Years Ended December 31	
	2015	2014
Interest received	**₱2,400,854,569**	₱1,988,996,653
Interest paid	**107,072,802**	93,516,004
Dividend received	**10,400,000**	–

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 micro-insurance agent for the presentation, marketing, sale, and servicing of micro-insurance products. This was subsequently approved by the BSP and the Insurance Commission on February 10, 2012 and January 17, 2012, respectively. The Philippine Securities and Exchange Commission (SEC) approved and issued the certificate of filing of amended Articles of Incorporation on June 29, 2012.

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

As at December 31, 2015 and 2014, the Bank is 29.6%-owned by CARD, Inc.

The Bank's executive office is located at 20 M. L. Quezon Street, City Subdivision, San Pablo City, Laguna. The head office is located at No. 58 P. Burgos, corner M. Paulino Street, San Pablo City. As at December 31, 2015 and 2014, the Bank has 69 and 57 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 are measured at fair value. The financial statements are presented in Philippine peso (₱), which is the Bank's functional currency. All values are rounded to the nearest peso, unless otherwise indicated.

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

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.

Changes in Accounting Policies and Disclosures

Except for these new and amended standards and interpretations which were adopted as at January 1, 2015, the accounting policies adopted are consistent with those of the previous financial year.

- Amendments to Philippine Accounting Standards (PAS) 19, *Defined Benefit Plans: Employee Contributions*

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

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

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

Cash and Cash Equivalents

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

Fair Value Measurement

The Bank measures financial instruments, such as financial assets at fair value through profit or loss (FVPL) and AFS investments, at fair value at each reporting date.

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

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

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

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

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

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

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities 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 at fair value on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at each reporting date.

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

<u>Foreign Currency Translation</u>

RBU

As at statement of financial position date, foreign currency-denominated monetary assets and monetary liabilities of the RBU are translated in Philippine pesos based on the BSP closing rate prevailing at end of the year and foreign currency-denominated income and expenses, based on the spot rate at date of transactions. Foreign exchange differences arising from the restatement of foreign currency-denominated assets and foreign currency-denominated liabilities in the RBU are credited to or charged against the statement of income in the year in which the rates change. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

FCDU

As at the reporting position date, the FCDU’s balances are translated into the Bank’s presentation currency, Philippine pesos, using BSP closing rate of exchange.

Exchange differences arising from translation are taken directly to as a separate component of equity under ‘Translation adjustment’. Upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in the statement of other comprehensive income (OCI) is reclassified to profit or loss.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

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

Initial recognition of financial instruments

All financial assets are initially recognized at fair value. Except for financial instruments at FVPL, the initial measurement of financial instruments includes transaction costs. Financial assets are classified, at initial recognition, as financial assets at FVPL, AFS investments, held-to-maturity (HTM) investments and loans and receivables. The classification of financial instruments depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Financial liabilities are classified into financial liabilities at FVPL and other financial liabilities at amortized cost. 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, 2015 and 2014, the Bank has no outstanding financial instruments at FVPL.

'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 under 'Miscellaneous' unless it qualifies for recognition as some other type of asset. In cases where the transaction price used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the 'Day 1' difference amount.

Embedded derivatives

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

AFS investments

AFS investments are those which are designated as such or do not qualify to be classified as 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 government debt 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 under 'Interest income' account. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from reported income and are reported as 'Net unrealized gains (losses) on AFS investments' under 'Other Comprehensive Income'.

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

Loans and receivables
This accounting policy applies to 'Due from BSP', 'Due from other banks', 'Loans and receivables' and refundable deposits under 'Other assets'. These are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as 'AFS investments', 'Financial assets at FVPL' or 'HTM investments'.

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

HTM investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Bank's management has the positive intention and ability to hold to maturity. Where 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.

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

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

After initial measurement, financial liabilities not qualified and not designated as FVPL, are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account the impact of applying the effective interest method of amortization for any related premium, discount and any directly attributable transaction costs.

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

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

Classification of Financial Instruments between Debt and Equity

A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Bank; or
- 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.

Offsetting Financial Instruments

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

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:

- the rights to receive cash flows from the asset have expired; or
- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or

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

Where the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the Bank continues to recognize the transferred asset to the extent of the Bank's continuing involvement. In that case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

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

Impairment of Financial Assets
The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') 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' and 'HTM investments', and 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 estimated future cash flows are discounted at the financial assets' original EIR. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the statement of income under 'Provision for credit losses'. 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.

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

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

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 are recognized under 'Miscellaneous' account 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 repayment rate), the previously recognized impairment loss is reversed by adjusting the provision.

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

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

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

Investment in an Associate
An associate pertains to an entity over which the Bank has a significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Investment in an associate is accounted for using 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
Land is carried at cost less any impairment in value and depreciable property and equipment, which include buildings, transportation equipment, furniture and fixture equipment, land improvements, and leasehold improvements, are carried at cost less accumulated depreciation and any impairment in value. 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.

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.

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

The EUL of the property and equipment follows:

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

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

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

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

Intangible Assets

Intangible assets consist of software costs and are recognized under 'Other assets' in the statement of financial position. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

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

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

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

Impairment of Nonfinancial Assets

Property and equipment and investment in an associate

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 (CGU) to which it belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset (or CGU) is considered impaired and is written down to its recoverable amount.

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

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.

Intangible assets

Software costs are assessed for impairment whenever there is an indication that the intangible asset may be impaired. Any impairment loss and direct write-off is recorded under 'Provision for credit losses' in the statement of income.

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, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling (if any). The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Defined benefit costs comprise the following:

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

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

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in the statement of financial position with a corresponding debit or credit to 'Remeasurement gains (losses) on retirement liabilities' under OCI in the period in which they arise. Remeasurements are not reclassified to the statement of income in subsequent periods.

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

The Bank's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when, and only when, reimbursement is virtually certain.

<u>Equity</u>

Capital stock

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

Surplus

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

Dividends
Dividends on preferred and common shares are recognized as a liability and deducted from retained earnings when approved by the BOD of the Bank 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 (DFS) represents payments made on subscription of shares which cannot be directly credited to 'Preferred stock' or 'Common stock' pending registration with the SEC of the amendment to the Articles of Incorporation increasing capital stock. 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 a fixed number of 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 BSP and the SEC.

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

Details of DFS as at December 31, 2015 are disclosed in Note 17.

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, and rental income, except commission income.

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

Interest income
Interest on financial instruments is recognized based on the effective interest method of accounting. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and allocating the interest income over the relevant period. The EIR is the rate that exactly discounts estimated future cash flows through the expected useful life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees (such as service fees) or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

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 borrowers using the effective interest method and shown as deduction from receivable from borrowers.

Commission income, deposit-related fees, services fees, penalties and bank charges
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 collectability. These items are reported under 'Miscellaneous' in the statement of income.

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

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

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

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.
d. There is a substantial change to the asset.

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

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

Offsetting Income and Expense
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.

Income Taxes

Income tax on profit or loss for the year comprises current and deferred tax. Income tax is determined in accordance with Philippine tax laws. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in other comprehensive income.

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

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

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on taxation rates (and taxation 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 OCI, and not in the statement of income.

Provisions

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

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

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

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

Standards Issued but not yet Effective

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

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

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

Effective January 1, 2016

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

- PAS 34, *Interim Financial Reporting - Disclosures of Information 'Elsewhere in the Interim Financial Report'*

Effective January 1, 2018

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

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

In addition, the IASB has issued the following new standards that have not yet been adopted locally by the SEC, FRSC, Board of Accountancy and Professional Regulation Commission. The Bank is currently assessing the impact of these new standards and plans to adopt them on their required effective dates once adopted locally.

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

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

- IFRS 16, *Leases*
  On January 13, 2016, IASB issued its new standard, IFRS 16, *Leases,* which replaces PAS 17, the current leases standard, and the related interpretations.

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

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

The new standard is effective for annual periods beginning on or after January 1, 2019. Entities may early adopt IFRS 16 but only if they have also adopted IFRS 15. When adopting IFRS 16, an entity is permitted to use either full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

3. Significant Accounting Judgments and Estimates

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

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

Judgments

(a) Operating leases

In determining whether or not there is an indication of operating lease treatment, the Bank considers retention of ownership title to the leased property, period of lease contract relative to the estimated useful economic life of the leased property and bearer of executory costs, among others are considered.

Bank as lessee

The Bank has entered into leases on premises, transportation and IT equipment it uses for its operations. The Bank has determined that the lessor retains all significant risks and rewards of ownership over the leased property. Accordingly, the lease agreements are accounted for as operating leases.

(b) Classification of financial assets to HTM Category

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. The Bank has assessed that it has the intention and ability to hold these investments until maturity.

There are no HTM investments disposed in 2015 and 2014 prior to their maturity.

(c) Fair value of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility for longer-dated derivatives and discount rates, prepayments and default rates assumptions. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The fair values of the Bank's financial instruments are disclosed in Note 4.

(d) *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.

(d) *Embedded derivatives*
Where a hybrid instrument is not classified as financial asset or liability at FVPL, the Bank evaluates whether the embedded derivative should be bifurcated and accounted for separately. This includes assessing whether the embedded derivatives has a close economic relationship to the host contract.

<u>Estimates</u>

(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 borrowers 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 year-end, fall under specific loan loss.

In addition to specific allowance against individually significant loans and receivables, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. As at December 31, 2015 and 2014, the carrying values of loans and receivables and related allowance for credit losses are disclosed in Note 8.

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

As at December 31, 2015, no impairment losses were recognized on AFS and HTM debt securities which comprised of fixed treasury notes issued by the Philippine Government. The carrying value of AFS and HTM debt securities is disclosed in Note 7 and Note 9, respectively.

(c) Impairment of investment in an associate and other nonfinancial assets

The Bank also assesses impairment on its investment in an associate, property and equipment and software costs whenever events or changes in circumstances indicate that the carrying amount of the respective assets may not be recoverable.

Among others, the factors that the Bank considers important which could trigger an impairment review on its investment in an associate include the following:

- deteriorating or poor financial condition;
- recurring net losses; and
- significant changes on the technological, market, economic, or legal environment which had an adverse effect on the associate during the period or in the near future, in which the associate operates. The Bank also assesses impairment on investment in an associate whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

The Bank recognizes an impairment loss whenever the carrying amounts exceed their recoverable amounts.

(d) Estimated useful lives of property and equipment and software costs

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

In 2015, the BOD approved the change in EUL of buildings from 10 years to 7 years. The change is accounted for as change in accounting estimates and applied prospectively by the Bank.

(e) Present value of retirement liability/asset

The determination of the Bank's retirement cost is dependent on certain assumptions used by the actuary in calculating such amount. Those assumptions are described in Note 19 to the financial statements and include, among others, discount rate, future salary increase and average remaining working lives of employees. While management believes that the assumptions are reasonable and appropriate, significant differences in the Bank's actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligation.

As of December 31, 2015 and 2014, the carrying values of retirement asset of the Company are disclosed in Note 19.

(f) Recognition of deferred tax assets

Deferred tax assets are recognized for all unused tax losses and temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. 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. Details of recognized and unrecognized deferred tax assets are disclosed on Note 21.

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 in Note 2).

The fair values of cash and cash equivalents, current loans and receivables (except for its noncurrent portion), current bills payable and other liabilities (including deposit for future stocks subscriptions) approximate their carrying values in view of the relatively short-term maturities of these instruments.

As at December 31, 2015 and 2014, the Bank's financial instruments where the carrying values do not approximate fair value pertain to security deposits recorded under 'Other assets'. These are reported at cost and are not significant in relation to the Bank's asset portfolio.

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

As at December 31, 2015 and 2014, the Bank has no financial instruments with repricing and floating interest rates.

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

Fair values of noncurrent deposit liabilities are estimated using the discounted cash flow methodology, using the Bank's current incremental borrowing rates for similar borrowings, ranging from 1.0% to 1.1% in 2015 and 2014 with maturities consistent with those remaining for the liability being valued, if any.

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

Fair Value Hierarchy

The following table summarizes the carrying amounts and the fair values by level of the fair value hierarchy of the Bank's financial assets and liabilities that are carried at fair value or for which fair value is disclosed as at December 31, 2015 and 2014 (amounts in thousands):

	2015				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements					
AFS investments	**₱136,508**	**₱63,334**	**₱73,174**	**₱–**	**₱136,508**
Assets and liabilities for which fair values are disclosed:					
Financial assets					
HTM investments	**174,488**	**–**	**176,371**	**–**	**176,371**
Loans and receivables					
Receivable from borrowers	**30,440**	**–**	**–**	**35,356**	**35,356**
Financial liabilities					
Bills payable	**534,557**	**–**	**–**	**540,347**	**540,347**
Deposit liabilities					
Special savings	**180,481**	**–**	**–**	**172,274**	**172,274**

	2014				
	Carrying Value	Level 1	Level 2	Level 3	Total
Recurring fair value measurements					
AFS investments	₱139,524	₱64,701	₱74,823	₱–	₱139,524
Assets and liabilities for which fair values are disclosed:					
Financial assets					
HTM investments	205,815	133,115	84,772	–	217,887
Loans and receivables					
Receivable from borrowers	19,902	–	–	24,240	24,240
Financial liability					
Deposit liabilities					
Special savings	144,138	–	–	139,152	139,152

As at December 31, 2015, the Bank transferred government debt securities classified under HTM investments from Level 1 to Level 2 since these are not actively traded and have no bid-offer prices. The amount of transfers from Level 1 to Level 2 amounted to ₱133.1 million.

5. Financial Risk Management Objectives and Policies

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

- Credit risk
- Market risk
- Liquidity risk

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

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

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

The ROC regularly reports to the BOD the results of reviews of actual implementation of risk management policies. Risk management of the Bank is strengthened in conjunction with Audit Committee (AC) and Internal Audit (IA) functions. IA undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the AC. In addition, an Asset Liability Committee (ALCO) with members from Executive Committee and Management Committee of the Bank, together with the Senior Finance and Accounting staff regularly performs analysis of the operating and financial status of the Bank. The ALCO handles the Financial Risk Management of the Bank.

Credit Risk

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

Management of credit risk

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

Each business unit has a Unit Manager who reports on all credit related matters to the local management consisting of the 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 CARD-MRI. Maximum loan amount per account holder is below 2.0% of the Bank's equity and does not fall under directors, officers, stockholders and related interests (DOSRI) classification.

All past due or impaired accounts are reported on a daily, weekly and monthly 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 overall credit operations. Identified existing and potential risks are acted upon appropriately and are reported during monthly BOD meeting.

Maximum exposure to credit risk

The carrying values of the financial assets and liabilities best represent the maximum exposure to credit risk. The table below shows the analysis of the maximum exposure to risk, net of allowance for credit losses, for financial assets as at December 31, 2015 and 2014:

	2015			
	Carrying Amount	**Fair Value of Collateral**	**Maximum Exposure to Credit Risk**	**Financial Effect of Collateral or Credit Enhancement**
Receivable from borrowers	**₱5,233,111,407**	**₱3,197,922,781**	**₱4,452,897,165**	**₱780,214,242**
	2014			
	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral or Credit Enhancement
Receivable from borrowers	₱4,239,851,544	₱3,473,235,278	₱3,231,450,306	₱1,008,401,238

Credit enhancement on receivable from borrowers pertains to deposit hold-out from pledge savings equivalent to 15.0% of the original amount of the loan to the member, deed of assignment, and real estate mortgage as at December 31, 2015 and 2014 (Note 13).

As at December 31, 2015 and 2014, the Bank has no financial assets with rights to offset in accordance with PAS 32. There are also no financial assets that are subject to an enforceable master netting arrangements or similar agreements which require disclosure in the financial statements in accordance with the offsetting disclosure requirements of PFRS 7.

Additionally, the tables below show the distribution of maximum credit exposure by industry sector of the Bank as at December 31, 2015 and 2014, net of unearned income (in thousands):

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

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

	2014				
	Loans and Receivables*	AFS Investments	HTM Investments	Security Deposits**	Total
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	₱2,667,877	₱–	₱–	₱–	₱2,667,877
Agriculture, hunting and forestry	872,332	–	–	–	872,332
Financial institutions	677,303	–	–	–	677,303
Real estate, renting and business activities	340,893	–	–	13,094	353,987
Fishing	211,977	–	–	–	211,977
Other community, social and personal service activities	144,770	–	–	–	144,770
Education	120,310	–	–	–	120,310
Government	124,989	139,524	258,866	–	523,379
Manufacturing	36,805	–	–	–	36,805
Health and social work	2,635	–	–	–	2,635
	5,199,891	139,524	258,866	13,094	5,611,375
Less: allowance for credit losses	179,014	–	–	–	179,014
Total	₱5,020,877	₱139,524	₱258,866	₱13,094	₱5,432,361

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

Credit quality per class of financial assets

The table below shows the credit quality per class of financial assets (gross of allowance for credit and impairment losses and unearned interest income) as at December 31, 2015 and 2014:

	2015				
	Neither past due nor impaired				
	High grade	**Standard grade**	**Past due but not impaired**	**Impaired**	**Total**
Due from BSP	**₱149,539,008**	**₱–**	**₱–**	**₱–**	**₱149,539,008**
Due from other banks	**1,157,755,403**	**1,100,015**	**–**	**–**	**1,158,855,418**
AFS investments	**136,508,213**	**–**	**–**	**–**	**136,508,213**
Receivable from borrowers					
Microfinance loans	**–**	**4,537,553,979**	**8,293,985**	**120,252,978**	**4,666,100,942**
Other loans	**–**	**703,490,108**	**1,825,643**	**9,263,227**	**714,578,978**
Other receivables:					
Accrued interest receivable	**–**	**78,165,932**	**–**	**–**	**78,165,932**
Accounts receivable	**–**	**35,271,552**	**–**	**–**	**35,271,552**
Unquoted debt securities classified as loans (UDSCL)	**–**	**56,000,000**	**–**	**–**	**56,000,000**
HTM investments	**238,220,396**	**–**	**–**	**–**	**238,220,396**
Security deposits	**–**	**22,189,022**	**–**	**–**	**22,189,022**
	₱1,682,023,020	**₱5,433,770,608**	**₱10,119,628**	**₱129,516,205**	**₱7,255,429,461**

	2014				
	Neither past due nor impaired				
	High grade	Standard grade	Past due but not impaired	Impaired	Total
Due from BSP	₱124,989,147	₱–	₱–	₱–	₱124,989,147
Due from other banks	585,984,915	1,760,895		–	587,745,810
AFS investments	136,508,213	–	–	–	136,508,213
Receivable from borrowers	139,523,981	–	–	–	139,523,981
Microfinance loans	–	3,782,149,789	14,972,671	111,675,284	3,908,797,744
Other loans	–	478,076,323	2,637,354	8,044,784	488,758,461
Other receivables:					
Accrued interest receivable	–	21,381,212	–	–	21,381,212
Accounts receivable	–	31,291,030	–	–	31,291,030
UDSCL	–	37,000,000	–	–	37,000,000
HTM investments	258,865,664	–	–	–	258,865,664
Security deposits	–	13,094,110	–	–	13,094,110
	₱1,245,871,920	₱4,364,753,359	₱17,610,025	₱119,720,068	₱5,747,955,372

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, 2015 and 2014, 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, 2015 and 2014:

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

	2014			
	Less than 30 Days	31 to 60 Days	61 to 90 Days	Total
Microfinance	₱4,654,792	₱4,714,640	₱5,603,240	₱14,972,672
Agri-agra	434,429	104,252	66,546	605,227
Regular	866,285	644,500	521,341	2,032,126
	₱5,955,506	₱5,463,392	₱6,191,127	₱17,610,025

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, 2015 and 2014, the Bank's outstanding restructured receivables tagged as impaired account amounted ₱0.4 million.

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

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

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

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

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

	2015					
	On Demand	**Less than 30 days**	**30 to 90 days**	**91 to 360 days**	**More than 360 days**	**Total**
Financial Assets						
Cash and other cash items	**₱100,839**	**₱–**	**₱–**	**₱–**	**₱–**	**₱100,839**
Due from BSP	**149,539**	**–**	**–**	**–**	**–**	**149,539**
Due from other banks	**483,052**	**585,537**	**90,513**	**–**	**–**	**1,159,102**
AFS investment	**–**	**112**	**1,581**	**4,159**	**152,491**	**158,343**
Loans and receivables*						
Micro-finance	**113,599**	**102,960**	**912,147**	**3,962,157**	**45**	**5,090,908**
Others	**8,855**	**38,939**	**174,498**	**563,535**	**93,233**	**879,060**
HTM investments	**–**	**44,400**	**14,160**	**15,920**	**195,715**	**270,195**
Total Financial Assets	**855,884**	**771,948**	**1,192,899**	**4,545,771**	**441,484**	**7,807,986**
Financial Liabilities						
Deposit liabilities**						
Demand	**152,279**	**–**	**–**	**–**	**–**	**152,279**
Savings	**3,767,324**	**174,757**	**118,084**	**160,897**	**180,482**	**4,401,544**
Bills payable	**–**	**51,629**	**150,264**	**667,481**	**604,852**	**1,474,226**
Other liabilities	**95,146**	**51,430**	**34,012**	**72,295**	**95,340**	**348,223**
Total Financial Liabilities	**4,014,749**	**277,816**	**302,360**	**900,673**	**880,674**	**6,376,272**
Net	**(₱3,158,865)**	**₱494,132**	**₱890,539**	**₱3,645,098**	**(₱439,190)**	**₱1,431,714**

**Includes accrued interest receivable*
***Includes accrued interest payable*

	2014					
	On Demand	Less than 30 days	30 to 90 days	91 to 360 days	More than 360 days	Total
Financial Assets						
Cash and other cash items	₱65,451	₱–	₱–	₱–	₱–	₱65,451
Due from BSP	124,989	–	–	–	–	124,989
Due from other banks	331,774	256,252	43	–	–	588,069
Available-for-sale investment	–	112	1,581	4,159	158,343	164,195
Loans and receivables*						
Micro-finance	104,160	79,356	737,853	3,317,942	–	4,239,311
Others	6,916	29,050	126,356	327,229	65,098	554,649
Held-to-maturity investments	–	1,275	3,745	25,825	235,302	266,147
Total Financial Assets	633,290	366,045	869,578	3,675,155	458,743	6,002,811
Financial Liabilities						
Deposit liabilities**						
Demand	107,459	–	–	–	–	107,459
Savings	2,828,930	156,571	193,757	160,897	145,010	3,485,165
Bills payable	–	37,898	249,773	559,626	–	847,297
Other liabilities	82,809	47,324	28,454	56,855	33,881	249,323
Total Financial Liabilities	3,019,198	241,793	471,984	777,378	178,891	4,689,244
Net	(₱2,385,908)	₱124,252	₱397,594	₱2,897,777	₱279,852	₱1,313,567

**Includes accrued interest receivable*
***Includes accrued interest payable*

Market Risk

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

Interest rate risk

The Bank's receivables earn fixed interest rates ranging from 7.7% to 28.0% per annum with equivalent EIR ranging from 16.0% to 53.0% in 2015 and 2014. The shortest term of loan is one week while the longest term is twelve (12) years.

The Bank's savings deposit liabilities include compulsory and voluntary savings that earn 0.3% to 6.0% per annum in 2015 and 2014. Special savings deposits have interest rates of 2.0% to 4.3% in 2015 and 2014.

The Bank pays fixed interest rates on its bills payables from 3.4% to 6.5% and payable within one year to seven years in 2015 and from 4.3% to 5.0% per annum, payable within one year to three years in 2014.

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

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

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

	Changes in interest rates (in basis points)			
	2015		2014	
	+10.0	**-10.0**	+10.0	-10.0
Sensitivity of Equity	**(₱3,773,968)**	**₱4,690,051**	₱4,796,962	(₱4,995,783)

Cash flow interest rate risk
The exposure to cash flow interest rate risk results primarily to financial instruments such as AFS investments, HTM investments and loans and receivables which carry floating interest rates that are reset as market rates changes.

As at December 31, 2015, the Bank has no AFS investments, HTM investments and loans and receivables and financial liabilities that have floating interest rates, therefore no exposure to cash flow interest risk.

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

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Foreign currency liabilities generally consist of foreign currency-deposits in the Bank's FCDU account made in the Philippines or which are generated from remittances to the Philippines by Filipino expatriates and overseas Filipino workers who retain for their own benefit or for the benefit of a third party, foreign currency deposit accounts with the Bank and foreign currency-denominated borrowings appearing in the regular books of the Bank.

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

The Bank's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. The Bank believes that its profile of foreign currency exposure on its assets and liabilities is within limits for a financial institution engaged in the type of business in which the Bank is engaged in.

6. Due from BSP and Other Banks

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

Due from other banks represent funds deposited with domestic banks which are used as part of the Bank's operating funds. Due from other banks totaled ₱1.2 billion and ₱0.6 billion in 2015 and 2014, respectively.

As at December 31, 2015 and 2014, due from other banks include dollar-denominated deposits amounting to USD249.3 thousand (₱12.0 million) and USD155.5 thousand (₱7.0 million), respectively.

Peso-denominated deposits earn interest at annual rates ranging from 0.5% to 1.0% in 2015 and 2014. Dollar-denominated deposits earn interest at annual rates ranging from 0.13% to 1.0% in 2015 and 2014.

Total interest income earned on deposits from other banks amounted to ₱8.3 million and ₱6.7 million in 2015 and 2014, respectively. Of these amounts, ₱32.8 thousand and ₱11.5 thousand pertain to interest income from USD deposits in 2015 and 2014, respectively.

7. Available-for-Sale Investments

This account consists of investments in quoted government debt securities amounting to ₱136.5 million and ₱139.5 million on December 31, 2015 and 2014, respectively. These securities have remaining maturity period of four (4) years and bear annual interest rates of 3.9% to 4.8% in 2015.

Interest income on AFS investments amounted to ₱5.2 million and ₱3.5 million in 2015 and 2014, respectively. Amortized premium on AFS investments amounted to ₱0.7 million and ₱0.5 million in 2015 and 2014, respectively.

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

	2015	2014
Balance at January 1	**₱794,008**	₱–
Fair value changes during the year	**(2,331,240)**	1,134,297
Income tax effect	**699,371**	(340,289)
	(1,631,869)	794,008
Balance at December 31	**(₱837,861)**	₱794,008

8. **Loans and Receivables**

This account consists of:

	2015	2014
Receivables from borrowers		
Microfinance loans	**₱4,666,100,942**	₱3,908,797,744
Regular loans*	**479,583,467**	298,366,134
Agricultural-agrarian loans	**234,620,264**	189,973,855
Restructured loans	**375,247**	418,472
	5,380,679,920	4,397,556,205
Less: unearned interest income	**129,178**	72,255
	5,380,550,742	4,397,483,950
Other receivables:		
UDSCL	**56,000,000**	37,000,000
Accounts receivable (Note 22)	**35,271,552**	31,291,030
Accrued interest receivable	**78,165,932**	21,381,212
	5,549,988,226	4,487,156,192
Less: allowance for credit losses	**225,734,445**	179,013,618
	₱5,324,253,781	₱4,308,142,574

**Include salary loans amounting to ₱31.3 million and ₱14.9 million in 2015 and 2014, respectively.*

As of December 31, 2015 and 2014, microfinance loans include receivables from borrowers amounting to ₱2.1 billion and ₱1.2 billion , respectively, that are used to secure the Bank's bills payable (Note 14).

Regular loans include salary loans granted to the Bank's employees and officers and government and schools employees earning fixed annual interest rates from 10.0% to 18.0% (Note 22).

Interest income on receivables from borrowers amounted to ₱2.4 billion and ₱1.9 billion in 2015 and 2014, respectively. Receivables from borrowers bear fixed interest rates ranging from 7.7% to 28.0% per annum and with equivalent EIR ranging from 16.0% to 53.0% in 2015 and 2014.

BSP Reporting

In accordance with BSP regulations, the Bank considers as part of portfolio-at-risk (PAR) an installment payment that is past due for one day. As at December 31, 2015 and 2014, the Bank's PAR amounted to ₱139.6 million and ₱137.3 million, respectively.

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

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

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

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

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

As at December 31, 2015 and 2014, based on the revised definition of NPLs under Circular No. 772, NPLs of ₱10.1 million and ₱17.6 million which the Bank reported to the BSP are net of specific allowance amounting to ₱129.6 million and ₱119.7 million, respectively.

The following table shows the secured and unsecured portions of receivable from borrowers as at December 31, 2015 and 2014:

	2015	2014
Secured portion		
Deposit hold-out (Note 13)	**₱5,347,785,942**	₱4,375,511,332
Deed of assignment	**5,738,337**	5,223,725
Real estate mortgage	**3,475,839**	6,039,844
Unsecured portion	**23,679,802**	10,781,304
Total	**₱5,380,679,920**	₱4,397,556,205

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

	2015		2014	
	Amount	**%**	**Amount**	**%**
Wholesale and retail trade	**₱3,558,706**	**64.1%**	₱2,667,876	59.5%
Agriculture, hunting and forestry	**1,017,069**	**18.3%**	872,333	19.4%
Real estate renting and business activities	**391,800**	**7.1%**	340,893	7.6%
Fishing	**272,041**	**4.9%**	211,977	4.7%
Education	**159,091**	**2.9%**	120,310	2.7%
Financial institutions	**89,792**	**1.6%**	89,557	2.0%
Manufacturing	**33,177**	**0.6%**	36,805	0.8%
Other community, social and personal service activities	**16,450**	**0.3%**	144,770	3.2%
Government	**5,936**	**0.1%**	–	–
Health and social work	**5,926**	**0.1%**	2,635	0.1%
	₱5,549,988	**100.0%**	₱4,487,156	100.0%

The BSP considers the concentration of credit exists when the total loan exposure to a particular industry or economic sector exceeds 30.00% of total loan portfolio.

Identified concentrations of credit risks are controlled and managed accordingly.

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

	2015	2014
Balance at beginning of year	**₱178,101,931**	₱150,201,602
Provision for credit losses	**52,391,515**	37,387,080
Accounts written-off	**(5,542,019)**	(9,486,751)
Reversal of accounts written-off	**15,781**	–
Balance at end of year	**₱224,967,208**	₱178,101,931
Individual impairment	**129,516,205**	119,720,068
Collective impairment	**95,451,003**	58,381,863
Total allowance for credit losses	**₱224,967,208**	178,101,931
Gross amounts of loans individually determined to be impaired, before deducting any individually assessed impairment losses	**₱129,516,205**	₱119,720,068

The movements in allowance for credit losses on other risk assets follow:

	2015	2014
Balance at beginning of year	**₱911,687**	₱190,439
Provision for credit losses	**116,152**	721,248
Accounts written-off	**(260,602)**	–
Balance at end of year	**₱767,237**	₱911,687

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).

Unquoted debt instruments
As at December 31, 2015 and 2014, unquoted debt securities consist of short-term non-negotiable Micro, Small and Medium Enterprise Notes issued by Small Business Corporation amounting to ₱56.0 million and ₱37.0 million with term of one year. These notes bear annual interest ranging from 1.3% to 1.5% and 1.3% to 1.7% in 2015 and 2014, respectively . Income earned from this account amounted to ₱0.7 million and ₱0.5 million in 2015 and 2014, respectively.

9. Held-to-Maturity Investments

This account represents investments in quoted government debt securities bearing fixed annual interest rates ranging from 3.3% to 9.1% in 2015 and 4.1% to 9.1% in 2014 and EIR ranging from 3.1% to 7.0% in 2015 and 2014.

The rollforward analysis of this account follows:

	2015	2014
Face Value		
Balance at beginning of year	**₱253,330,281**	₱313,499,039
Acquisitions	**35,933,000**	45,982,000
Maturities	**(52,836,000)**	(106,150,758)
Balance at end of year	**236,427,281**	253,330,281

(Forward)

	2015	2014
Net premium (discount)		
Balance at beginning of year	**₱5,535,383**	₱8,819,350
Acquisitions	**(1,073,501)**	2,251,415
Amortization	**(2,668,767)**	(5,535,382)
Balance at end of year	**1,793,115**	5,535,383
Carrying value	**₱238,220,396**	₱258,865,664

Interest income earned from HTM investments amounted to ₱11.2 million and ₱13.4 million in 2015 and 2014, respectively.

10. Investment in an Associate

This account consists of:

	2015	2014
Total acquisition cost		
Acquisition cost	**₱23,750,000**	₱10,750,000
Additional investments during the year (Notes 15 and 23)	**59,600,000**	13,000,000
	83,350,000	23,750,000
Accumulated equity in net earnings		
Beginning balance	**16,846,005**	3,724,192
Share in net income of the associate for the year	**36,760,807**	13,121,813
	53,606,812	16,846,005
Accumulated equity in other comprehensive income		
Beginning balance	**1,568,984**	(2,195,824)
Share in other comprehensive income of the associate for the year	**(9,742,074)**	3,764,808
	(8,173,090)	1,568,984
Dividends received	**(10,400,000)**	–
Balance at the end of the year	**₱118,383,722**	₱42,164,989
Advances to an associate (Note 22)	**400,000**	20,000,000
Total investment in associate	**₱118,783,722**	₱62,164,989

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

As of December 31, 2015, the Bank has outstanding subscriptions payable to RBI amounting to ₱29.6 million (Note 15).

Advances to an RBI amounting to ₱19.6 million made in 2014 were converted as additional investments upon SEC's approval of the Associate's increase in authorized capital stock on April 15, 2015. The Bank intends to recognize the remaining advances amounting to ₱0.4 million once the additional increase in authorized capital stock is approved. As of December 31, 2015, the Associate's additional increase in authorized capital stock is not yet approved by the Associate's BOD.

The following table illustrates the summarized financial information of RBI (amounts in millions):

	2015	2014
Current assets	**₱998.9**	₱583.8
Noncurrent assets	**82.0**	46.1
Current liabilities	**850.9**	543.4
Noncurrent liabilities	**21.8**	3.6
Net Assets	**208.2**	82.9

Summarized financial information in the statements of income and comprehensive income of RBI follow:

	2015	2014
Revenue	**₱310,475,032**	₱148,153,637
Net income	**92,741,559**	32,804,533
Other comprehensive income (loss)	**(24,355,185)**	9,412,020
Total comprehensive income	**₱68,386,374**	₱42,216,553

As of December 31, 2015, RBI has outstanding 8.0% cumulative preferred stocks amounting to ₱9.8 million which have been considered in determining the Bank's share in RBI's net income. RBI has no outstanding preferred stock in 2014.

11. **Property and Equipment**

The composition of and movements in this account follow:

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

	2014							
	Furniture, Fixtures and Equipment	Building	Land	Transportation Equipment	Leasehold Improvements	Construction in Progress	Land Improvements	Total
Cost								
Balance at beginning of year	₱158,241,563	₱105,126,587	₱115,006,911	₱46,492,866	₱47,377,388	₱16,236,998	₱–	₱488,482,313
Additions	52,651,112	40,411,632	58,616,491	122,480	4,868,219	20,312,502	–	176,982,436
Disposals	(1,451,159)	–	–	(7,036,897)	–	–	–	(8,488,056)
Reclassification	–	(1,910,000)	–	–	1,910,000	–	–	–
Balance at end of year	209,441,516	143,628,219	173,623,402	39,578,449	54,155,607	36,549,500	–	656,976,693
Accumulated Depreciation and Amortization								
Balance at beginning of year	98,019,795	22,915,672	–	35,895,937	36,413,131	–	–	193,244,535
Depreciation and amortization	25,537,028	13,012,175	–	6,991,336	5,850,931	–	–	51,391,470
Disposals	(886,138)	–	–	(6,936,898)	–	–	–	(7,823,036)
Balance at end of year	122,670,685	35,927,847	–	35,950,375	42,264,062	–	–	236,812,969
Net Book Value	₱86,770,831	₱107,700,372	₱173,623,402	₱3,628,074	₱11,891,545	₱36,549,500	₱–	₱420,163,724

Depreciation, amortization, and impairment loss presented in the statement of income follow:

	2015	2014
Property and equipment	**₱73,472,106**	₱51,391,470
Intangible assets (Note 12)	**340,648**	1,490,612
	₱73,812,754	₱52,882,082

Cost of fully depreciated assets still in use as at December 31, 2015 and 2014 amounted to ₱142.2 million and ₱141.0 million, respectively.

12. Other Assets

Other assets consist of:

	2015	2014
Stationeries and supplies	**₱53,579,973**	₱40,515,769
Sundries	**40,554,655**	–
Intangible assets	**34,492,180**	1,049,364
Security deposits	**22,189,022**	13,094,110
Prepaid expenses	**15,173,016**	1,833,155
Others	**1,491,563**	6,596,414
	₱167,480,409	₱63,088,812

Sundries pertain to inward clearing checks issued by the Bank's depositors during the last banking day of 2015. These are subsequently reversed on January 4, 2016.

Intangible assets include software costs under development amounting to ₱33.3 million, which the Bank accrued in July 2015.

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

The movements of intangible assets follow:

	2015	2014
Cost		
Balance at beginning of year	**₱4,363,102**	₱3,798,976
Additions (Note 23)	**33,783,464**	981,000
Write-off	–	(416,874)
Balance at end of year	**38,146,566**	4,363,102
Accumulated Amortization		
Balance at beginning of year	**3,313,738**	1,823,126
Amortization	**340,648**	1,490,612
Balance at end of year	**3,654,386**	3,313,738
Net Book Value	**₱34,492,180**	₱1,049,364

13. **Deposit Liabilities**

The Bank's savings deposit liabilities include pledge savings amounting to ₱2.9 billion and ₱2.3 billion as at December 31, 2015 and 2014, respectively. These represent the aggregate compulsory savings of ₱50.0 per week collected from each member in 2015 and 2014. 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 equivalent to 15.0% of the loan proceeds serves as guarantee fund of the outstanding loan receivable from members (Note 8).

Savings deposits include regular and special savings deposit. Regular savings deposits include "Kayang kaya", "Tagumpay", "Maagap", "Matapat" and "Dollar" savings. These savings accounts earn annual interest rate ranging from 0.3% to 6.0% in 2015 and 2014. Special savings deposits include "Tiwala" savings. This account earns annual interest ranging from 2.0% to 4.3% in 2015 and 2014. Interest expense on deposit liabilities amounted to ₱102.8 million and ₱84.3 million in 2015 and 2014, respectively.

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

As at December 31, 2015 and 2014, available reserves pertain to Due from BSP of ₱149.5 million and ₱125.0 million for 2015 and 2014, respectively (Note 6).

As at December 31, 2015 and 2014, the Bank is compliant with the applicable reserve requirements.

14. **Bills Payable**

This account consists of borrowings from:

	2015	2014
Face Value		
Balance at beginning of year	**₱885,000,000**	₱425,000,000
Availments	**1,320,000,000**	1,185,000,000
Principal payments	**(935,000,000)**	(725,000,000)
Balance at end of year	**1,270,000,000**	885,000,000
Unamortized Discount		
Balance at beginning of year	**(3,045,104)**	(1,567,315)
Availments	**(9,281,433)**	(5,840,068)
Amortization	**4,028,347**	4,362,279
Balance at end of year	**(8,298,190)**	(3,045,104)
Carrying value	**₱1,261,701,810**	₱881,954,896

Local banks
Bills payable of ₱721.7 million and ₱882.0 million in 2015 and 2014, respectively, pertain to promissory notes obtained from various local banks for working capital requirements and have tenor of 1 year and interest rates ranging from 3.4% to 4.3% and 3.9% to 6.0% in 2015 and 2014, respectively.

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

Borrowings from IFC contain the following embedded derivatives:

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

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

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

a. Negative covenants

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

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

- change its charter in any manner which would be inconsistent with the provisions of the agreement or any other transaction document; its financial year; or the nature or scope of its present or contemplated business or operations;
- undertake or permit any merger, spin-off, consolidation or reorganization; or sell, transfer, lease or otherwise dispose of all or a substantial part of its assets, other than assets acquired in the enforcement of security created in favor of the Bank in the ordinary course of its banking business, whether in a single transaction or in a series of transaction; and
- prepay or repurchase any long-term debt (other than the Loan) subject to conditions indicated the agreement.

b. Financial covenants

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

- risk weighted capital adequacy ratio of not less than 10.0%;
- equity to assets ratio of not less than 5.0%;
- economic group exposure ratio of not more than 15.0%;
- aggregate large exposure ratio of not more than 400.0%;
- related party exposure ratio of not more than 15.0%;
- open credit exposures ratio of not more than 25.0%;
- fixed assets plus equity participants ratio of not more than 35.0%;
- aggregate foreign exchange risk ratio of not more than 25.0%;
- single currency foreign exchange risk ratio of not more than 10.0%;
- interest rate risk ratio of not less than -10.0% and not more than 10.0%;
- aggregate interest rate risk ratio of not less than -20.0% and not more than 20.0%;
- foreign currency maturity gap ratio of not less than (i.e., more negative than) -150.0%; and
- aggregate negative maturity gap ratio of not less than (i.e., more negative than) -300.0%.

The period of compliance with the above covenants will commence on March 31, 2016.

Receivable from borrowers amounting to ₱2.1 billion and ₱1.2 billion secure the above borrowings as at December 31, 2015 and 2014, respectively (Note 8).

Interest expense on bills payable amounted to ₱24.4 million and ₱25.9 million in 2015 and 2014, respectively.

The Bank has available funds from its loan facilities amounting to ₱480.0 million and ₱215.0 million in 2015 and 2014, respectively.

15. **Other Liabilities**

This account consists of the following:

	2015	2014
Financial liabilities		
Accrued expenses	**₱138,698,404**	₱126,710,041
Accounts payable (Note 22)	**52,225,866**	47,315,395
Dividends payable (Note 17)	**42,037,014**	10,097,266
Accrued interest on deposit liabilities (Note 22)	**41,145,317**	25,075,135
Subscriptions payable (Notes 10 and 23)	**29,600,000**	–
Accrued interest on bills payable	**3,863,878**	3,795,049
	307,570,479	212,992,886
Nonfinancial liabilities		
Deposit for future stock subscription (Note 17)	**68,288,110**	–
Accrued vacation leaves	**40,652,767**	38,330,266
Accrued taxes	**12,054,399**	7,805,158
Withholding taxes payable	**11,240,104**	7,418,324
	132,235,380	53,553,748
	₱439,805,859	₱266,546,634

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

Subscriptions payable pertains to the unpaid portion of additional subscriptions amounting to ₱40.0 million in RBI’s net assets in 2015 (Note 10).

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

	2015			2014		
	Within one year	**Beyond one year**	**Total**	Within one year	Beyond one year	Total
Financial Assets						
Cash and other cash items	**₱100,839**	**₱–**	**₱100,839**	₱65,451	₱–	₱65,451
Due from BSP	**149,539**	**–**	**149,539**	124,989	–	124,989
Due from other banks	**1,158,855**	**–**	**1,158,855**	587,746	–	587,746
AFS investment	**–**	**136,508**	**136,508**	–	139,524	139,524
Loans and receivables	**5,519,223**	**30,894**	**5,550,117**	4,467,326	19,902	4,487,228
HTM investments	**63,732**	**174,488**	**238,220**	55,577	203,289	258,866
Security deposits	**–**	**22,189**	**22,189**	–	13,094	13,094
Nonfinancial Assets						
Retirement asset	**–**	**126,101**	**126,101**	–	87,600	87,600
Investment in an associate	**–**	**118,784**	**118,784**	–	62,165	62,165
Property and equipment	**–**	**820,144**	**820,144**	–	656,977	656,977
Deferred tax asset	**–**	**46,028**	**46,028**	–	42,463	42,463
Intangibles	**–**	**38,147**	**38,147**	–	4,363	4,363
Other assets	**88,610**	**22,188**	**110,798**	40,522	9,473	49,995
Total Assets	**₱7,080,798**	**₱1,535,471**	**8,616,269**	₱5,341,611	₱1,238,850	6,580,461
Less: Allowance for credit and impairment losses			**(225,734)**			(179,014)
Unearned interest			**(129)**			(72)
Accumulated depreciation and amortization			**(303,939)**			(240,127)
			₱8,086,467			₱6,160,198
Financial liabilities						
Deposit liabilities	**₱4,332,286**	**₱180,481**	**₱4,512,767**	₱3,375,762	₱144,138	₱3,519,900
Bills payable	**730,983**	**540,000**	**1,270,983**	885,000	–	885,000
Other liabilities:						
Accrued expenses	**150,074**	**18,224**	**168,298**	96,524	30,186	126,710
Accounts payable	**52,226**	**–**	**52,226**	47,315	–	47,315
Accrued interest	**45,009**	**–**	**45,009**	9,226	19,645	28,871
Dividends payable	**42,037**	**–**	**42,037**	10,097	–	10,097
Nonfinancial liabilities						
Income tax payable	**106,110**	**–**	**106,110**	61,984	–	61,984
Other liabilities:						
Accrued vacation leaves	**8,035**	**32,618**	**40,653**	6,808	31,522	38,330
Deposit for stock subscription	**–**	**68,288**	**68,288**	–	–	–
Accrued taxes	**12,054**	**–**	**12,054**	7,805	–	7,805
Withholding taxes payable	**11,240**	**–**	**11,240**	7,419	–	7,419
Total Liabilities	**₱5,490,054**	**₱839,611**	**₱6,329,665**	₱4,507,940	₱225,491	₱4,733,431
Less: Unamortized discount on bills Payable			**(9,281)**			(3,045)
			₱6,320,384			₱4,730,386

17. **Equity**

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

	2015		2014	
	Shares	**Amount**	Shares	Amount
Preferred stock - ₱200 par value, 2,500,000 authorized shares				
Issued and outstanding				
Issuance of shares at beginning of year	**2,481,263**	**₱496,252,600**	2,101,220	₱420,244,000
Issuance of shares	**–**	**–**	374,727	74,945,400
Issuances of shares of stocks from settlement of subscriptions receivables	**14,134**	**2,826,800**	5,316	1,063,200
Application of cash dividends to subscription receivable	**594**	**118,800**	–	–
Preferred stock at the end of the year	**2,495,991**	**499,198,200**	2,481,263	496,252,600
Subscribed	**4,009**	**801,800**	4,964	992,800
Subscription receivable	**–**	**(116,000)**	–	(307,000)
	2,500,000	**₱499,884,000**	2,486,227	₱496,938,400
Common stock - ₱100 par value, 5,000,000 authorized shares				
Issued and outstanding				
Issuance of shares at beginning of year	**3,205,465**	**₱320,546,500**	2,013,194	₱201,319,400
Issuances of shares of stocks from settlement of subscriptions receivables	**48,869**	**4,886,900**	326,027	32,602,748
Application of cash dividends to subscription receivable	**169,610**	**16,961,000**	–	–
Issuance of stock dividends	**–**	**–**	866,244	86,624,352
Common stock at the end of the year	**3,423,944**	**342,394,400**	3,205,465	320,546,500
Subscribed	**1,576,056**	**157,605,600**	1,794,535	179,453,500
Subscription receivable	**–**	**(7,713,200)**	–	(29,561,100)
	5,000,000	**₱492,286,800**	5,000,000	₱470,438,900

Preferred shares receive annual dividend rate of 8.0% and has the following features: (a) cumulative, (b) non-participating, and (c) non-redeemable.

In 2015, the Bank issued 5,000 preferred shares at par amounting to a total of ₱1.0 million. In addition, the Bank's collections from subscriptions receivable on preferred and common shares amounted to ₱4.9 million and ₱2.8 million, respectively.

On January 17, 2015, the BOD and the stockholders approved and ratified the increase in the Bank's capitalization from ₱1.0 billion to ₱2.0 billion by increasing its authorized preferred and common stock by ₱0.5 billion each. As of December 31, 2015, the Bank has yet to obtain approval and file its application from BSP and SEC, respectively.

Deposit for Future Stock Subscriptions
Deposit for future stock subscriptions pertains to total consideration received in excess of the authorized capital of the Bank with the purpose of applying the same as payment for future issuance of shares.

As at December 31, 2015, the Bank has not yet filed its application for increase in authorized capital with SEC. DFS of ₱68.3 million was classified under liabilities as of December 31, 2015 in accordance with the requirement of SEC Financial Reporting Bulletin No. 006 (Notes 2 and 15).

Dividend Declaration

Cash and stock dividends

On April 18, 2015, the BOD declared cash dividends of 8.0% and P15.0 per share to its preferred and common stockholders, respectively. These were approved by the BSP on June 19, 2015. Cash dividends declared amounting to ₱114.8 million were paid starting July 14, 2015 to preferred and common stockholders of record as at March 31, 2015.

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

In 2015, cash dividends amounting to ₱17.1 million were applied as payments for the outstanding subscription receivables of which, ₱17.0 million and ₱0.1 million were recognized as additional common and preferred stocks, respectively.

On March 15, 2014, the BOD declared 8.0% and cash dividends of ₱19.0 per share to its preferred and common stockholders, respectively, and ₱21.0 per share of stock dividends to its common stockholders. These were approved by the BSP on May 7, 2014. Cash dividends amounting to ₱ 112.8 million were paid on May 8, 2014 to preferred and common stockholders of record as at February 28, 2014. Of this amount, ₱1,852 represented cash payments to fractional shareholders.

On August 16, 2014, the BOD declared another cash dividend of 4.0% and ₱12.5 per share to its preferred and common stockholders, respectively, which were approved by the BSP on October 28, 2014. The cash dividends amounted to ₱80.5 million and were partially paid on October 29, 2014 to preferred and common stockholders of record as at July 31, 2014.

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.

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments. As at December 31, 2015 and 2014, the Bank was in compliance with the risk-based capital adequacy ratio (CAR).
BSP Circular No. 688, Revised Risk-Based Capital Adequacy Framework for stand-alone thrift banks, rural banks and cooperative banks which took effect on January 1, 2012 represents BSP's commitment to align existing prudential regulations with international standards consistent with the BSP's goal of promoting the soundness and stability of individual banks and of the banking system as a whole. BSP Circular No. 688 replaced BSP Circular No. 280 which is primarily based on Basel 1.

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

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

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

Under BSP Circular No. 360, effective July 1, 2003, the CAR is to be inclusive of a market risk charge. BSP Circular No. 560 dated January 31, 2007 which took effect on February 22, 2007, requires the deduction of unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates from capital accounts for purposes of computing CAR.

On October 9, 2014, the BSP issued BSP Circular No. 854 which amends the provisions of the Manual of Regulations for Banks on the minimum capitalization of banks and on the prerequisites for the grant of authority to establish a branch. Based on this circular, the Bank is required to maintain a minimum capitalization of ₱400.0 million.

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

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

	2015	2014
Tier 1 capital	**₱1,117.0**	₱780.6
Tier 2 capital	**577.1**	516.7
Total qualifying capital	**₱1,694.1**	₱1,297.3
Risk weighted assets	**₱8,960.0**	₱4,865.1
Tier 1 capital ratio	**12.5%**	16.0%
Tier 2 capital ratio	**6.4%**	10.6%
Total CAR	**18.9%**	26.6%

As at December 31, 2015 and 2014, the Bank's CAR is in compliance with the regulatory requirements.

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

Financial Performance

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

	2015	2014
Return on average equity	**32.3%**	26.6%
Return on average assets	**7.3%**	6.0%
Net interest margin	**37.5%**	37.8%

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:

	2015	2014
Deposit-related fees and other charges	**₱8,579,888**	₱5,104,774
Recoveries of written-off account	**3,655,810**	4,956,559
Gain on disposal of property and equipment	**1,940,537**	683,562
Commission income	**740,393**	692,469
Others (Notes 20 and 22)	**2,695,044**	3,119,284
	₱17,611,672	₱14,556,648

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

Miscellaneous expense consists of the following:

	2015	2014
Scholarship allowance	**₱14,288,612**	₱8,771,522
Other donations and charitable expenses (Note 22)	**10,140,176**	551,944
Medical and other related expenses	**6,306,622**	1,424,753
Representation and entertainment (Note 21)	**8,219,007**	6,353,192
Penalties and other service charges	**3,705,538**	2,433,426
Calamity assistance	**4,495,535**	21,750,365
Advertising and promotions	**656,833**	2,745,492
Others	**13,775,147**	830,681
	₱61,587,470	₱44,861,375

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

19. **Retirement Benefits**

The Bank, CARD MRI Development Institute, Inc. (CMDI), CARD Mutual Benefit Association (MBA), Inc., CARD SME Bank, Inc., CARD MRI Insurance Agency (CAMIA), Inc., CARD Business Development Service Foundation, Inc. (BDSFI), Inc., CARD MRI Information Technology, Inc. (CMIT), CARD Employees Multi-Purpose Cooperative (EMPC), Responsible Investments for Solidarity and Empowerment Financing Co. (RISE), BotiCARD Inc., CARD Leasing and Finance Corporation (CLFC), RBI, CARD, Inc. and Mga Likha ni Inay Inc. (MLNI), maintain a funded and formal noncontributory defined benefit retirement plan - the CARD MRI Multi-Employer Retirement Plan (MERP) - covering all of their regular employees. 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.

The latest actuarial valuation report covers reporting period as at December 31, 2015.

s in net retirement liability in 2015 and 2014 are as follows:

2015

		Net benefit cost in statement of income*					Remeasurements in other comprehensive income							
	January 1, 2015	Current service cost	Net interest	Subtotal	Transfer to the Plan	Benefits paid	Return on plan assets (excluding amount included in net interest)	Experience adjustments	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Effect of Asset Ceiling	Subtotal	Contribution by employer	December 31, 2015
ue of defined benefit ation	₱275,892,902	₱30,439,958	₱12,304,823	₱42,744,781	₱7,211,673	(₱490,045)	₱–	₱19,594,140	₱8,227,465	(₱30,840,705)	₱–	(₱3,019,100)	₱–	₱322,340,211
of plan assets	(371,515,908)	–	(18,411,347)	(18,411,347)	(7,211,673)	490,045	8,596,526	–	–	–	–	8,596,526	(75,867,516)	(463,919,873)
sset ceiling	8,022,959	–	357,824	357,824	–	–	–	–	–	–	7,097,960	7,097,960	–	15,478,743
nent liability (asset)	(₱87,600,047)	₱30,439,958	(₱5,748,700)	₱24,691,258	₱–	₱–	₱8,596,526	₱19,594,140	₱8,227,465	(₱30,840,705)	₱7,097,960	₱12,675,386	(₱75,867,516)	(₱126,100,919)

nefit cost is included in 'Compensation and benefits' in the statement of income.

2014

		Net benefit cost in statement of income*					Remeasurements in other comprehensive income							
	January 1, 2014	Current service cost	Net interest	Subtotal	Transfer to the Plan	Benefits paid	Return on plan assets (excluding amount included in net interest)	Experience adjustments	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Effect of Asset Ceiling	Subtotal	Contribution by employer	December 31, 2014
ue of defined benefit ation	₱495,868,369	₱68,916,949	₱31,636,402	₱100,553,351	(₱1,091,584)	(₱1,459,850)	₱–	₱732,445	(₱70,340,254)	(₱248,369,575)	₱–	(₱317,977,384)	₱–	₱275,892,902
of plan assets	(289,029,445)	–	(20,778,862)	(20,778,862)	1,091,584	1,459,850	11,608,481	–	–	–	–	11,608,481	(75,867,516)	(371,515,908)
sset ceiling	–	–	–	–	–	–	–	–	–	–	8,022,959	8,022,959	–	8,022,959
nent liability (asset)	₱206,838,924	₱68,916,949	₱10,857,540	₱79,774,489	₱–	₱–	₱11,608,481	₱732,445	(₱70,340,254)	(₱248,369,575)	₱8,022,959	(₱298,345,944)	(₱75,867,516)	(₱87,600,047)

nefit cost is included in 'Compensation and benefits' in the statement of income.

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

	2015	2014
Cash and other cash items	**₱188,861,781**	₱ 146,080,054
Government securities	**212,057,770**	170,414,347
Loans and receivables	**48,989,939**	41,163,963
Mutual funds	**10,391,807**	3,492,250
Other assets	**3,618,576**	10,365,294
Fair value of plan assets	**₱463,919,873**	₱371,515,908

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

The plan assets have diverse investments and do not have any concentration risk other than those in government securities which are of low risk.

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

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:

	2015	2014
Discount rates		
January 1	**4.5%**	6.4%
December 31	**4.9%**	4.5%
Future salary increases	**7.0%**	7.0%

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

	Increase (decrease) in present value of obligation			
	2015		2014	
	+100	**-100**	+100	-100
Discount rates	**(₱83,591,100)**	**₱64,519,753**	(₱73,397,777)	₱56,405,812
Future salary increases	**77,363,714**	**(61,674,061)**	146,180280	116,428,311

The Bank plans to contribute ₱75.9 million to the defined benefit retirement plan in 2016.

As at December 31, 2015 and 2014, the average duration of defined benefit obligations is 28.0 and 27.5 years, respectively.

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

	2015	2014
Less than 1 year	**₱5,537,160**	₱5,026,050
More than 1 year to 5 years	**6,490,698**	6,040,832
More than 5 years to 10 years	**6,738,901**	5,372,871
More than 10 years to 15 years	**50,752,196**	21,770,477
More than 15 years to 20 years	**345,596,419**	125,233,966
More than 20 years to 25 years	**1,542,425,475**	720,760,832
More than 25 years	**21,507,296,653**	7,113,701,098

20. **Leases**

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

Rent expense amounted to ₱60.6 million and ₱47.3 million in 2015 and 2014, respectively.

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

	2015	2014
Within one year	**₱57,396,647**	₱44,115,136
Beyond one year but not beyond five years	**89,368,956**	61,879,374
	₱146,765,603	₱105,994,510

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

Lease for transportation equipment recorded under ‘Occupancy’ in 2015 and 2014 amounted to ₱11.9 million and ₱5.7 million, respectively. Lease for IT equipment recorded under ‘Occupancy’ amounted to ₱7.3 million and ₱3.3 million in 2015 and 2014, respectively.

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

	2015	2014
Within one year	**₱18,236,965**	₱13,560,700
Beyond one year but not beyond five years	**3,056,433**	2,459,400
	₱21,293,398	₱16,020,100

21. **Income Taxes**

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

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

Current tax regulations provide that RCIT rate shall be 30.0%. It further states that nondeductible interest expense shall likewise be reduced to 33.0% of interest income subjected to final tax. The Bank allocates common expenses in computing its taxable income based on Revenue Regulations (RR) 4-2011, which prescribes the proper allocation of costs and expenses amongst income earnings of banks and other financial institutions for income tax reporting purposes.

An optional standard deduction equivalent to 40.0% of gross income may be claimed as an alternative deduction in computing for the RCIT.

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. As at December 31, 2015, EAR expenses of the Bank amounted to ₱8.2 million in 2015 and ₱6.4 million in 2014. 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:

	2015	2014
Current:		
RCIT	**₱211,354,802**	₱148,581,476
Final tax	**5,546,257**	5,435,260
	216,901,059	154,016,736
Deferred	**937,243**	(13,635,100)
	₱217,838,302	₱140,381,636

As at December 31, 2015, the Bank has no unrecognized deferred tax assets. As at December 31, 2014, deferred tax assets amounting to ₱0.2 million from allowance on other risk assets were not recognized by the Bank. The management believes that it is not probable that these temporary differences will be realized in the future.

Components of net deferred tax assets are as follows:

	2015	2014
Deferred tax asset		
Allowance for credit and impairment losses	**₱67,720,334**	₱53,704,085
Accrued rent and vacation leave	**12,678,899**	11,763,867
Unamortized past service cost	**3,044,568**	3,583,833
Unrealized foreign exchange loss	**54,967**	31,350
Unrealized loss on AFS investments	**359,083**	–
	83,857,851	69,083,135

(Forward)

	2015	2014
Deferred tax liability		
Retirement asset	**(₱37,830,276)**	(₱26,280,014)
Unrealized gain on AFS investments	–	(340,289)
	(37,830,276)	(26,620,303)
	₱46,027,575	₱42,462,832

The income tax effect arising from retirement asset/liabilities recognized 2015 and 2014 in other comprehensive income amounted to a benefit of ₱3.8 million and provision of ₱89.5 million, respectively.

The income tax effect arising from unrealized gain (loss) on AFS investment recognized in statement of other comprehensive income amounted to a benefit of ₱0.7 million and provision of ₱0.3 million in 2015 and 2014, respectively.

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

	2015	2014
Statutory income tax	**₱220,316,293**	₱138,771,351
Income tax effects of:		
Nondeductible interest expense and other expenses	**10,616,944**	7,246,176
Interest income subject to final tax	**(2,066,693)**	(1,767,277)
Nontaxable income	**(11,028,242)**	(3,936,544)
Movements in unrecognized deferred tax asset	–	(67,930)
Provision for income tax	**₱217,838,302**	₱140,245,776

22. Related Party Transactions

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. 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. 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 EMPC. The plan assets are invested in time deposits and special savings accounts and government bonds (see Note 19). As at December 31, 2015 and 2014, 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):

	2015	2014
Short-term employee benefits	**₱30.2**	₱15.4
Post-employment benefits	**1.9**	1.7
	₱32.1	₱17.1

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

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

Loans receivables
As at December 31, 2015 and 2014, the Bank has no loan outstanding that was granted to related parties.

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

	December 31, 2015		
Category	**Amount/Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Key Management Personnel			
Deposit liabilities		**₱40,869,511**	These are demand and savings accounts with annual interest rates ranging from 1.5% to 4.5%.
Deposits	**₱276,876,218**		
Withdrawals	**(257,021,781)**		
Accounts receivable		**4,501,437**	These are salary loans granted to officers under fringe benefit program approved by BSP payable in either five or ten years.
Disburses of salary loan	**710,000**		
Collections	**(918,303)**		
Shareholders*			
Deposit liabilities		**₱210,493,859**	These are savings and demand maintained by shareholders with the Bank with annual interest rates ranging from 1.5% to 4.3%.
Deposits	**₱3,162,468,809**		
Withdrawals	**(3,157,680,617)**		
Accounts receivable		**1,004,915**	This amount represents the shareholders' share in expenses still payable to the Bank.
Share in expenses	**10,424,969**		
Collections	**(9,809,131)**		
Accounts Payable		**320,110**	This amount represents the Bank's share in expenses still payable to its shareholders.
Share in Expenses	**17,004,934**		
Remittances	**(22,991,186)**		

(Forward)

	December 31, 2015		
Category	**Amount/Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Other Related Parties**			
Deposit liabilities		**112,758,247**	These are savings and demand with annual interest rates ranging from 1.5% to 4.3%.
Deposits	**743,870,024**		
Withdrawals	**(724,943,626)**		
Accounts receivable		**20,545**	This amount represents other related parties' share in expenses still payable to the Bank.
Share in expenses	**17,135,516**		
Collections	**(17,763,418)**		
Accounts Payable		**1,071,073**	This amount represents the Bank's share in expenses still payable to its other related parties.
Share in expenses	**173,035,090**		
Remittances	**(173,994,186)**		
Retirement Plan			
Deposit liabilities		**156,396,362**	These are demand, savings, and special savings accounts with annual interest rates ranging from 1.5% to 4.3%.
Deposits	**347,323,206**		
Withdrawals	**(343,405,167)**		

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

	December 31, 2014		
Category	Amount/Volume	Outstanding Balance	Nature, Terms and Conditions
Key Management Personnel			
Deposit liabilities		₱21,015,074	These are demand and savings accounts with annual interest rates ranging from 1.5% to 4.5%.
Deposits	₱198,207,657		
Withdrawals	(191,071,798)		
Accounts receivable		4,709,740	These are salary loan granted to employees under fringe benefit program approved by BSP payable in either five or ten years.
Disburses of salary loan	5,240,000		
Collections	(530,260)		
Shareholders*			
Deposit liabilities		205,705,667	These are savings and demand maintained by shareholders to the Bank with annual interest rates ranging from 1.5% to 4.3%.
Deposits	4,113,371,485		
Withdrawals	(4,203,401,156)		
Accounts receivable		389,077	This amount represents the shareholders' share in expenses still payable to the Bank.
Share in expenses	18,656,369		
Collections	(18,267,292)		
Accounts Payable		6,306,362	This amount represents the Bank's share in expenses still payable to its shareholders.
Share in expenses	889,861,631		
Remittances	(896,167,992)		
Other Related Parties**			
Deposit liabilities		93,831,849	These are demand and savings with annual interest rates ranging from 1.5% to 4.3%.
Deposits	652,888,991		
Withdrawals	(609,759,856)		
Accounts receivable		648,447	This amount represents other related parties' share in expenses still payable to the Bank.
Share in expenses	2,842,909		
Collections	(2,194,462)		
Accounts Payable		2,030,169	This amount represents the Bank's share in expenses still payable to its other related parties.
Share in expenses	14,180,618		
Remittances	(16,116,151)		
Retirement Plan			
Deposit liabilities		152,478,323	Savings accounts with annual interest rates ranging from 1.5% to 6.0%.
Deposits	325,810,048		
Withdrawals	(338,749,434)		

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

Others

Other related party transactions of the Bank are as follows:

	2015	2014	Nature, Terms and Conditions
Statement of Financial Position			
Key management personnel			
Dividends paid	**₱28,893,893**	₱32,488,723	Relates to common and preference shares of the Bank held by key management personnel
Associate			
Other investments	**400,000**	20,000,000	Pertains to other investments of the Bank in RBI
Shareholders*			
Dividends paid	**64,514,335**	70,132,602	Pertains to dividends on common and preference shares of the Bank held buy its shareholders
Statement of Comprehensive Income			
Key management personnel			
Interest expense	**546,264**	280,912	Pertains to interest on demand and savings accounts with annual rates ranging from 1.5% to 4.5%
Associate			
Equity in net earnings	**36,760,807**	13,121,813	
Share in other comprehensive loss	**(9,742,074)**	3,764,808	Pertains to the Bank's share in net income and other comprehensive income of RBI.
Miscellaneous income	**176,400**	–	Pertains to management fee income for services to RBI regarding compliance tasks
Dividend received	**10,400,000**	–	Pertains to income received by the Bank from RBI as an associate
Shareholders*			
Occupancy	**15,117,251**	9,020,420	Certain establishments and transportation and IT equipment are being by shareholders leased to the Bank. The lease contracts have a three-year term with no escalation clause
Interest expense	**7,479,961**		Pertains to interest on savings accounts with annual rates ranging from 1.5% to 4.3%
Other related parties**			
Interest expense	**2,637,848**	1,835,422	Pertains to interest on savings accounts with annual rates ranging from 1.5% to 4.3%
Seminars and training	**60,870,824**	29,320,790	The Bank engaged CMDI for training and development of its members and employees (shown as part of 'Employee trainings' and 'Members training and development' and 'Seminars and meetings' in the statement of income.)
Information technology	**49,788,917**	962,894	Pertains to the CMIT's rendered services in relation to system maintenance agreement and upgrade of the Bank's core banking system (CBS).
Occupancy	**19,272,279**	–	Pertains to the rental of transportation and office equipment of the Bank to CMIT.
Miscellaneous expense	**10,000,000**	–	Pertains to the Bank's donation to CMDI
Retirement Plan			
Contributions	**75,867,516**	75,867,516	Pertains to the funded and formal noncontributory defined benefit retirement plan of the Bank that is handled by CARD MERP (see Note 19)
Interest expense	**5,255,524**	5,255,524	

**Include transactions with CARD EMPC, CARD MBA and CARD INC.*

***Include transactions with BotiCARD, CMIT, CMDI, CLFC, MLNI and CAMIA*

Transitioned branches from CARD, Inc. to the Bank were 16 and 6 in 2015 and 2014, respectively. The BOD passed a resolution for the transition of the branches from CARD, Inc. after receipt of approval from the BSP to establish additional microfinance-oriented branches on May 13, 2014 with 21 branches to be opened within 3 years from date of approval.

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

In the aggregate, loans to DOSRI generally should not exceed total equity or 15.0% of total loan portfolio, whichever is lower. As at December 31, 2015 and 2014, the Bank is in compliance with the regulatory requirements.

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

As at December 31, 2015 and 2014, DOSRI accounts under the existing regulations are shown in the table below (as reported to BSP):

	2015	2014
Total outstanding DOSRI accounts	**₱678,723**	₱68,450
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**0.0%**	0.0%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	**0.0%**	0.0%
Percent of DOSRI accounts to total loans	**0.0%**	0.0%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**0.0%**	0.0%
Percent of past due DOSRI accounts to total DOSRI accounts	**0.0%**	0.0%
Percent of nonaccruing DOSRI accounts to total DOSRI accounts	**0.0%**	0.0%

23. **Notes to Statements of Cash Flows**

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

	2015	2014
Noncash operating activities:		
Net foreign currency exchange loss	**₱183,224**	₱104,500
Noncash investing activities:		
Unpaid subscription to shares of an associate (Notes 10 and 15)	**29,600,000**	–
Unpaid acquisition of software costs (Note 12)	**19,737,232**	–
Reclassification from other investment to investment in an associate (Note 10)	**19,600,000**	13,000,000
Reclassification of property and equipment items	–	1,910,000
Noncash financing activities:		
Application of cash dividends as collection of subscription receivable (Note 17)	**17,079,800**	–

24. Approval for the Release of Financial Statements

The accompanying financial statements of the Bank were approved and authorized for issue by the BOD on March 19, 2016.

25. Supplementary Information Required under Revenue Regulations 15-2010

The components of ‘Taxes and licenses’ recognized in the statement of income for the year ended December 31, 2015, follow:

Gross receipt tax (GRT)	₱121,903,729
Business permits and licenses	6,680,303
Documentary stamp (DST)	715,094
Real property tax	905,563
Others	971,489
	₱131,176,178

GRT in 2015 consists of taxes on:

Interest income on loans	₱121,445,475
Other income	458,254
	₱121,903,729

DST in 2015 consists of taxes on special savings account.

Withholding taxes in 2015 are categorized into:

Paid:		
Withholding taxes on compensation and benefits	₱23,750,243	
Final withholding tax on interest expense and dividends declared	7,855,092	
Expanded withholding tax	10,845,532	
		42,450,867
Accrued:		
Withholding taxes on compensation and benefits		2,622,145
Final withholding tax on interest expense and dividends declared		1,959,412
Expanded withholding tax		6,658,547
		11,240,104
		₱53,690,971

<u>Tax Assessment and Cases</u>

The Bank has no outstanding tax assessment and legal cases filed in courts as at December 31, 2015.

20 M.L. Quezon St., City Subdivision,
San Pablo City, Laguna
049-562-4309/ 049-562-0009
www.cardbankph.com
CARD Mutually Reinforcing Institutions

CARD BANK INC. 1997

CARD MRI
CARD Mutually Reinforcing Institutions