

CARD BANK ANNUAL REPORT  
twenty nineteen

2019



F o s t e r i n g  
C o l l a b o r a t i o n &  
C o n v e r g e n c e :  
Amplified Presence in **HIGZ**  
high impact growth zones



# CONTENTS

## INTRODUCTION

- 04 About the Cover
- 05 Vision and Mission
- 06 Message from the  
Chairperson

## ACCOMPLISHMENTS

- 08 From the Desk of the  
President and CEO
- 13 Client's Story
- 14 2019 in Numbers
- 15 Financial Highlights
- 16 This is our 2019

## CORPORATE GOVERNANCE

- 18 Mission, Vision, and Objectives
- 22 Corporate Governance
- 40 Risk Management Framework
- 48 Data Privacy Statement
- 66 Corporate Social Responsibility

## PEOPLE BEHIND CARD BANK

- 70 Management Committee
- 74 Board of Directors
- 76 Areas of Coverage
- 77 Institutional Partnership

## AUDITED FINANCIAL STATEMENTS

# About the Cover



For over thirty years, CARD MRI has touched countless lives throughout the country through its integrated microfinance and social development services. We are committed to our mission of fostering social change and eradicating poverty in the Philippines. This 2019, we found ourselves at another crossroad where we chose a new direction that we shall take for the next ten years.

Our covers serve to symbolically convey both the central theme and our approach towards this new strategic direction. We visualize these concepts in two ways, through the use of hands as central motifs. When the main CARD MRI annual report is paired together with our institutional annual reports, the outstretched hands prominently displayed on the covers evoke the collaborative and converging efforts between our mutually reinforcing institutions. Meanwhile, the covers when viewed individually visualize the ripples of change created by CARD MRI's impact, especially in our newly identified high-impact growth zones (HIGZones).



# 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.

**WE ARE IN THE BUSINESS  
OF POVERTY ERADICATION**



# INNOVATION AND COLLABORATION IN EMPOWERING COMMUNITIES

CARD Bank always believes that everyone deserves the best. That is why we never stop innovating and producing the best products and services. The latest transition to digitization is one of the few things we offer to our dear clients and members; this is one way of saying that we never get tired of improving just to give them a better life. In our desire to eradicate poverty, we have gone through tough times and challenging situations, but with our patience, hard work, and unity, our institution remains positive and focused in achieving our goal.

The institution continually provides improved services to its clients by establishing partnerships. For bills payment, we are now partners with Bayad Center which gives our clients ease in paying their monthly bills. The continuous efficiency of services of CARD Bank will give our clients more time to handle their businesses which ultimately leads to success. We believe that we empower people and our clients when they can use and maximize their time in being productive with their lives. At CARD Bank, we believe that time is a valuable asset to everyone which needs to be used efficiently. With the products and services we offer, we are assured that our clients are more confident with the use of their time and resources.



"CARD Bank will constantly find solutions to address problems, and we will be committed to doing so in the coming years. We will continue opening our channels of communication to effectively reach out to our clients and for them to feel that we are with them every step of the way."

CARD Bank will constantly find solutions to address problems, and we will be committed to doing so in the coming years. We will continue opening our channels of communication to effectively reach out to our clients and for them to feel that we are with them every step of the way.

One of these is through our unified collaboration with the whole CARD MRI organization, institutions and even individuals who are sharing the same vision of freeing our country from the cruel chains of poverty.

In the coming years, we will further strengthen our connection with our clients and our communities especially in the high-impact growth zones (HIGZones) which we see will create ripple effects to the nearby provinces. There will be no stopping us. We may go through dents and rough roads, but for as long as we have our eyes on the goal of eradicating poverty, we will overcome. We will dedicate our hard work to our clients, and we will share to the best of our knowledge all our challenges to other institutions.

We faced challenges in the past years, and though we have a clear vision for the coming years, we are still preparing ourselves for the unpredictable circumstances. But as long as we are united as an institution, as long as we see communities being empowered one at a time, we will continue to push forward to see a nation with no one left behind.



"In the coming years, we will further strengthen our connection with our clients and our communities especially in the high-impact growth zones (HIGZones) which we see will create ripple effects to the nearby provinces. "

*Jaime Alip*  
Dr. Jaime Aristotle B. Alip  
Chairperson

# JOURNEY TOWARDS A STRONGER INSTITUTION

**Marivic M. Austria**  
*President and CEO*

Empowering the community and its people was and will never be an easy feat. CARD Bank reflected on the previous years and tried to piece all together all that is lacking to create a stronger institution for its communities and clients.

Driven by our passion towards excellence and our desire to eradicate poverty, we are consistently working hard every step of the way. Though we are certain that we are heading to the right direction, we still acknowledge the difficulties of our journey.

Though this may be the case, we remained patient especially in this period of transition. Since we started with the process of digitization, we have faced a great deal of challenges in terms of the migration of all branches.

Two new branches were opened in Socorro, Oriental Mindoro and Danao City, Cebu having CARD Bank a total of 96 branches nationwide. The process of migrating four to six branches every month from March to September was not as easy as we thought it would be. But in all these undertakings, there was not one challenge we did not overcome. We exuded persistence and proper coordination with IT and the whole operations team. Our institution is very grateful for the unity we exhibited. We felt that no matter how tired we were, we remained positive.

Additionally, in the midst of a chaotic migration schedule, and that the transition period was simultaneous with our operation schedule, our staff still managed to focus on the process of recruitment. By the end of 2019, we were able to serve 3,252,465 clients nationwide because of the unity which put everything in its rightful place.

We have also launched and established konek2CARD community and remittance services which we introduced a few years back. Year 2019 was special when it came to the CARD Sulit Padala. Slowly but



surely, our clients started to get familiar with the services.

In 2019, the remittance kiosk started its weekend operations which helped us generate the numbers. With this success, we are certain that every unit functioned according to their assigned tasks.

We at CARD Bank are grateful for all the challenges that we faced and we appreciate the exerted efforts from the staff up to the top management level. Because of this, we know that CARD MRI was not shaken and that we are supported and will not be taken for granted. We also learned that if there is perseverance and cooperation among the staff, the output will come naturally. We have yet to achieve the desired outcome, but at least we are already guided for the coming years.



## The 10-20-80 Strategic Direction

Continuing the momentum of our 5-8-40 campaign, CARD MRI is aiming to increase its outreach to 20 million clients and provide insurance to 80 million individuals by 2030.

## High-Impact Growth Zones (HIGZones)

Various locations were identified by CARD MRI as areas where it could intensify and focus its resources so that the impact of its integrated microfinance and social development services are felt by our clients and communities. Through the HIGZone strategy, CARD MRI aims to accelerate its growth requirement, address the pressing issues that affect its clients and stakeholders, and foster a simple and “genuine” process and synergy throughout the MRI. The areas identified are Laguna, Quezon, Oriental and Occidental Mindoro, Marinduque, Samar and Leyte, Bicol Region, Davao del Sur and del Norte, and Sulu.

### Transition to Digitization

For 2019, we have migrated 15 branches to the Core Banking System (CBS). We have also set up two (2) konek2CARD communities in two (2) barangays in San Pablo City: Barangay Santisimo and Barangay San Isidro, where clients have access to banking transactions right in their communities without needing to travel to bank branches. We prioritized the set up of remote barangay – Santisimo – for ease of transaction of clients using our mobile application or through the agent.

Before launching the digital communities, 15 centers were being handled by three agents in this barangay, but now these centers are being handled by only one Account Officer (AO) which equates to efficiency. Moreover, there were additional 23 centers from Barangay San Isidro that have benefited from the establishment of community and remittance kiosks. We have also launched a remittance kiosk in Paulino

that is open for service from 7am-7pm daily, in order to continuously serve our clients' remittance requirements when banks are closed. One can only imagine how busy our staff, but we are thankful that they can still assist with the process of digitization.

The implementation of CBS does not only mean efficient services for the clients. This also means that our staff can spend more time with their families as they were relieved from working beyond office hours. To summarize, we have set up the track; digitization is on its way. We have started to systemize everything in 2019 and have set up a more conducive working environment for our CBS staff. Moreover, in connection with the CBS, we already have account officers using mobile tablets in their center visits. This year was really a year of converting into digital communities. The aim of giving our clients ease with their transactions was communicated to us; according to them, using their phones for application



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instead of filling out slip forms is much better.

Before 2019 ends, we have partnered with ASENSO in white listing clients that could apply for loan through a chatbot platform. This could be one of our best accomplishments in 2019 which we could continue for the coming year. Overall, we aim to be efficient in delivering services to our clients.

We have also established a partnership with Bayad Center for bills payment which gave our clients an easier way to do their transaction. We also acknowledge the important partnerships with the support of CARD MRI institutions.

### **Unfazed amidst the Challenges**

One of the challenges when it comes to our operations is the seemingly endless typhoon visits in our country. We also have a series of tremors which happened in Mindanao. This was worrisome because we have huge operations in the southern

part of the country. But we are part of CARD MRI. We overcome these challenges through the CARD MRI Disaster Management Committee and the immediate response of the CARD MRI staff.

The typhoon which hit Bicol also tested our CBS as we experienced high-volume transactions. But we remained unfazed: we continued with the transactions while relocating the whole five branches to Naga. We adapted, innovated, and brought our own workstation. With regards to the problem with high-volume transactions, through close coordination with CMIT and FDS Asya, we set up performance tuning and improved the capacity of the system. However, in the upcoming year, we are still in the process of stabilizing the performance tuning.

### **Finding Solutions in a Field of Hays**

This year is really a test of patience for everyone in CARD Bank. Since the beginning of this journey, we already claim its success. We have also learned to address issues

one at a time and have open communication with each other. Through this, we always find solutions to our work problems. When we show our weakness, our vulnerabilities, that we are rattled by problems, we will not be able to systematize what needs to be done. We at CARD Bank, along with its almost 6,000 employees, take time to resolve every issue we have to go through.

### **Strengthening Connectivity**

The remaining 30 branches that we still need to migrate have problems with internet connection. Once the performance capacity has been resolved, the process will be much easier. We also need to look for a new partner for improved internet connection because we are and will be dependent on it in the coming years. If we have stable internet connection, we will be able to process the nonstop migration.

We are also exploring the possibility of having subsidized and sponsored data so that more

areas and more people can use our konek2CARD mobile app. In 2020, we are hoping to get a partner that will provide this at a low cost so we can offer the services to members at a cheaper cost if not, free. We also want for members and communities to access new CARD applications anytime, anywhere, without any hassle.

CARD Bank is also looking forward that the target loan release will have a faster application through Messenger with ASENSO partnership. We are targeting a total of 20,000 borrowers that will apply for loans through the ASENSO system where clients can apply for loans through chatbots. We are also hoping to open three to five digital communities and remittance kiosks for more access. We are hoping that by the second half of 2020, when clients apply for a loan, it will be automatically released and credited to their accounts without manual intervention. Our institution is also looking forward to CARD Sulit Padala to be known not only by our clients but also the non-members because we can take pride in its low remittance fee which anyone can enjoy.

We are also pushing for the attainment of 3.8 million clients

as part of the 5-8-40 campaign. We plan to provide all the services to all 3.8 million clients through digital mode while we are still in the process of building out efficiency services. We are also hopeful that we could still provide continuous services to inactive members who are savers. We want to focus on activating their status so that they can restore their membership.

### **The Digital Presence**

The plans we have for 2020 are specially focused on High Impact Growth Zones (HIGZones) like the construction of remittance kiosks, presence of additional digital communities in San Pablo, and other upcoming projects. We are prioritizing the areas within the HIGZones when it comes to holding savings caravans and setting up digital communities. It is also important that we foster collaboration with other CARD MRI financial institutions; we must always see to it that we are working harmoniously so that the delivery of services is synchronized with each other.

The mission to do the majority of our transaction and support are within the HIGZones like the loan products and digitization project which are aligned to our institution. We try our best to

coordinate everything when it comes to digitization so that we may have a smooth transition. We also try our best to share our hardships and experiences through training so that it will never happen again with other institutions. If others need resources, we can gladly share it working as one for new projects and digitization.

### **Sharing our experience**

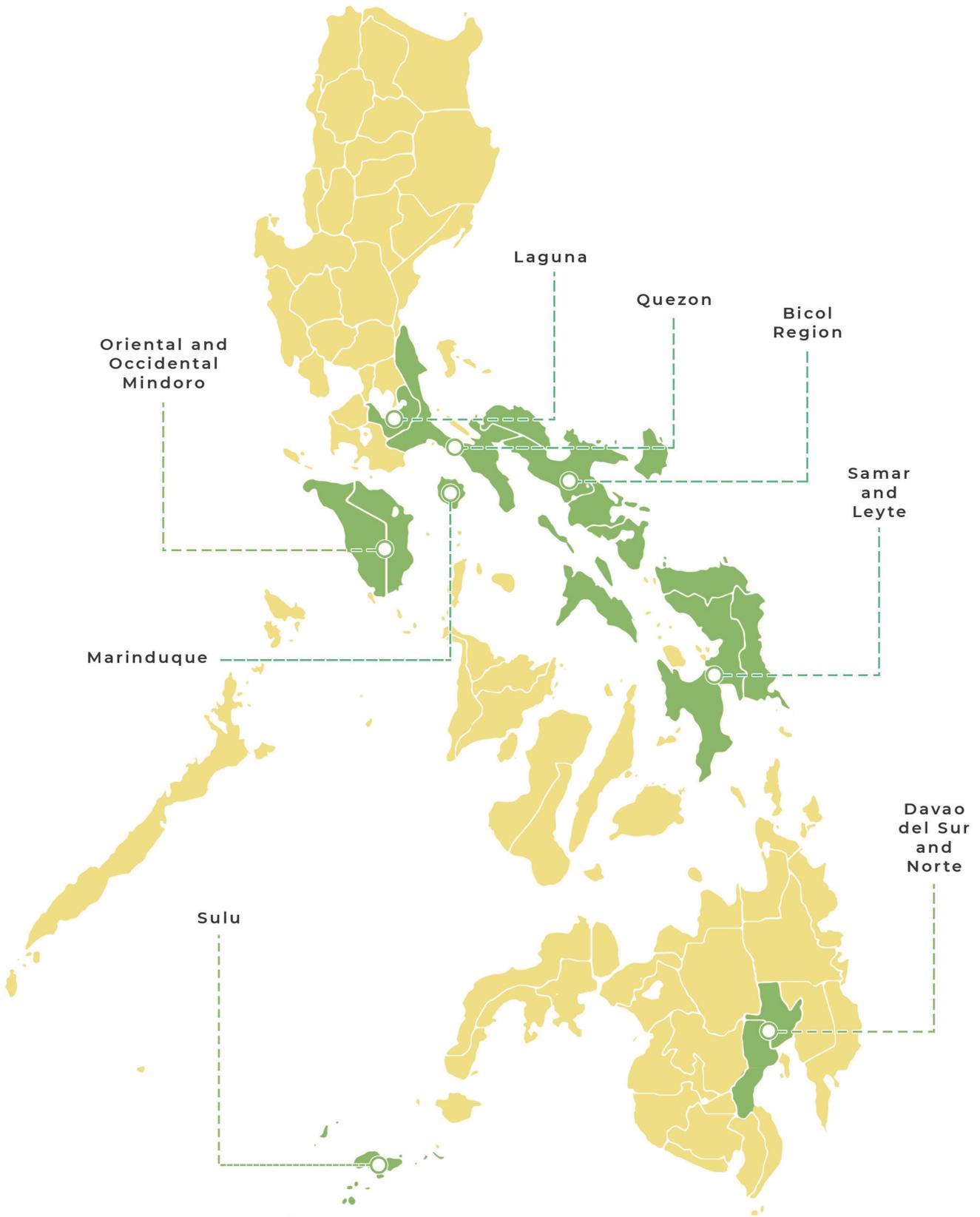
We are hoping that by 2020 we will be able to hit our target of 3.8 million clients so that we may be ready for the 10-20-80 campaign. Everyday, we are inspired to push through with the digitization because it is an efficient way for our staff in recruiting new clients, and to lessen paper works. More importantly, we look forward to cooperating more among other institutions because after all, our mindset is for CARD MRI.

Because we are the ones who initiated projects like CBS, konek2CARD, and the mobile loan application, it is important that we share our experiences to other CARD institutions that will soon take the path we have taken. As the trailblazer when it comes to digital initiatives, we are ready to face more challenges so that the next institutions to join us in this journey will have an easier run.



# HIGZ

high impact growth zones



# RISING ABOVE CHALLENGES

Dolores “Dolly” Maranan  
CARD Bank client from  
Barangay Labuin, Pila, Laguna.



Starting a business is not an easy task. It entails hard work, determination, and perseverance. Some may easily give up and just roll back down. But there are those who are determined to see the view from the top – those who, no matter how hard life gets, never let challenges kick them down.

This is the story of Dolores “Dolly” Maranan of Barangay Labuin in Pila, Laguna. She tried different loan products from other microfinance institutions. She initially opened a carinderia business but had to stop due to a big problem their family faced. That time, she stopped availing loans because of difficulty in the group payment system with another microfinance.

Dolly is a testimony that no matter how hard life can be, if you are willing, every opportunity is a chance for you to rise above. Her inspiration is her daughter’s dream of completing her studies. This is when Dolly heard about CARD Bank.

It surely was an opportunity she wanted to grab tightly so she started looking for the location of the center. She started with a loan

of PhP5,000 that eventually increased through time. Since her business was established in a good location, income started coming in. This is when she decided to apply for a loan of PhP150,000. CARD Bank always puts its confidence to its clients that is why Dolly was able to establish a grocery store. Because of her hard work and perseverance, she was able to purchase two jeepneys which support two families. Now, Dolly is sharing to everyone the ultimate lesson she learned from growing a business: If you have a business, love your customers because they are your primary success and they are the ones who give you livelihood. Without them, your business will and can never exist.

Indeed, success from business is hard to attain. But it will be harder if you fail to choose the right microfinance product that will match your needs. All thanks to CARD Bank, the PhP150,000 that Dolly started with has grown to millions. May this story be an inspiration to us all to persevere and to never be afraid of looking for what’s right for your success.



# Financial Highlights

	Years Ended	December 31
Minimum Required Data	2019	2018
<b>Profitability (PhP)</b>		
Total Net Interest Income	5,373,360,444	4,366,825,494
Total Non-Interest Income	15,728,545	11,394,087
Total Non-Interest Expenses	3,661,346,131	2,811,328,728
<b>Pre-provision profit (PhP)</b>		
Allowance for credit losses	194,222,326	(35,123,428)
Net Income	1,357,043,825	1,242,005,087
<b>Selected Balance Sheet Data (PhP)</b>		
Liquid Assets	3,208,745,942	1,953,422,463
Gross Loans	11,738,579,194	10,299,688,427
Total Assets	18,069,965,432	15,134,225,221
Deposits	11,998,457,638	10,237,599,146
Total Equity	4,283,381,103	3,693,198,201
<b>Selected Ratios</b>		
Return on Equity	<b>34.0%</b>	<b>38.8%</b>
Return on Assets	<b>8.2%</b>	<b>9.5%</b>
<b>Selected Balance Sheet Data (PhP)</b>		
Cash dividends declared (Php)	790,000,000	642,484,988
<b>Headcount</b>		
Officers	376	329
Staff	5,601	4,882

<b>Capital Structure and Capital Adequacy</b>		
<b>Tier 1 Capital</b>		
Paid up common stock	1,000,000,000	1,000,000,000
Retained earnings	886,514,638	382,858,886
Undivided profits	1,458,621,736	1,131,404,125
Deferred tax asset, net of deferred tax liability	(17,875,795)	35,569,213
<b>Total Core Tier 1 Capital</b>	<b>3,327,260,580</b>	<b>2,478,693,799</b>
<b>Tier 2 Capital</b>		
Paid-up perpetual and cumulative preferred stock	1,000,000,000	1,000,000,000
General loan loss provision	68,709,462	117,120,579
<b>Total Core Tier 2 Capital</b>	<b>1,068,709,462</b>	<b>1,117,120,579</b>
Gross Qualifying Capital	4,395,970,042	3,595,814,378
Deductions from Tier 1 and Tier 2 capital;	(449,383,472)	307,808,566
<b>TOTAL QUALIFYING CAPITAL</b>	<b>3,946,586,570</b>	<b>3,288,005,811</b>
Capital Requirements for credit risk;	14,422,216,026	11,698,772,784
Capital Requirements for market risk;	-	-
Capital Requirements for operational risk; and	5,259,195,137	4,240,371,384
<b>Total and Tier 1 Capital Adequacy Ratio</b>	<b>20.05%</b>	<b>20.63%</b>



This is our 2019



WE ARE CARD BANK



# MISSION, VISION, AND OBJECTIVES

## MISSION

In support of the CARD MRI's mission statement as a group of mutually reinforcing institutions that is dedicated to ultimately empower the poor by upholding the core values of competence, family spirit, integrity, simplicity, humility, excellence, and stewardship, **CARD Bank envisions building a sustainable financial institution owned, managed, and controlled by the landless rural women by providing continued access to financial services to an expanding client base by organizing and empowering landless rural women and by instilling the values of discipline, hard work, and saving in an atmosphere of mutual respect.**

## VISION

CARD Bank is committed to:

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

## INSTITUTIONAL OBJECTIVES

- To provide banking services especially designed for landless rural workers by bringing bank services to community sites and accommodating the least financial transactions within their affordability;
- To provide non-collateralized loans to non-bankable but viable projects; and
- To ensure that eight (8) million poorest Filipinos are provided with financial services by the year 2020 together with the CARD MRI Group.

## CORE VALUES AND PRINCIPLES

**COMPETENCE.** Upholding that the staff are the primary asset and driving force of the institution, CARD Bank values the continuing development of their competence and capability through instilling the value of integrity, honesty, transparency, discipline, hard work, and excellence leading to the empowerment of its staff and members in an atmosphere of mutual respect.

**FAMILY SPIRIT.** CARD Bank, guided by its genuine love for the poor, builds and nurture an atmosphere of family spirit through mutual trust, demonstrating commitment and dedication and sharing of learning experiences among staff and members.

**INTEGRITY.** CARD Bank values high transparency,

ethics, morality, truthfulness, and sincerity in all its undertakings, programs, and activities. The Bank honors commitments to clients, partners, and stakeholders by way of providing faithfully what was agreed upon or promised. Everyone is responsible and accountable for the performance of its institution, officers, and individual staff.

**SIMPLICITY.** As CARD Bank dedicates its life for the ultimate empowerment of the poor, CARD Bank opts to live a simple life in words and in deeds at all times.

**HUMILITY.** CARD Bank recognizes the value of “kababaang loob” towards achieving the CARD MRI’s overarching goal of poverty eradication with a heart. As such, all staff are enjoined and encouraged to celebrate the accomplishment and successes of CARD Bank at heart and not boast them publicly. All staff remain to have strong faith, determined, and committed to work passionately and warmly towards achieving the CARD MRI vision. Please provide definition.

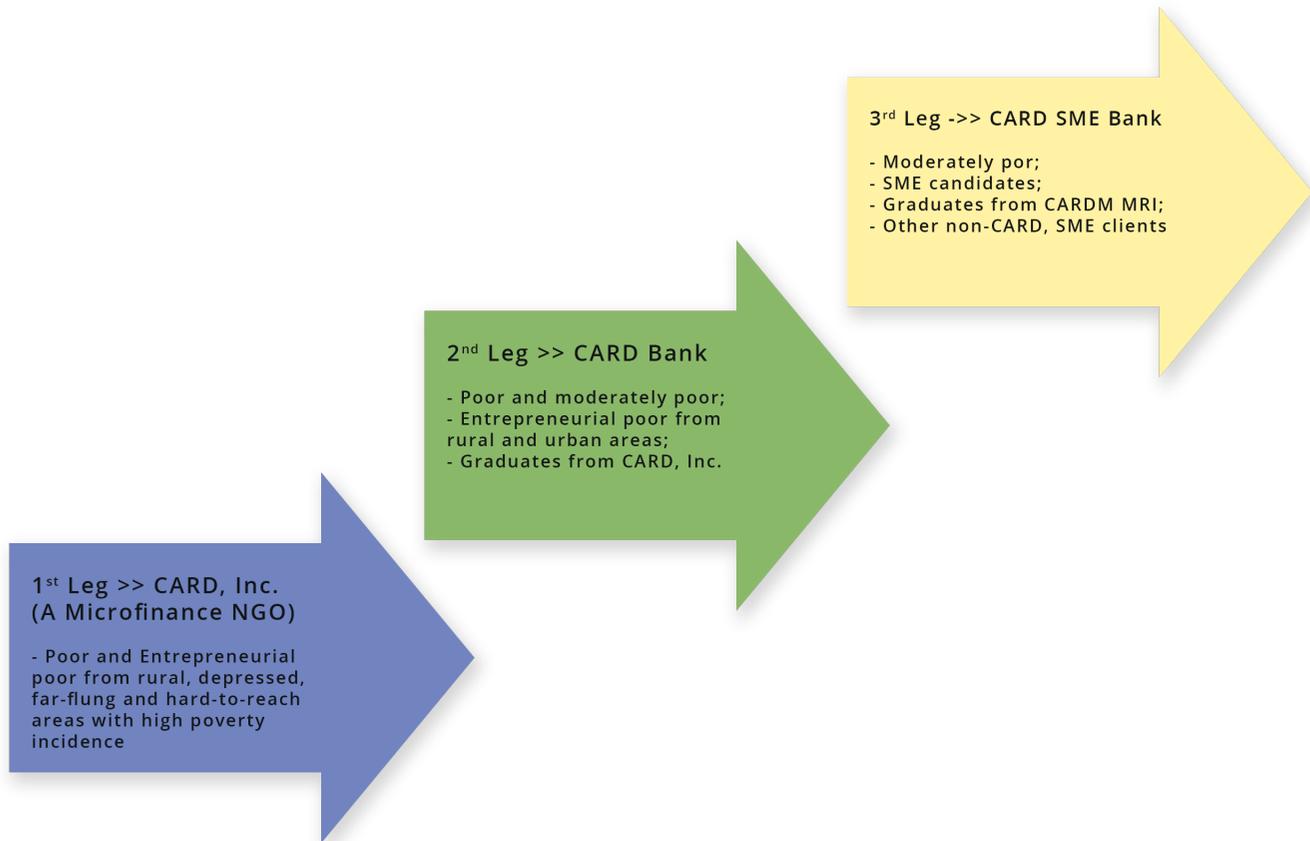
**EXCELLENCE.** CARD Bank’s pioneering effort is rooted in excellence drawn from the Board and staff’s confidence to create, innovate, inspire, and continuously challenge the existing paradigm to ultimately empower the poor.

**STEWARDSHIP.** The Board and staff of CARD Bank live as stewards of its vision and builds on its strengths, distinctive, and uniqueness of its being through a framework of good governance.



## TRANSITIONING OF GOOD AND PRIME CLIENT OF CARD, INC. (A MICROFINANCE NGO)

The CARD Bank's target market remains closely intertwined with CARD, Inc. (A Microfinance NGO) and CARD SME Bank being all member institutions of CARD MRI. Hence, target market of the entire CARD MRI can be described in a ladderized and three-legged approach as follows:



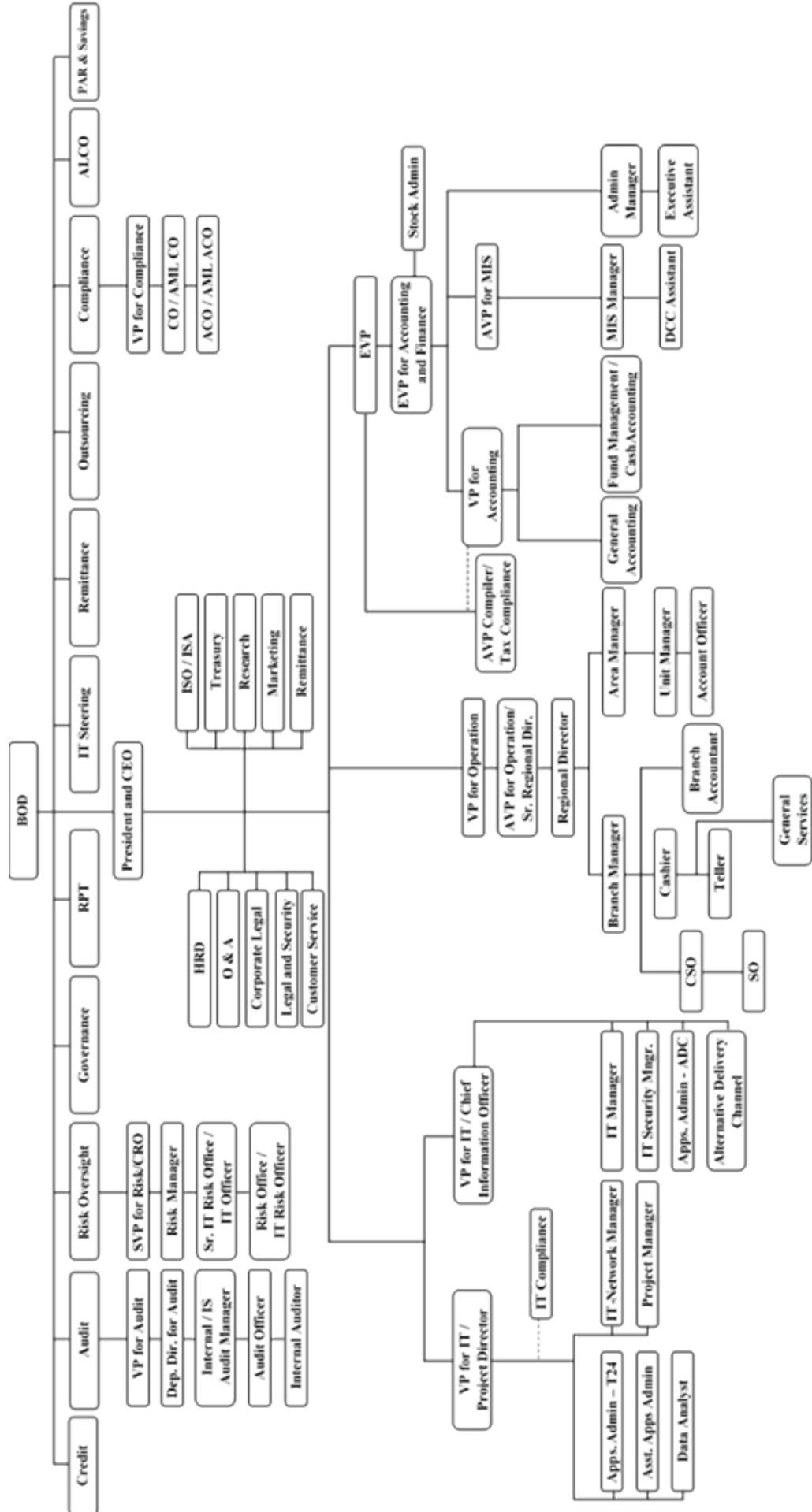
As one of the members of CARD MRI group and family, CARD Bank's target market is also synchronized and deeply thought about to ensure that all the member-institutions reinforced each other in the attainment of the mission and vision of ultimately empowering the poor by upholding the core values of competence, family spirit, integrity, stewardship, humility, culture of excellence, and simplicity.

As a methodology, transitioning of matured CARD, Inc. clients/borrowers to CARD Bank will be its mainstream. Transitioning of clients means that the CARD, Inc. clients with good/prime credit standing may avail of the microfinance, small and medium (MSME) facility/services from CARD Bank resulting in more loans and deposit products to borrowers/members. This business strategy further encourages the borrowers/members to comply with the repayment discipline required for them to qualify in the transitioning. Upon transitioning of

the clients, clients are continuously provided with financial and non-financial services by CARD Bank, leading to enriching and empowering them through continuous access to financial resources as well as through training and supervision by the CARD Bank staff. CARD Bank completes the loop of developing and empowering the poor to become experts in small and medium enterprises who do not just generate profits for the family, but also employment opportunities for their communities.

CARD Bank's overall strategy involves further developing the clients to the next level. With this, CARD Bank does not stop at the provision of small microfinance loans to awaken and nurture the entrepreneurial skills of the microfinance clients, but by also providing them with bigger loans and other flexible products and services that will continuously nurture their business skills and acumen in managing various individual or family enterprises.

# CARD BANK ORGANIZATIONAL STRUCTURE



# CORPORATE GOVERNANCE



CARD Bank, Inc.'s corporate governance practice adheres to seven (7) core values: competence, family spirit, integrity, simplicity, humility, excellence, and stewardship. The Bank's exemplary corporate governance is anchored by its strong corporate culture and values. It is guided with a clearly defined governance framework promoting transparency, fairness, and accountability.

The Bank advocates financial inclusivity among its members and clients. It assures that all board of directors, officers, and staff are aligned with the interest of its shareholders. The Bank believes that corporate governance is a necessary component of what constitute sound strategic business management and undertake every effort necessary to create awareness within the organization. It works closely with the regulators to ensure that the internal governance standards are being met by the Bank.

## **BOARD OF DIRECTORS**

Observance of the principles of good corporate governance starts with the board of directors. It is primarily responsible for fostering long-term success of the bank and assuring sustained competitiveness in a manner consistent with its fiduciary responsibility.

The Board is responsible for approving and overseeing the implementation of the bank's strategic objectives, risk strategy, corporate governance, and corporate values. It is also responsible for overseeing the performance of senior management in so far as managing the day to day affairs of the bank. It establishes a code of conduct and ethical standards in the bank and institutionalizes a system that will allow reporting of concerns or violations to an appropriate body. The board conducts itself with utmost honesty and integrity in the discharge of its duties, functions and responsibilities.

## **COMPOSITION**

The Board of Directors is composed of nine (9) members pursuant to bank's Articles of Incorporation and by-laws, where three (3) of whom are independent directors. All are professionals from various field of expertise such as banking, law, accounting and finance, bank regulation, information technology, microfinance, and social development.

## **QUALIFICATIONS OF THE BOARD OF DIRECTORS**

### **Directors**

The board of directors must be at least twenty-five (25) years of age at the time of his election or appointment. They must be a college graduate or have at least five (5) years of experience in related business. The Board should have at least attended a special seminar on corporate governance for the board of directors conducted or accredited by the BSP. They must be fit and proper for the position of a director of the bank considering the following: integrity/probity, physical/mental fitness, competence, relevant education/financial literacy/training, diligence and knowledge/experience.

### **Independent Directors**

The independent directors must and have not been an officer or employee of the bank, its subsidiaries or affiliates, or related interest during the past three (3) years counted from the date of the board's election. They are not a director or officer of the related companies of the institution's majority stockholders. They are not stockholders with shares of stock sufficient to elect one seat on the board of directors of the institution, or any of its related companies or its majority corporate stockholders. They should not have a relative within the fourth degree of consanguinity or affinity, legitimate, or common-law of any director, officer, or stockholder holding shares of stock sufficient to elect one seat on the board of the bank or any of its related companies. They are not acting as a nominee or representative of any director or substantial shareholder of the bank, any of its related companies or any of its substantial shareholders. They are not retained as a professional adviser, consultant, agent, or counsel of the institution, any of its related companies or any of its substantial shareholders, either in his capacity or through his firm. The independent director is also independent of management and free from any business or other relationship, and has not engaged and does not engage in any transaction with the institution or with any of its related companies or

with other persons or through a firm of which, he is a partner or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arm's length and could not materially interfere with or influence the exercise of his judgment. An independent director may only serve as such for a maximum of the cumulative term of nine (9) years. After which, the independent director shall be perpetually barred from serving as an independent director of the bank but may continue to serve as a regular director.

## **CHAIRMAN OF THE BOARD OF DIRECTORS**

The Chairman of the Board of Directors shall provide leadership in the board of directors. The chairman's primary role is to ensure that the board is effective in its task of setting and implementing the Bank's direction and strategy. He shall ensure that a good relationship and trust within the members of the board of directors shall be maintained. The Chairman of the Board shall:

- take the chair at general meetings and board meetings;
- ensure that the meeting agenda focuses on strategic matters including discussion on risk appetites, and key governance concerns;
- ensure a sound decision making process;
- encourage and promote critical discussion;
- ensure that dissenting views can be expressed and discussed within the decision-making process; ensure that members of the board of directors receives accurate, timely, and relevant information;
- ensure the conduct of proper orientation for first time directors and provide training opportunities for all directors; and
- ensure the conduct of performance evaluation of the board of directors at least once a year.

There are nine (9) Board of Directors elected dated March 16, 2019; three (3) of whom are independent directors.

NAME OF DIRECTOR	Type of Directorship	No. of Years as Director	Percentage of Shares	Board Meeting's Attendance			
				Mar '18 - Feb 2019		Jan - Dec 2019	
Dr. Jamie Aristotle B. Alip	Non-Executive	22 Years	12.77%	12/12	100%	12/12	100%
Dr. Dolores M. Torres	Non-Executive	22 Years	11.11%	12/12	100%	12/12	100%
Ms. Flordeliza L. Sarmiento	Non-Executive	3 Years	2.79%	12/12	100%	12/12	100%
Ms. Lorenza DT. Bañez	Executive	22 Years	10.06%	11/12	92%	12/12	100%
Ms. Marivic M. Austria	Executive	4 Years	1.02%	12/12	100%	12/12	100%
Ms. Ma. Luisa P. Cadaing	Non-Executive	16 Years	1.38%	11/12	92%	12/12	100%
Dr. Gilberto M. Llanto*	Independent	16 Years	0.81%	9/12	75%	8/12	67%
Ms. Mercedita G. Medequiso	Independent	4 Years	0%	11/12	92%	12/12	100%
Ms. Malvarosa P. Perote	Independent	2 Year	0%	11/12	92%	12/12	100%

## BOARD QUALIFICATIONS

NAME	AGE & NATIONALITY	DATE ELECTED	SHARES HELD	QUALIFICATIONS												
Dr. Jaime Aristotle B. Alip <i>Chairman of the Board</i>	62, Filipino	March 16, 2019	1,276,677 (Direct)	<p>With more than 30 years of experience and expertise in the field of microfinance, banking, micro-insurance and related fields.</p> <p><b>Other Current Directorship and Officership:</b></p> <table border="1"> <thead> <tr> <th>Institution</th> <th>Position</th> </tr> </thead> <tbody> <tr> <td>CARD SME Bank</td> <td>Chairman/Director</td> </tr> <tr> <td>CMDI</td> <td>Chairman/Director</td> </tr> <tr> <td>ICMIF</td> <td>Director</td> </tr> <tr> <td>ICMIF Foundation</td> <td>Chairman/Trustee</td> </tr> <tr> <td>IGNITE Foundation</td> <td>Trustee</td> </tr> </tbody> </table> <p><b>Educational Attainment:</b> BS Agriculture Major in Agricultural Economics, MS in Professional Studies, PhD in Organization Development, OPM Program in Harvard Business School.</p> <p><b>BSP and other Trainings Attended:</b> Corporate Governance for Board of Directors, Risk Management Seminar, Briefing on Updated AML Rules and Regulations, Exposure in MABS Program, Exposure in SME in BRAC Bank, Grameen Bank, ASA, Seminar in SME Banking, IT Governance Seminar</p>	Institution	Position	CARD SME Bank	Chairman/Director	CMDI	Chairman/Director	ICMIF	Director	ICMIF Foundation	Chairman/Trustee	IGNITE Foundation	Trustee
Institution	Position															
CARD SME Bank	Chairman/Director															
CMDI	Chairman/Director															
ICMIF	Director															
ICMIF Foundation	Chairman/Trustee															
IGNITE Foundation	Trustee															

NAME	AGE & NATIONALITY	DATE ELECTED	SHARES HELD	QUALIFICATIONS
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Dr. Dolores M. Torres  
*Vice-Chairperson for Management and External Affairs*

64,  
Filipino

March 16,  
2019

1,111,262  
(Direct)

With more than 30 years of experience and expertise in the field of microfinance, banking, micro-insurance and related fields.

**Other Current Directorship and Officership:**

Institution	Position
CARD, Inc. (A Microfinance NGO)	Chairperson/ Trustee
CMDI	Director

**Educational Attainment:**

Bachelor of Science in Commerce major in Accountancy, MS in Community Development, Global Excellence in Management, Microfinance Training at Boulder Colorado, Executive MBA at AIM, Key Executive Management Course at Harvard Business School, PhD in Organization Development.

**BSP and other Trainings Attended:**

Corporate Governance for Board of Directors, Risk Management Seminar, Microfinance Training, Basic Rural Banking Course, Exposure Training in Savings Mobilization, Grameen and ASA Training, Basic and Advance Microfinance Training, Appreciative Inquiry at University of USA, ITIL Foundation Certificate in IT Service Management, ITIL Intermediate Certificate in Service Strategy, Succession Planning: Developing Leaders from Within, Risk Management Excellence in Microfinance, IT Governance Seminar, Anti-Money Laundering/ Combating the Financing of Terrorism

Ms. Flordeliza L. Sarmiento  
*Vice-Chairperson for Administration*

57,  
Filipino

March 16,  
2019

278,696  
(Direct)

With more than 30 years of experience in microfinance, banking, and other related fields.

**Other Current Directorship and Officership:**

Institution	Position
CARD, Inc. (A Microfinance NGO)	Trustee/President
CARD SME Bank	Director
CARD MRI Rizal Bank	Chairman/Director
CARD-BDSFI	Trustee
CMDI	Director/President
CARD MRI Holdings Inc.	Director
FDS Asya Pte. Ltd.	Director

**Educational Attainment:**

BS in Agriculture, Master's Degree - MBA, Executive MBA, and Advanced Management Program.

**BSP and other trainings attended:**

Financial Inclusion Workshop, Updated Guidelines on Sound Credit Risk Management, Succession Planning: Developing Leaders from Within, Risk Management Seminar, Governance and Risk Management Training, Microfinance Management Training, Basic Rural Banking Course, International Training Course on Rural Finance, IT Governance Seminar, Anti-Money Laundering/ Combating the Financing of Terrorism.

NAME	AGE & NATIONALITY	DATE ELECTED	SHARES HELD	QUALIFICATIONS								
Ms. Lorenza dT. Bañez <i>Board of Director</i>	60, Filipino	March 16, 2019	1,006,398 (Direct)	<p>With more than 30 years of experience in microfinance, banking, and other related fields.</p> <p><b>Educational Attainment:</b> BS Commerce, MS in Development Mat., MA in CED, CFA Course Review Program for Development Manager, and CPA Review Course.</p> <p><b>BSP and other trainings attended:</b> Enterprise Wide Risk Management, Financial Statement Compilation Engagements, FATCA Orientation, Succession Plan - CRAFTING THE PROTOTYPE, Briefing on BSP Cir.706 Updated AML Rules and Regulations, International Finance Seminar, Financial Risk Management Workshop, MFI's Financial Performance Analysis, Corporate Governance &amp; Risk Management, Basic Rural Banking Course, IT Governance Seminar, Anti-Money Laundering/Combating the Financing of Terrorism.</p>								
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Institution	Position											
CARD, Inc. (A Microfinance NGO)	Trustee											
BDSFI	Trustee											
CMDI	Treasurer/Secretary											
De TorresBañez Dev't Corp.	Director											
Ms. Ma. Luisa P. Cadaing <i>Board of Director</i>	58, Filipino	March 16, 2019	137,828 (Direct)	<p>With more than 25 years of experience in banking and finance.</p> <p><b>Educational Attainment:</b> BS Human Ecology, MS Urban &amp; Regional Planning, and Program for Women Managers</p> <p><b>BSP and other trainings attended:</b> Corporate Governance and Risk Management, IT Governance Seminar, Anti-Money Laundering/Combating the Financing of Terrorism.</p>								
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Institution	Position											
CARD, Inc. (A Microfinance NGO)	Trustee											
CMDI	Director											
Ms. Marivic M. Austria <i>Board of Director</i>	46, Filipino	March 16, 2019	102,061 (Direct)	<p>With more than 25 years of experience in banking and finance.</p> <p><b>Educational Attainment:</b> BS Commerce-Accounting, Executive Master's in Business Administration, and Advanced Management Program.</p> <p><b>BSP and other trainings attended:</b> Governance and Risk Management Training, Boulder Microfinance Training, High Potentials Leadership Program, Managing Portfolio-at-Risk, IVP Training on Micro Banking Internal Practices, Basic Internal Audit Course, Basic Rural Banking Course, and Exposure Study Visit on Banking Operations, IT Governance Seminar.</p>								
	<p><b>Other Current Directorship and Officership:</b></p> <table border="1"> <thead> <tr> <th>Institution</th> <th>Position</th> </tr> </thead> <tbody> <tr> <td>N/A</td> <td>N/A</td> </tr> </tbody> </table>				Institution	Position	N/A	N/A				
Institution	Position											
N/A	N/A											

NAME	AGE & NATIONALITY	DATE ELECTED	SHARES HELD	QUALIFICATIONS
Dr. Gilberto M. Llanto <i>Independent Board</i>	69, Filipino	March 16, 2019	80,747 (Direct)	<p>His areas of expertise are Money and Banking, Public Finance, and International Trade. A professional economist who has held various executive and technical (research) positions at the National Tax Research Center of the DoF, BSP, DAR and NEDA. He has been a consultant on financial markets, microfinance, public finance and public economics to international organizations.</p> <p><b>Educational Attainment:</b> A.B. in Philosophy, M.S. Economic Program, M.A. Economics, and Ph.D. Economics.</p> <p><b>BSP and other trainings attended:</b> Governance for Board of Directors, Briefing on BSP Cir.706 Updated AML Rules and Regulations, and Agricultural Banking.</p>
	<b>Other Current Directorship and Officership:</b>			
	<b>Institution</b>	<b>Position</b>		
	CARD SME Bank	Director		
	CMDI	Director		
Ms. Mercedita G. Medequiso <i>Independent Board</i>	58, Filipino	March 16, 2019	1 (Direct)	<p><b>Educational Attainment:</b> BSC Major in Business</p> <p><b>BSP and other trainings attended:</b> Corporate Governance Seminar and Supervisory Training, IT Governance Seminar, Anti-Money Laundering/Combating the Financing of Terrorism.</p>
	<b>Other Current Directorship and Officership:</b>			
	<b>Institution</b>	<b>Position</b>		
	N/A	N/A		
Ms. Malvarosa P. Perote <i>Independent Board</i>	63, Filipino	March 16, 2019	22 (Direct)	<p><b>Educational Attainment:</b> Bachelor in Elementary Education</p> <p><b>BSP and other Trainings Attended:</b> - Corporate Governance Seminar, Risk management Seminar, IT Governance Seminar, Anti-Money Laundering/Combating the Financing of Terrorism.</p>
	<b>Other Current Directorship and Officership:</b>			
	<b>Institution</b>	<b>Position</b>		
	N/A	N/A		

## BOARD COMMITTEES

The Board is supported by ten (10) different committees with their respective functions and directives as follows:

### A Corporate Governance Committee

Committee Member	Attendance		Position
Ms. Mercedita G. Medequiso	12/12	100%	Chairperson
Ms. Ma. Luisa P. Cadaing	12/12	100%	Member
Ms. Malvarosa P. Perote	12/12	100%	Member

The Corporate Governance Committee assists the board of directors in fulfilling its corporate governance responsibilities. The Committee is composed of three (3) members of the board of directors who are all non-executive directors and majority are independent directors, including the chairperson. The committee has regularly met every 3rd Saturday of the month or as the need arises.

The committee's tasks include, but are not limited to, the following:

- Oversees the nomination process for members of the board of directors and positions appointed by the board of directors.
- Oversees the continuing education program for the board of directors.
- Oversees the performance evaluation process.
- Oversees the design and operation of the remuneration and other incentives policy.

### B. Risk Oversight Committee

Committee Member	Attendance		Position
Ms. Malvarosa P. Perote	12/12	100%	Chairperson
Dr. Dolores M. Torres	12/12	100%	Member
Dr. Gilberto M. Llanto	8/12	67%	Member

The Risk Oversight Committee advises the board of directors on the Bank's overall current and future risk appetite, oversee Senior management's adherence to the risk appetite statement, and reports on the state of risk culture of the Bank. The creation of risk oversight committee plays vital role as the bank's success is largely dependent on the ability of its directors and officers in managing risks. The committee is composed three (3) members of the board of directors, majority of whom are independent directors including the Chairperson. The committee has regularly met every 3rd Saturday of the month or as the need arises.

The committee's tasks include, but are not limited to, the following:

- Oversee the risk management framework.
- Oversee adherence to risk appetite.
- Oversee the risk management function.

### C. Audit Committee

Committee Member	Attendance		Position
Dr. Gilberto M. Llanto	8/12	67%	Chairperson
Ms. Mercedita G. Medequiso	12/12	100%	Member
Dr. Jamie Aristotle B. Alip	12/12	100%	Member

The Audit Committee is responsible for overseeing senior management in establishing and maintaining an adequate, effective and efficient internal control framework. It shall ensure that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency

and effectiveness of operations and safeguarding of assets. The committee is composed of three (3) members of the board, all are non-executive director, and the majority are independent directors, who know financial reporting and internal controls. The committee has regularly met every 3rd Saturday of the month or as the need arises.

The audit committee's tasks include, but are not limited to, the following:

- a. Oversee the financial reporting framework.
- b. Monitor and evaluate the adequacy and effectiveness of the internal control system.
- c. Oversee the internal audit function.
- d. Oversee the external audit function.
- e. Oversee the implementation of corrective actions.
- f. Investigate significant issues/ concerns raised.
- g. Establish a whistleblowing mechanism.

#### D. Related Party Transactions (RPT) Committee

Committee Member	Attendance		Position
Ms. Mercedita G. Medequiso	8/8	100%	Chairperson
Dr. Gilberto M. Llanto	6/8	75%	Member
Ms. Malvarosa P. Perote	8/8	100%	Member

Transactions between and among Directors, Officers, Stockholders and their Related Interest, subsidiaries and Affiliates (DOSRI) including transactions with related parties may provide financial, commercial and economic benefits to the bank as well as to the group. The Board ensures that dealings of a bank with any of its DOSRI, subsidiaries and affiliates shall be in the regular course of business and upon terms not less favorable to the bank than those offered to others to avoid insider abuses and unfair competitive advantage.

The Related Party Transaction (RPT) committee shall assist the bank in handling transactions with related parties. It shall review and evaluate each transaction to assess its fairness. The committee is composed of three (3) members of the board of directors, two (2) of whom are independent directors, including the chairperson. Committee members are entirely

composed of independent and non-executive directors, with independent directors comprising the majority. In case a member has a conflict of interest in a particular RPT, he/she shall refrain from evaluating such particular transaction. Independent unit such as Compliance Officer or Internal Auditor shall sit as resource person of the committee. The committee has regularly met every 3rd Saturday of the month or as the need arises.

The RPT Committee's tasks includes the following:

- a. Ensures that all related parties are continuously identified, monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured.
- b. Ensures that all materials concerning RPTs are not undertaken on more favorable terms to such related parties than similar transactions with non-related parties under similar circumstances.
- c. Guarantees that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the bank's RPTs exposures, and policies on conflicts of interest or potential conflicts of interest.
- d. Makes regular reporting to the board of directors on the status and aggregate exposures to each related party as well as the total amount of exposures to all related parties.
- e. Ensures that transactions with related parties, including a write-off of exposures, are subject to periodic independent review or audit process.
- f. Oversees the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including the periodic review of RPT policies and procedures.

**Other committees that include the Board and Management level are as follows:**

**E. Compliance Committee**

Committee Member	Attendance		Position
Ms. Malvarosa P. Perote	12/12	100%	Chairperson
Ms. Lorenza dt Bañez	12/12	100%	Vice-Chairperson
Ms. Mercedita G. Medequiso	12/12	100%	Member
Mr. Jeffrey M. Rondina	12/12	100%	Member
Ms. Marissa M. De Mesa	12/12	100%	Member

The Compliance Committee is composed of three (3) members of the board of directors including the Head of Audit and Head of Compliance - who shall possess a range of expertise as well as adequate knowledge on the business risks. The committee was chaired by a non-executive member of the board. The Head or the Chief Compliance Officer (CCO) regularly prepares and submit Compliance and AML Reports to the Compliance Committee containing the results of the Compliance and AML Testing and Monitoring conducted by the Compliance and AML units. The CCO updates the committee members on the new regulatory issuances. The committee, through its Committee Chairperson, reports to the Board during the monthly regular Board of Directors meeting any updates, agreements and policy recommendation discussed by the members of the committee during monthly compliance committee meeting.

The Compliance Committee shall have a regular once a month meeting. This shall be held every month a day before the Board meeting or as the need arises. This is to ensure that the committee is updated on the status of the implementation of the compliance program and board through the compliance committee are updated on the new relevant Philippine laws, rules and regulations and pertinent BSP Circulars governing the operations of the banks.

The Compliance Committee tasks include the following:

- a. Ensuring that the compliance system of the bank is defined, established and updated to facilitate effective management of compliance with bank policies and regulatory requirements.
- b. Ensure that the updated compliance program was approved by the Board, oversee and promotes its effective implementation.
- c. Ensuring that compliance issues encounter by the Bank were immediately resolved and acted upon.
- d. Ensuring that duties and responsibilities of the Board of Directors stated under SubSec. x143.1 of the MORB: Powers/responsibilities and duties of director were done.
- e. It shall provide oversight on AML policy development and execution such that AML Policies and Procedures established by the Senior management, led by the compliance office are adequate to ensure compliance and are kept updated/remain relevant to best react on the changing AML regulatory scenarios and conditions.
- f. Review and take action, as necessary, on AML related reports coming from the Bank's Compliance Office.
- g. Shall oversee and ensure the effective performance of the AML/TF functions of the Bank's Compliance Office.

**F. Outsourcing Oversight Committee**

Committee Member	Attendance		Position
Ms. Marivic M. Austria	9/12	75%	Chairperson
Ms. Lorenza dt Bañez	10/12	83%	Member
Ms. Lourdes B. Dijan	10/12	83%	Member
Ms. Laarne D. Paje	10/12	83%	Member
Mr. Ronnie Fallega	12/12	100%	Member
Mr. Niceto Lupig	9/12	75%	Member
Mr. Jeffrey M. Rondina	12/12	100%	Member
Ms. Rowena Galarde	12/12	100%	Member

CARD Bank continuously expands over the years. With the continuous growth towards achieving its strategic technical and operational objectives along with the cost reduction measures, the bank started to outsource some of its activities.

The Outsourcing Oversight Committee is comprised of senior management of the Bank. The Outsourcing Oversight Committee shall have a regular once a month meeting or as the need arises. This shall be held a day before the schedule Board of Directors Meeting. The President and CEO regularly updates the Board of Directors on the status of Outsourcing activities of the bank.

The outsourcing oversight committee's tasks include, but are not limited to, the following:

- a. Reducing cost such as employee compensation cost, office space expenses and other associated cost of doing the outsourced activities.
- b. Giving more focus on the bank in dealing on their expertise and core business.
- c. Improving the quality of services being offered.
- d. Improving customer satisfaction.
- e. Improving operational efficiency.

### G. IT Steering Committee

Committee Member	Attendance		Position
Ms. Marivic M. Austria	12/12	100%	Chairperson
Dr. Dolores M. Torres	8/12	67%	Member
Ms. Flordeliza Sarmiento	8/12	67%	Member
Mr. Ronnie Fallega	12/12	100%	Member
Mr. Niceto Lupig	12/12	100%	Member
Mr. Jeffrey M. Rondina	10/12	83%	Member
Mr. Jose Romulo Karagdag	12/12	100%	Member

The IT Steering Committee serves as a formalized group that is responsible for ensuring the IT Risk Management and Monitoring and Control is started and maintained through regular meetings. The committee is also responsible for updating the board on the current and future IT-related issues and initiatives and submits recommendations to the Board. Part of the IT Risk Management is integrating risk management into regular IT practices. By establishing a formalized committee, IT Risk Management becomes part of IT's agenda and priorities.

The IT Steering Committee oversees the Information Technology related issues and initiatives. The committee met every first Monday of the month. It was chaired by the Bank's President and CEO. The committee will be responsible for the following:

- a. Provide strategic leadership for IT through the alignment of IT strategic objectives and activities with enterprise strategic objectives and processes.
- b. Prioritize IT investment initiatives and deliver final approval and recommendations on proceeding with purpose IT projects.
- c. Serves as a formalized group that is responsible for ensuring the IT Risk Management and Monitoring and Control is started and maintained through regular meetings.
- d. Advise the board on the current and future IT-related issues and initiatives and submits recommendations to the Board.

## H. Asset and Liability Committee

Committee Member	Attendance		Position
Ms. Lourdes B. Dijan	12/12	100%	Chairperson
Ms. Marivic M. Austria	12/12	100%	Member
Ms. Lorenza dt Bañez	12/12	100%	Member
Ms. Laarne D. Paje	8/9	89%	Member
Ms. Maria Rowena F. Galarde	12/12	100%	Member
Mr. Daryl Dane C. Laggui	7/12	58%	Member
Ms. Melody E. Escorsa	12/12	100%	Member
Ms. Jenelyn C. Melgar	10/12	83%	Member

The assets and liabilities of CARD Bank, Inc. shall be managed properly to maximize shareholder value, to enhance profitability and increase capital, serve customer and community needs, and to protect the institution from any disastrous financial consequences arising from changes in interest rate risk. These objectives shall be pursued within the framework of written loan, capital, and investment policies. The Board of Directors believes that accepting some level of interest rate risk is necessary to achieve realistic profit goals. The responsibility of managing the asset/liability management procedures are directed by the Asset and Liability Committee (ALCO).

ALCO is comprised of senior management who are responsible to carry out Financial Risk Management (FRM) responsibilities. The ALCO Committee shall have a regular once a month meeting. This shall be held on Monday of the week of the Board of Directors meeting or as the need arises. The ALCO Chairperson updates during the Risk Management Committee any risk identified concerning the financial management of the bank.

The Asset and Liability Committee's tasks include, but are not limited to, the following:

- Protect the liquidity position of the Bank to meet maturing obligations when they are due, so that there would have adequate liquidity for growth, and adequate liquidity for emergencies.
- Ensure the profitability and sustainability of the institution through proactive balance sheet management.
- Analyze the potential financial risks associated with any new products and make recommendations of how to measure and limit/manage the risk (including how to incorporate new products into existing asset liability matching reports).
- Review the overall financial risk of the organization whenever there is a significant change to the balance sheet structure (for example adding a new funding source or new client product) and present findings to the Board.

## I. Remittance Committee

Committee Member	Attendance		Position
Dr. Dolores M. Torres	11/12	92%	Chairperson
Ms. Marivic M. Austria	12/12	100%	Member
Ms. Lorenza dt Bañez	7/12	58%	Member
Ms. Lourdes B. Dijan	10/12	83%	Member
Ms. Laarne D. Paje	8/9	89%	Member
Mr. Ronnie Fallega	9/12	75%	Member
Mr. Jeffrey M. Rondina	9/12	75%	Member
Mr. Rex de Lumban	11/12	92%	Member
Mr. Raymond Villapando	11/12	92%	Member
Ms. Lourdes Vertudes	8/8	100%	Member

The Remittance Committee was established to provide oversight functions and guidance to the senior management of the Bank in the implementation of its remittance services. The Remittance Committee met every 1st Friday of each month. The committee, through its Committee Chairperson, reports to the Board during the monthly regular Board of Directors meeting the performance of remittance activities of the bank, any agreements and policy recommendation discussed by the members of the committee during the monthly remittance committee meeting.

The Remittance Committee's tasks include, but are not limited to, the following:

- a. Provide strategic direction to the management to achieve the objectives of the Bank's remittance services.
- b. Recommend strategies to improve the accessibility of the Bank's remittance services.
- c. Developing processes and strategies to monitor and mitigate risk areas identified in the implementation of remittance services.
- d. Review and Assess the performance of the remittance operations of the bank.
- e. Review and evaluate possible third-party remittance partnership.
- f. Assessed and recommends marketing strategies to improve remittance operations and promotional activities.
- g. Perform the other functions and duties as the Board may delegate.

#### J. PAR and Savings Committee

Committee Member	Attendance		Position
Ms. Marivic M. Austria	4/4	100%	Chairperson
Ms. Lorenza dt Bañez	4/4	100%	Member
Ms. Mercedita Medequiso	4/4	100%	Member
Ms. Malvarosa Perote	4/4	100%	Member
Ms. Lourdes B. Dijan	4/4	100%	Member

Ms. Laarne D. Paje	3/3	100%	Member
Ms. Glenda C. Magpantay	4/4	100%	Member
Mr. Jeffrey M. Rondina	4/4	100%	Member
Ms. Lourdes Vertudes	3/3	100%	Member
Other Selected Members/ Clients	4/4	100%	Member

The PAR and Savings Committee was established to ensure the Portfolio-at-Risk (PAR) of the bank will be closely monitored, efficiently managed and will be recovered. The committee shall also be responsible for providing oversight function on the savings mobilization program of the bank.

The Committee is composed of the Bank's Senior Management and current and previous member-representative of the Board of Directors. The committee met on a quarterly basis or as the need arises.

The PAR and Savings Committee's tasks include, but are not limited to, the following:

- a. Monitor the loan portfolio quality of respective branches.
- b. Recommend operational strategies to recover portfolio at risk of the respective branches.
- c. Design monitoring plan on how to assist past due members in recovering from their unpaid loan outstanding.
- d. Recommend strategies on how to instill the habit of making regular savings deposit.
- e. Assist the management in the center-level implementation of the digital initiative of the bank.
- f. Discussed issues and concerns that have been solicited directly from the members.
- g. Perform other duties and responsibilities as authorized by the board of directors.

## **INDEPENDENT CHECKS AND BALANCES**

To ensure robust and exemplary banking operations, CARD Bank, Inc. implements the following independent functions:

### **Internal Control System**

The internal control framework of the Bank is consistent with the increased emphasis of banking supervisors (e.g. BSP) on the review of a banking organization's risk management and internal control processes. The effective internal control system is a critical component of CARD Bank, Inc. management and a foundation of safe and sound operation. A strong internal control system helps ensure the achievement of goals and objectives of the bank, achieve long-term profitability targets, and maintain reliable financial and managerial reports.

The Bank's internal control consists of five (5) interrelated elements:

1. Management oversight and the control culture;
2. Risk recognition and assessment;
3. Control activities and segregation of duties;
4. Information and communication; and
5. Monitoring activities and correcting deficiencies.

Board of Directors and Senior Management are responsible for promoting high ethical and integrity standards; establishing the appropriate culture that emphasizes, demonstrates and promotes the importance of internal control; and designing and implementing processes for the prevention and detection of fraud.

The overall effectiveness of the Bank's internal controls were monitored on an ongoing basis. Monitoring of key risks were part of the daily activities of the bank as well as periodic evaluations by the business lines and internal audit.

### **Internal Audit**

The objective of the internal audit unit is to assist all members of management in the effective discharge of their responsibilities, by furnishing them with analyses, appraisal recommendations, and pertinent comments concerning the activities reviewed. The Internal Audit Unit has the management complementary role of ensuring that the internal control systems are operating efficiently thereby giving the management assurance that the systems can be relied upon for the recording of transactions relating to all operations and also for

the preparation of the financial statements.

Under the direct supervision of the Board of Audit Committee, the Internal Audit evaluates and ensures the adequacy and effectiveness of the internal controls of the Bank. The Internal Audit Department is mandated to conduct financial audit, compliance audit, operations audit, management audit, and information system audit. It also holds full, free and unrestricted access rights to all activities, information, records, properties, and personnel relevant to the internal audit activity.

The Vice President for Audit reports directly to the Audit Committee on its regular monthly meeting which is composed of at least three (3) members of the board, all are non-executive director, and the majority shall be independent directors, who have knowledge of financial reporting and internal controls. Likewise, the audit operative work plan for the following year is being prepared at the end of the year and presented to the board for approval. The audit unit accomplishment status was being assessed and presented to the audit committee on a quarterly basis.

To monitor the effectiveness of the implementation of the internal control system, the internal audit unit has implemented an audit rating system that measures the vulnerability of risk exposures due to lack of internal control of branches and other offices during branch/office audit activities. Directory of all findings was also established to monitor the status of branch compliance.

### **External Auditor**

Sycip Gorres Velayo & Co. (SGV) is the authorized External Auditors of the Bank. It presents an audit plan to the Board of Audit Committee and performs an audit risk assessment. It also reviewed the internal audit report and compliance with accounting standards and regulatory requirements.

### **Compliance System**

The Bank's compliance system was designed to identify and mitigate business risks, which may erode the franchise value of the bank. Business risks, include but not limited to the following:

- a. Risks to the reputation that arise from internal decisions that may damage a bank's market standing;
- b. Risks to the reputation that arise from internal decision and practices that ultimately impinge on

the public trust of a bank;

c. Risks from the action of a bank that are contrary to the existing regulations and identified best practices and reflect weaknesses in the implementation of codes of conduct and standard of good practice; and

d. Legal risks to the extent that changes in the interpretation or provisions of regulations directly affect bank's business model.

The authority and independence of the compliance take into consideration the ability to cross departmental lines, access to all areas of the institution's operations and the ability to effect corrective action when deficiencies or violations are detected. The mandate of compliance are widely communicated throughout the organization.

1. The Bank's compliance function has a formal status within the organization. It's charter was approved by the board of directors which defines the compliance function's standing, authority and independence.

2. The Compliance office has the right to obtain access to information necessary to carry out its responsibilities, conduct investigations of possible breaches of the compliance policy. The compliance is directly reporting to and have direct access to the Board of Directors or Compliance Committee.

The Compliance unit/department is responsible for ensuring that the Bank complies with the requirements, policies, circulars, and guidelines issued by BSP, BRI, LGUs, and other government agencies. Compliance unit through the Vice President for Compliance/Chief Compliance Officer reports directly to the Compliance Committee on its monthly regular meetings which composed of three (3) members of the Board of Directors.

The mission, objectives, scope, authority and accountability of the compliance unit and its staff are clearly defined in the Compliance Program duly approved by the Board of Directors. Likewise, the compliance unit work plan for the following year is being prepared at the end of the year and presented to the board for approval. The compliance unit accomplishment status was being assessed and presented to the compliance unit on a semi-annual basis.

To monitor the effectiveness of the implementation of the compliance system, the compliance unit

has implemented a compliance rating system that measures the compliance risk exposures system of branches and other offices during compliance monitoring and testing.

### **Compliance Risk Management**

The compliance risk management system of the bank is designed to specifically identify and mitigate risks that may erode the franchise value of the bank such as risks of legal or regulatory sanctions, material financial loss, or loss to reputation, that bank may suffer as a result of its failure to comply with laws, rules, related self-regulatory organization standards, and codes of conduct applicable to its activities.

This compliance risk management will also mitigate risk arising from failure to manage conflict of interest, treat customers fairly, or effectively manage risks arising from money laundering and terrorist financing activities.

Compliance risk management is not solely the responsibility of the compliance unit, but instead the responsibility and shared accountability of all personnel, officers and Board of Directors. This has been an integral part of the culture and risk governance of the institution.

### **Money Laundering and Terrorist Financing Prevention Program (MLTFPP)**

The Bank adopted the Updated Anti-Money Laundering Rules and Regulations of Bangko Sentral ng Pilipinas (BSP) - a comprehensive and risk-based Money Laundering and Terrorist Financing Prevention Program (MLTFPP) that promotes high ethical and professional standards of the Bank and ensures that it is not being used for money laundering and terrorist financing activities. It supports governments, law enforcement agencies, and international bodies such as the Financial Action Task Force in their efforts to combat the use of the financial system for the laundering of the proceeds crime and terrorism.

Further, this program aims to (a) protect the integrity and confidentiality of bank accounts, and ensure that the Philippines, in general, and the covered persons, in particular, shall not be used, respectively, as a money-laundering site and conduit for the proceeds of an unlawful activity as herein defined; and (b) to protect life, liberty, and property from acts of terrorism and to condemn terrorism and those who support and finance it and reinforce the fight against terrorism by criminalizing the financing of terrorism and related offenses. The program intends to ensure high



standards in the following areas:

- Ensure that bank has conform with high ethical standards in protecting the safety, soundness and integrity of the national banking and financial system.
- Ensure that identity of customer is established at all times along with ensuring that financially and socially disadvantaged are not denied access to financial services.
- Ensure that suspicious individuals or entity are denied from opening or maintaining an account or transacting with the bank.
- Adopting and implementing this MLTFPP risk management system to identify, assess, monitor and control risks associated with money laundering and terrorist financing.
- Ensure that full compliance with the rules and existing laws by regularly ensuring that all officers and employees are informed on their responsibilities in combating money laundering and terrorist financing.
- Ensure full cooperation with the Anti-Money Laundering Council (AMLC) and Bangko Sentral

ng Pilipiinas for the effective implementation and enforcement of these regulations.

### **MLTFPP Risk Management**

To ensure that risks associated with money-laundering such as counterparty, reputational, operational, and compliance risks are identified, assessed, monitored and mitigated, the following measures and processes were adopted.

#### **a. Board and Senior Management Oversight**

Bank's Board of Directors have the ultimate duties and responsibilities to ensure full compliance with money laundering and terrorist financing prevention program. As such, board of directors through the Compliance Office and Internal Audit are regularly updated on the matters related to Anti-Money Laundering and terrorist financing compliance and risk management.

The Senior management has overseen the day-to-day management of the bank, ensure the effective implementation of AML/CFT policies approved by the board and the alignment of activities with

the strategic objectives, risk profile and corporate values as set by the board. Senior management has established a management structure that promotes accountability and transparency and upholds checks and balances. In order to ensure consistent and full compliance with money laundering and terrorist financing prevention program, Regional Head is also designated as the liaison officer of the compliance office in their respective branches. Regional Head is responsible in ensuring that all ALM polices, laws and regulations are being implemented in the branch and all matters needing assistance are reported to the ALM Compliance Officer in Head Office.

#### **b. Compliance Office**

The Compliance office thru the AML compliance group are primary responsible in the management of the implementation of the Money Laundering and Terrorist Financing Prevention Program (MLTFPP) of the bank including its subsidiaries and affiliates. This includes achieving the bank's goals through planning, organizing, leading and controlling. Compliance office is independent and has direct reporting line to the board of directors or any board-level or approved committee on all matters related to AML and TF compliance and their risk management. AML Compliance Officer is designated to handles the implementation of the MLTFPP program. He will be the liaison between Bank, the BSP and the AMLC in matters relating to Bank's AML/CFT compliance. He is assisted by two (2) Assistant AML Compliance Officer in monitoring the implementation of this MLTFPP program to all branches and other offices.

#### **c. Group-wide Money Laundering and Terrorist Financing Prevention**

CARD MRI group has established CARD MRI Compliance Committee. The committee was established to oversee the compliance and anti-money laundering requirement and implementation

of the entire CARD MRI group. Further, the CARD MRI group has regular coordination meeting of compliance, audit and risk officers to discussed matters that affect the organization as a whole.

#### **d. Internal Audit**

Simultaneous with operations and financial audit, compliance with Anti-Money Laundering Regulations is also being checked by Internal Auditors. The Internal Audit function associated with money laundering and terrorist financing is being conducted by qualified personnel who are independent of the Branch/Unit being audited. Internal Auditors have a direct reporting line to the Audit Committee. Result of audit is also promptly communicated to the Compliance Office for its appropriate corrective action. The Compliance Office regularly submits reports to the Board to inform them of management's action to address deficiencies noted in the audit.

#### **e. Risk Assessment**

As part of the banks' risk-based approach, it has ensure that risk exposure to ML/TP was identified, understand and assess when dealing with its customers, based on geographical areas of operations and customer, products and services being offered, including delivery channels used to carry out the transactions. The institutional risk assessment shall:

- i. consider all relevant risk factors, including the results of national and sectoral risk assessments;
- ii.adequately document results and findings; and
- iii.be updated periodically or as necessary.



## CODE OF CONDUCT AND BUSINESS ETHICS

CARD Bank institutionalized the highest ethical standards through strict implementation of the Bank's Code of Conduct, the guiding principles and policies governing the activities of the institution.

### Related Party Transactions

To foster transparency of related party transactions between and among the Bank and its related parties, affiliated companies, directors, officers, stockholders, related interests (DOSRI), the Bank complies with the legal and regulatory requirements pertaining to proper approval and disclosure of such transactions. Policies and procedure are in place to manage potential conflicts of interest arising from related party transactions such as credit accommodations, products or services extended by the Bank to directors or officers for their personal capacity or to their company.

### STAKEHOLDERS INTEREST

CARD Bank, Inc. recognized the inherent rights of shareholders in accordance with the law and aligned the principles and policies with the interest of its shareholders.

## CARD Bank, Inc. Stockholders

The Bank envisions transferring its ownership to the economically-challenged women; hence it encourages its members to become stockholders. Clients can acquire shares through their Pledge Savings. Dividends are given as one of the benefits of being a stockholder. Being part of the institution, the stockholders are also given the right to take part in the decision-making of the Bank. Annual Stockholders meeting is organized to inform clients on the updated financial conditions of the Bank. The Stockholders are allowed to cast their votes, and are given the opportunity to question and express their opinions and suggestions.

### Community Health Days

The Microfinance and Health Protection (MaHP) Program of CARD MRI visits the communities of our clients and their families. The Unit regularly provides free medical and dental services through its program, Community Health Days.

### Disaster Preparedness and First Aid Training

In cooperation with San Pablo City Fire Department and PNP, fire and earthquake drills, first aid, and robbery/theft training were conducted this year. Such trainings aim to orient and teach the staff of the Bank on how to be prepared in times of disaster or unfortunate events.

### Supplier/Contractor Selection Criteria

CARD Bank, Inc. conducted a review of the accredited suppliers to ensure that the Bank gets effective and efficient third party products and services. The due diligence considered the financial stability of the supplier, the ability to provide competitive price, good products, and services, and its compliance with the regulatory requirements.

### Employee Benefits

The Bank conducted Annual Physical Exam for its staff and provided free health care benefits and health facilities such as fitness center and medical clinics manned by occupational health practitioners. As a member institution of CARD MRI, CARD Bank, Inc. continuously pursues competence and high regards on our human resources. To further build on their skills and capabilities in running our banking and microfinance operations, our board members and officers undergo continuous capacity-building through local and international training, seminars, workshops, and conferences. Selected staff from





the Bank are also given an opportunity to enroll in a Master's Degree Program.

### **Environment-friendly Value Chain**

The Bank supports Republic Act 9003, also known as the "Ecological Solid Waste Management Act," by implementing proper segregation and disposal of solid wastes. Furthermore, as the issue of climate change continues to threaten our water resources, we implemented a policy that encourages all our offices to use water efficiently. We have availed solar panels through CARD Leasing and Finance Corporation to ensure continuous operations despite certain calamities, especially storms and typhoons. This endeavor is also in support to CARD-Business Development Service Foundation Inc.'s renewable energy initiative.

### **Transparency and Disclosure**

Recognizing the contribution as well as the rights of customers, the Bank promotes disclosure and transparency in its policy by providing customers with sufficient information to understand the products

and services offered. This information will enable customers to make informed financial decisions by providing them easy access to information such as terms and condition of the products/services being availed of, benefits and its associated risks.

### **CARD Bank Data Privacy Statement**

Maintaining client privacy is an important part of the services the Bank has provided. The Bank's Data Privacy Statement explains how we collect, protect, use, and share information when our clients access our websites and/or apply for and avail of our products and services. Moreover, it outlines the general practices of the Bank in relation to the processes and contents which are made available through our network of websites, our online and mobile applications, and social media pages (collectively referred to as "websites"). It also covers the privacy practices for our clients who have to apply for and obtain products and services from us, such as, but not limited to, deposits, loans, microinsurance, and other products and services that the Bank may offer from time to time.

# RISK MANAGEMENT



Since the incorporation of CARD Bank, Inc. in 1997, risk management is always a priority even in all units of operation. Part of it is the regular monitoring of branches being conducted by the Executive and Management Committee other than the regular audit for all bank branches and head office departments like IT, Compliance, Finance, Security, Marketing, and others.

The Board of Directors delegate authority to the Risk Oversight Committee to balance performance and compliance by ensuring that management's actions are consistent with CARD Bank's strategy and in line with the organization's risk tolerance. The Risk Oversight Committee delegates authority for identifying, analyzing, managing and reporting risks to an independent risk management department.

## **RISK GOVERNANCE**

The risk management process is incorporated in the bank management system and all levels of operations/units are involved. The respective unit head/supervisors are risk owners and are responsible for identifying risk at their levels through regular monitoring.

## **RISK CULTURE**

CARD Bank is implementing a risk culture that defines the set of individual and corporate values, attitudes, competencies, and behavior to show commitment to risk management. This is compliance with circular 900-Guidelines on Operational Risk Management.

The main components shall include:



1. Staff at all levels shall clearly understand their responsibilities concerning risk management.
2. Adoption of procedures with clearly drawn lines of authority, segregated duties and responsibilities, and appropriate checks and balances across the institution.

### Three Lines of Defense

1. First Line of Defense
  - assure that operational people are accountable for the risk assumed in operational activities.
2. Second Line of Defense
  - review functions of the risk management department for ensuring that risk assumed by CARD Bank are appropriately managed and controlled.
3. Third Line of Defense
  - assure that Internal Audit, as an independent function, is controlling in line with best industry practices the activities of the First Line and Second Line of Defense.

### RISK APPETITE, STRATEGIES AND RISK MANAGEMENT PROCESSES

Over time, the bank experienced various types of risks that became guidelines in improving its product and services. Following are the different types of risks, profiles, and mitigating strategies and activities to manage and mitigate risk:

#### 1. CREDIT RISK

Denotes danger that the borrower is not able or willing to pay the principal and/or interest at the maturity date.

##### Risk Profile:

- Highly volatile due to non-collateralized loans
- High loan loss provisioning eroding profitability and equity
- Breakdown of discipline by some members that impact some good borrowers

##### Mitigating Strategies:

###### *First Line of Defense:*

- Intensive follow-up for defaulters
- Daily monitoring on the number of default members
- Rehabilitation program for branches with a high portfolio at risk
- Sample legal cases for default members
- Hiring of consultants to help in enhancement and rehabilitation
- Intensifying and rebuilding of credit discipline

of members through awareness of advantages and benefits as members/stockholders and Lakbay Aral program.

- Codified signing and approving authority.

###### *Second Line of Defense*

- Mitigate the risk of incurring losses.
- Check if the credit risk exposures are within the bank risk appetite.
- Develop and review the credit risk policy and recommend changes in the credit risk policy to the Risk Oversight Committee and board of directors.
- Check and monitor if credit risk policy is properly implemented at the branch and MBO level.
- Monitor the loan portfolio with higher risk.
- To maintain the level of non-performing loans below 3%, take specific actions in case part of non-performing loans exceeds 3% to recover the loans such as:

- Develop a policy to recover the uncollected amount of past due loans.
- Recommend strategies by doing continued follow up and monitoring of the operations staff to members who are not regularly paying their dues to control the credit portfolio at risk.
- Up-to-date reporting of the status of the loan portfolio to the Risk Oversight Committee and Board of Directors.
- Check the credit concentration to ensure if within defined limits

###### *Third Line of Defense*

- Ensure that the Internal Audit is an independent function and has the responsibility of reviewing and verifying the internal control systems and procedures to confirm that they are operating smoothly.

#### 2. INTEREST RATE RISK

Risks to earnings or capital arising from mismatches of the timing within which interest rates on assets and liabilities can be changed.

##### Risk Profile:

- Asset and Liability Committee (ALCO) regularly monitor this risk.

##### Mitigating Strategies:

- The process to coordinate interest rate risk sensitivity decisions is done by the ALCO

represented with the Head of Finance and Accounting as Chairperson.

- Manage the impact of interest rate environments with balances mix of fixed and variable rate.
- Mitigate the risk of incurring losses arising from market interest rate changes to an acceptable level.

### 3. LIQUIDITY RISK

Risk of a temporary cash flow problem because assets can be liquidated by large discounts.

#### Risk Profile:

- Savings composition with an average of 60% of fund were came from savings there are available credit lines.

#### Mitigating Strategies:

##### *Creation of Assets and Liability Committee*

- Management Committee (ALCO) that reviews the liquidity position of the bank monthly.
- Early repayment and settlement of loan balances when there are excess funds.
- Continuous savings mobilization activities and programs.

##### *Second Line of Defense*

- To check if the obligations can pay on time where these are present and future debts taking into account the nature of performed activities and requirements due to changes in the market environment by checking the financial position

and contingent liabilities and commitments.

- Up-to-date monitoring and reporting to the Risk Oversight Committee if compliant based on the set standard ratio or limit.

### 4. OPERATIONAL RISKS

Risk to earnings or capital that may arise as a result of weakness in organizational structure, poor oversight function of the board of directors and senior management, defective personnel recruitment policy, weak internal control system, inadequate internal and external coverage, and deficient management information system.

#### Risk Profile:

- People Risk: internal fraud, external fraud, incompetency, workforce interruption, wrongful employment termination.
- Process Risk: failure of internal process, exceeding limits, project of overruns, inadequate project plan, failure to adhere to internal and external compliance procedure, security risk.
- System and Technology risk: network failure, external security breaches, failure to integrate or migrate with/from the existing system.
- External Risk: legal risk, regulatory risk, political risk.

#### Mitigating Strategies:

##### *First Line of Defense*

- Strengthen internal control through the enhancement of monitoring and supervision at all levels.
- Upgrading of staff capacities both at the top and middle management by sending Senior Officer and Management to different schools like Asian Institute of Management (AIM) in Makati, Southern New Hampshire University in USA, South-East Asia Inter-disciplinary Development Institute (SAIDI).
- Regular monthly monitoring by each Executive and Management Committee with an individual target.
- Regular management committee meeting once a month.

##### *Second line of Defense*

- To monitor the assessment of the exposure to all types of operational risks faced by the company by assessing the quality and appropriateness of mitigating actions.
- To ensure that adequate controls and systems are in place to identify and address problems before they become major problems.





- Up-to-date reporting of the status of the operations related to risk to the Risk Oversight Committee and Board of Directors.

## 5. COMPLIANCE RISK

The risk of legal or regulatory sanctions, financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with all applicable laws, regulations, code of conduct, and standards of good practice.

### Risk Profile:

- Very strong Compliance Unit.

### Mitigating Strategies:

#### *First line of Defense*

- Conducting a regular monthly meeting with the Compliance Committee.
- Regular reporting of compliance risk issues to the Risk Oversight Committee.
- Compliance staff is also conducting regular monitoring and testing of branch compliance.

#### *Second line of Defense*

- Check and monitor the status of reporting to BSP if compliant.
- Reporting of compliance risk issues to the Risk Oversight Committee.

## 6. INFORMATION TECHNOLOGY RISK

Any risk related to information technology.

### Risk Profile:

- Procedures are yet in checking parameters. The security feature of the current system is currently establishing.

### Mitigating Strategies:

#### *First line of Defense*

- Core team to monitor IT-related problems was established with a regular monthly meeting

with Board and management oversight.

- Regular IT Audit.
- Each branch will log all the IT related issues and concerns in ITmate, a concern tool, which serves as a reference for all the encountered problems and actions taken.
- The IT staff have Confidentiality and Non-Disclosure Agreement (CNDA) for the security of data and source code of the system.

#### *Second line of defense:*

- Ensure that the risks under Information Technology are monitored and reported to the Risk Oversight Committee as follows:

#### **a. Process Risk Areas**

- Check the processes, procedures, and guidelines for managing risks if established and fully documented and reviewed for relevance and usefulness.

#### **b. Human Resources Management Risk Areas**

- Check if the assigned personnel possess the required skills to handle the systems, equipment, services, and facilities in placed and planned.
- Check if there is a succession planning for key positions.
- Check if procedures are put in place that all concerned personnel is briefed on the information security roles and responsibilities.

#### **c. Platform / Application Risk Areas**

- These are related to the selection and implementation of system hardware, operating, and application software associated with the use of the information system. In selecting and implementing any software assets, the management has considered the availability and adequacy of support to all platforms within the bank and outsourced IT infrastructure.

#### **d. Network Security Risk Areas**

- Check the risks associated with the connection of information systems, terminals, and other connections to the internal network infrastructure and the external network such as the Internet and other third-party facilities.
- Security and network management systems are implemented to monitor any unauthorized access or usage of the systems, resources, and facilities. Management should ensure that all network devices and other communication systems are updated and maintained properly.

#### **e. Physical / Environmental Risk Areas**

- Check and report if the physical installation and site of the data center, disaster recovery site(s), and other offices were located in a place free from environmental risks like flood, fire, etc. Mitigating steps were taken in cases that any site has been identified as susceptible to risk.

#### **f. Information Assets Risk Areas**

- All identified information and information assets were securely stored with its full documentation for the continuous operations of the systems and infrastructure. Documentations were maintained and kept updated. There are proper processes and procedures in place for verification of all the documentation.

#### **g. Outsourcing/External Vendor Risk Areas**

- Check if the service level agreement is put in place in the outsourcing of work to vendors.

- Requirements and responsibilities are clear.
- Check the lists of the service provider that can be easily identified in cases of failure of delivery of services or worst a termination of the contract.
- A standard termination/pre-termination clause should be embedded in every Maintenance Agreement to be able to terminate the contract, with or without a cause, at least thirty (30) days before the intended date of termination.
- Check if the regular review on the vendor's service performances is also conducted by the IT Governance Department.

#### **h. Bank's Responsibility Risk Areas**

- Check if proper information on all the benefits is provided for the sake of customers on the correct usage of the information system and increase awareness on the aspects of security and confidentiality of data.

### **7. LEGAL RISKS**

Risks to earnings and capital that may arise as a result of unenforceable contracts, lawsuits, or adverse judgments.

#### **Risk Profile:**

- Increasing risk due to increasing transaction.

#### **Mitigating Strategies:**

- Well documented and set up detailed guidelines for legal transactions involved with Legal staff in-charge for the completion, compilation, and filing of all legal documentation.
- Guidelines in handling legal cases were established to guide employees in handling staff cases.
- Settlement of cases shall be done through the Legal Counselor through court proceedings. Executives and Legal Counsel are given authority to decide whether to pursue staff cases or execute compromise agreement:
- Designation of approving authorities on legal recommendations.
- To prevent a lawsuit, more importantly, the following are being observed by the bank:
  - Maintenance of Legal Counsel in the form of Retainers and maintenance of the Legal Unit.
  - Regular consultation with the Legal Counsel and the Legal Unit on matters that has legal consequences.





- Regular monitoring and upgrading of legal policies.
- Reports on banking activities and other significant issues are submitted for regular review by the Board of Directors, Executive Committee, Management Committee Regulatory Agencies (i.e. BSP, PDIC, SEC, and BIR).

- Paralegal training for employees of the bank and capacity building for Legal Unit officers and staff.
- Regular monitoring of contracts being entered into by CARD Bank.
- Review of insurance premium being paid to Philippine Deposit Insurance Corporation.
- Periodic review and updating of legal documentation used by CARD Bank.

## 8. MARKET RISKS

Risk to earnings or capital arising from the possible decline in the value of trading accounts and investment in equities and debt instruments.

### Risk Profile:

- Low risk because the bank is not yet involved with trading.
- Investment and bills payable are being monitored by ALCO.

### Mitigating Strategies:

- Ensures to identify, measure, control, and monitor market risks that may arise from the conduct of its business transactions and at its portfolio level at all times.
- Active and appropriate Board and Senior Management oversight.
- Proposals and the subsequent new product/activity reviews are formally presented and written.
- An accurate, informative, and timely

management information system was regularly prepared and reviewed to inform management and to support compliance with board policy.

- Summary of findings or reviews of market risk policies and procedures and the adequacy of the market risk measurement systems including any findings of internal and external auditors and retained consultants.

## 9. BUSINESS CONTINUITY PROGRAM MANAGEMENT (BCP) RISK

Risk to swiftly resume business operation in the event of business disruptions/ disasters.

### Risk Profile:

- There is increasing risk since the bank was in the stage of digital transformation wherein reliant on technology that may impact the operation. However, there were actions taken and existing controls to relevant risks and ability of the bank to swiftly resume business operation in any disruptions/disasters.

### Mitigating Strategies:

- In the event of a disaster which interferes with the Bank's ability to conduct business from one of its offices, this program is to be used by the responsible individuals to coordinate the business recovery of their respective areas and/or departments.
- The plan is designed to provide a reference to all of the information that might be needed at the time of business recovery.
- The Business Continuity Management Program (Business Continuity Plan), part of the overall Risk Management Program of the Bank, has been established not only to comply with the requirement as set out by the Bangko Sentral ng Pilipinas (BSP), but also to serve as a guide for the Board and Senior Management in ensuring continuity in the business of the

bank and for carrying out smooth and efficient banking activities towards profitability.

• Coverage of the Business Continuity Management Program (Business Continuity Plan) as follows:

1. Alternate and Business Recovery Sites
2. Business Continuity
3. Business Continuity Management (BCM)
4. Business Continuity Plan (BCP)/Plan
5. Business Impact Analysis (BIA)
6. Crisis
7. Crisis Management Plan (CMP)
8. Critical Process
9. Cyber Resilience
10. Events
11. Pandemic
12. ecovery Point Objective (RPO)
13. Recovery Time Objective (RTO)
14. Resilience
15. Risk Assessment Technology Recovery Plan (TRP)/Disaster Recovery Plan (DRP)

**REGULAR MONITORING**

Risk identification is part of the regular activities of all bank personnel starting from Account Officer up to the Executive Level. All risk issues noted are being discussed on the respective meeting of each Unit and for those risks that cannot be resolved within the respective level are being discussed with upper management. The risks are identified through the following process:

- a. Risk Identification wherein the Unit can list down major risk that the Unit is facing.
- b. Major strategies and objectives of the Unit in resolving the identified.
- c. Discussions in the regular meeting

**RISK SCORING**

Risk Scores are calculated to help the Bank understand which of the current Risk Events represent the most significant threat to Bank and are most in need of mitigation. Risk Score is determined by cross referencing the likelihood that a risk will occur with the impact of the risk should it occur which is automatically calculated by the Risk Management Tool.

**Likelihood and Impact Severity Thresholds**

To allow Bank more accurate in determinations of the degree of threat presented by the present Risk Events, it uses the following severity thresholds:

RATING	MEANING	DESCRIPTION
1	Rare	Less than 5% of the risk to occur
2	Unlikely	6% to 20% of the risk occur
3	Possible	21% to 50% of the risk to occur
4	Likely	51% to 80% of the risk occur
5	Almost Certain	Greater than 80% of the risk to occur

**Impact to the Organizations**

RATING	MEANING	FINANCIAL	OPERATIONAL	REGULATORY	REPUTATIONAL
1	Insignificant	The impact of risk to the organization might involve either negligible, minimal, high, and/or significant financial loss.	Minimal disruption in the delivery of one of the institution’s services, products, and/or operations.	May receive queries or request report to be submitted to a regulatory body or may have legal or regulatory sanction and/or penalty.	Effect of risk might either localized, controllable, significant or long-lasting on the reputation of the Bank.
2	Mild				
3	Moderate				
4	Significant				
5	Catastrophic				

## RISK ORGANIZATIONAL STRUCTURE

### The Board of Directors

The Board of Directors delegate authority to the Risk Oversight Committee to balance performance and compliance by ensuring that management's actions are consistent with CARD Bank's strategy and in line with the organization's risk tolerance. The Risk Oversight Committee delegates authority for identifying, analyzing, managing, and reporting risks to an independent risk management department.

### The Risk Oversight Committee

CARD Bank had a founding vision being a bank that would be owned by the poor, especially by the landless rural women. This vision was kept intact by its Board Members, the management, and more importantly, by its members.

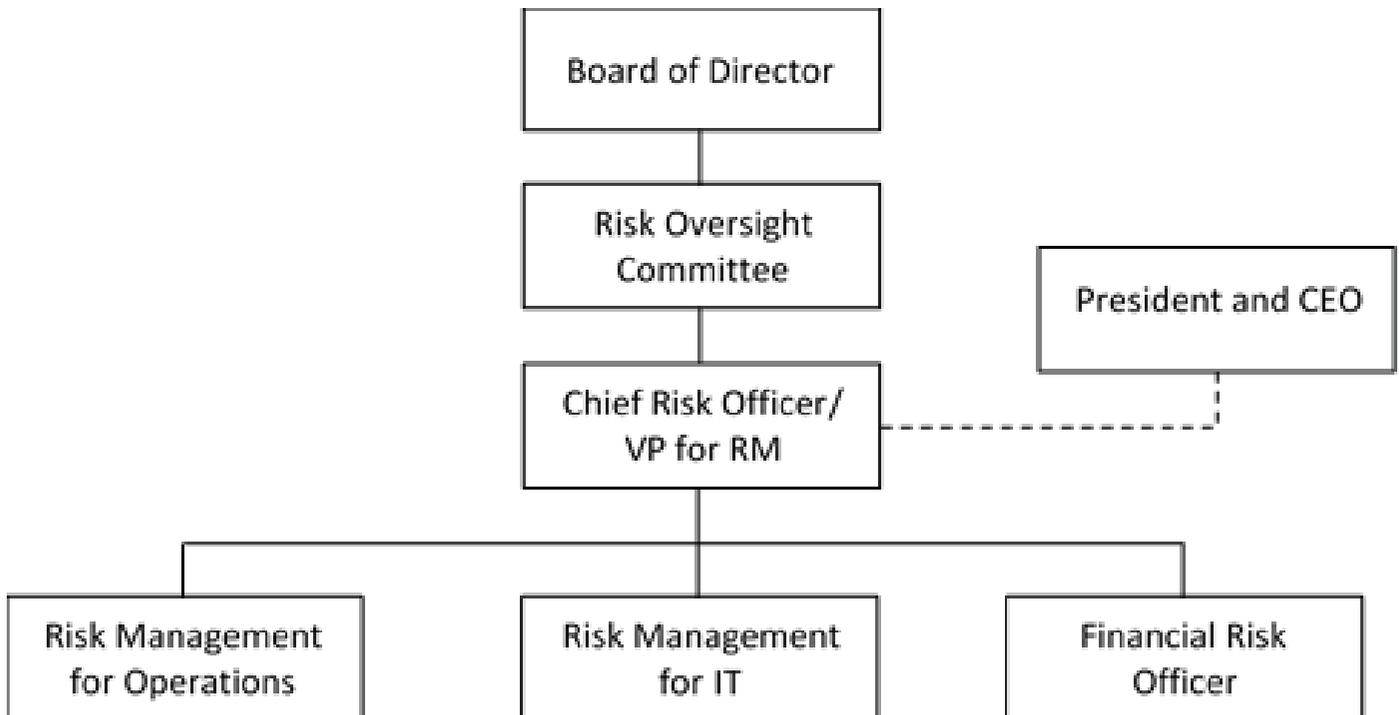
In line with this vision is the Board of Directors and management concern on "risk management". The creation and approval of the Risk Oversight

Committee, other than compliance to Circular No. 456, is also a vital move by CARD Bank, Inc.'s Board of Directors because a bank's success is largely dependent on the ability of its directors and officers in managing risks.

### The Risk Management Unit

CARD Bank has a functioning independent risk management unit that effectively covers all risks (including financial and operational risks) associated with the various activities and operations of the Bank to ensure their consolidated control and appropriate management and to provide the required coordination across all departments of the Bank.

The unit is headed by a Chief Risk Officer with a level of Vice President who is reporting to the Risk Management Committee and regularly coordinating to the President for all the matters related to risk. The unit is composed of Risk Manager, Risk Officer, IT Risk Officer, and Financial Risk Officer.



# CARD BANK

## DATA PRIVACY STATEMENT

CARD

*Sulit*

**Madala**



### GENERAL STATEMENT

CARD Bank, Inc. ("CARD Bank"), including its affiliates and subsidiaries and all members of the CARD Mutually Reinforcing Institutions ("CARD MRI"), values the confidentiality of personal data and committed to maintaining the privacy of its customers. This Data Privacy Statement ("Statement"), details how CARD Bank uses and protects personal data for the purpose of obtaining the consent of data subject in accordance with the Republic Act No. 10173, otherwise known as the Data Privacy Act of 2012, and its Implementing Rules and Regulations ("DPA"). This Statement also covers the privacy practices for our customers who apply for and obtain products and services from us, such as, but not limited to, deposits, loans, investments, insurance, remittances, and other such products and services that CARD Bank may offer from time to time.

### OUR PRIVACY PRACTICES

The privacy practices described in this Statement are primarily intended for individuals in the Philippines and are designed to comply with the provisions of the DPA. When accessing our websites and/or availing of our services through our branches, you acknowledge and agree that your information may be collected, processed, and transferred within the Philippines following legal and regulatory standards for data protection that may differ from your current or home jurisdictions.



## WHAT DATA DO WE COLLECT FROM YOU

To provide the client with CARD Bank's banking/ financial products and services and/or to implement client-requested transactions, CARD Bank shall collect personal information from the client which may include, but are not limited to:

- Name, Age, Date/Place of Birth, Gender, Civil Status, Nationality;
- Address and Contact Details (Home/ Business)
- Educational Background;
- Employment History;
- Financial Information (such as income, expenses, balances, investments, tax, insurance, financial and transaction history, etc.);
- Specimen Signature;
- Permits, Licenses & Registrations;
- Status of Pending Civil/Criminal Cases (if any);
- Telephone conversation recordings through our Customer Service Representative;
- CCTV footage for security purposes;
- Religion;
- Health/Disability;
- Regulatory Numbers (HDMF/SSS/TIN);
- Housewife/Husband Information (Name/ Occupation);
- Valid ID & Photos;
- Mother's Maiden Name

## HOW WE USE YOUR INFORMATION

CARD Bank uses your personal information to provide the services and products that you have availed or intend to avail from CARD Bank, including and together with following purposes:

- Opening, maintaining, and/or terminations

of accounts;

- Ease of contacting/communicating with clients;
- Evaluate, approve, provide, or manage applications, financial products and services, and other transactions that the client has requested;
- Comply with know-your-customer (KYC) information requirements as specified under the Manual of Regulations for Banks and other applicable regulations;
- Conduct of credit and background information checks and verification;
- Evaluate the client's eligibility for CARD Bank's products and services, such as loan inventory and loan validation;
- Perform risk profile and risk assessment;
- Perform Loan Utilization Check (LUC);
- Provide extensive and quality support to the client;
- For internal purposes, such as administrative, operational, audit, credit and risk management;
- Provide location-based services such as finding the ATM or branch nearest to you;
- Offering and processing of insurance products for the CARD Mutual Benefits Association
- Comply with legal and regulatory requirements such as submission of data to credit bureaus, credit information companies, the Credit Information Corporation (CIC), CISA, responding to court orders and other instructions and requests from any local or foreign authorities including regulatory, governmental, tax and law enforcement authorities or other similar authorities;
- Perform other such activities permitted by law or with your consent.



## **WHEN DO WE COLLECT PERSONAL INFORMATION**

CARD Bank collects personal information through, but not limited to, any of the following:

- Face-to-face and/or telephone conversation with CARD Bank Customer Service Representative;
- Accomplishment and/or signing of forms/ documents (e.g. loan proposal, New Accounts Form, Insurance Products, Employment application, and contracts and Client Information Form);
- Registration through electronic banking channels and services (e.g. Mobile Banking Application-Konek2CARD, HCIS); and
- Conducting Background and credit investigation and Loan Utilization Check
- inquiries to the Credit Bureau such as CIC, NFIS, and MIDAS.

## **RECIPIENTS OF INFORMATION**

We may share your personal information with our subsidiaries, affiliates, and third parties, including members of CARD MRI, for the purposes above and with an obligation of confidentiality. Your personal information may similarly be disclosed to government agencies, supervisory bodies, tax authorities, or courts of competent jurisdictions for purposes of complying with banking regulations, which CARD Bank may be subject to such as Republic Act No. 9160 otherwise known as the Anti-Money

Laundering Act of 2001 or Republic Act No. 9510 otherwise known as the Credit Information System Act ("CISA"), among others.

If necessary, for the efficient delivery of CARD Bank's products and services, we may also outsource the processing of your personal information to third-party service providers or CARD MRI, consistent with the terms of this Statement and the provisions of the DPA.

## **HOW WE SAFEGUARD PERSONAL INFORMATION**

In accordance with the provisions of the DPA, Republic Act No. 1405 otherwise known as the Bank Secrecy Law, Republic Act No. 8791 otherwise known as the General Banking Law of 2000, Republic Act No. 6426 otherwise known as The Foreign Currency Deposit Act, BSP Circular No. 808, Series of 2013 otherwise known as the Guidelines on Information Technology Risk Management for All Banks and other Supervised Institutions, and BSP Circular No. 982, Series of 2017 otherwise known as the Enhanced Guidelines on Information Security Management, CARD Bank, its employees, agents, and representatives, shall handle personal information with utmost care and adhere to the implemented organizational, physical, and technical security measures to maintain the confidentiality, integrity, security, and availability of all personal information under its custody.

## **HOW LONG DO WE KEEP YOUR INFORMATION**

Documents containing your personal information will be retained in the records and systems of CARD Bank for a period no longer than five years from the date of the termination of your account or of the specific transaction with CARD Bank, unless CARD Bank is required by law to retain the information for a longer period.

## **YOUR RIGHTS AS DATA SUBJECT**

CARD Bank respects your rights to:

1. Be informed;
2. Object to the processing of your personal data;
3. Have reasonable access to your personal data under the custody of CARD Bank;
4. Require immediate correction of inaccurate or erroneous personal data under the custody of CARD Bank;
5. Suspend, withdraw or order the blocking, removal or destruction of your personal data





from CARD Bank's records and/or system; and  
6. Be indemnified in case of violation of your rights as a data subject.

You may reach us for any questions, concerns, or requests you may have on your personal data and exercising the above rights.

### **HOW TO CONTACT US**

Should you need to get in touch with us for any data privacy concerns or requests or should you have any questions or clarifications regarding the Statement, CARD Bank has adopted a Customer Assistance Management System (CAMS). This is an organized system where customer feedback, inquiries, and complaints are carefully handled and processed. Through this channel, a Customer Service Officer, who serves as the representative of the Data Protection Officer shall initially assist you and raise such concerns to the Compliance Unit of CARD Bank.

You may also visit the Customer Service Desk at any of CARD Bank's branches or call the Customer Service Hotlines at the following numbers:

+6349-503-4156  
+6349-503-1547  
+63909-233-6852

You may also e-mail us at [info@cardbankph.com](mailto:info@cardbankph.com) or visit our website [www.cardbankph.com](http://www.cardbankph.com).

Alternatively, for any pressing concerns, you may reach our data protection officer at the following contact information:

Email: [dpo@cardmri.com](mailto:dpo@cardmri.com)  
Telephone Number: (049) 562-4309  
Address: 20 ML Quezon St., City Subdivision, San Pablo City Laguna

### **CHANGES TO OUR PRIVACY STATEMENT**

We may amend or modify the terms of this Statement from time to time to ensure relevance with the relevant laws and regulations applicable to CARD Bank. Any relevant modification will be posted on our website and distributed to all CARD Bank branches and Centers.

# CARD BANK MANAGEMENT PROFILES

## Ms. Marivic M. Austria

President and CEO

Age: 46 Years Old  
Nationality: Filipino  
Length of Service: 22 Years

### QUALIFICATIONS

#### Educational Attainment:

School Attended	Degree/Course	Years Attended
Harvard Business School	Advance Management Program	2014
Asian Institute of Management	Executive Master's in Business Administration	2007
Laguna College	BS Commerce - Accounting	1993

#### Work Experience:

Institution	Position	Duration
CARD Bank	Senior Vice-President for Risk	Jan. 2012 - Dec. 2015
CARD Bank	Sr. Dir. for Audit and Other Services	Jul. 2011 - Dec. 2011
CARD Bank	Internal Audit Director	Jan. 2009 - Jun 2011
CARD Bank	Internal Audit Director/ Compliance Officer	Jul. 2000 - Dec. 2008
CARD Bank	Internal Auditor	May 1998 - Jun. 2000
CARD Bank	Cashier	Sep. 1997 - Apr. 1998

## Ms. Lorenza dT. Bañez

Executive Vice President (Until November 2019)

Age: 60 Years Old  
Nationality: Filipino  
Length of Service: 22 Years

### QUALIFICATIONS

#### Educational Attainment:

School Attended	Degree/Course	Years Attended
Development Academy of the Philippines	Major Courses in Productivity and Quality Management-Microfinance	2013
SNHU, Manchester, NH	Master of Science in International Community Economic Development	2007
Asian Institute of Management	Program Development for Manager	1991
Laguna College	BS Commerce - Accounting	1980

#### Work Experience:

Institution	Position	Duration
CARD Bank	Executive Vice-President	Sep. 1997 - Nov. 2019
CARD, Inc.	Associate Director	1990 - Aug. 1997
SPC Federation of Core Group	Program Manager	Jan. 1989 - Jun 1989
PBSP	Program Accountant	1980 - 1988

## Ms. Lourdes B. Dijan

Executive Vice President

Age: 57 Years Old

Nationality: Filipino

Length of Service: 22 Years

### QUALIFICATIONS

#### Educational Attainment:

School Attended	Degree/Course	Years Attended
SNHU, Manchester, NH	Master of Science in International Community Economic Development	2008
Trinity College	Master's in Business Administration	2003
Rizal Technological Colleges	BSBA - Accountancy	1985

#### Work Experience:

Institution	Position	Duration
CARD Bank	Executive Vice-President for Finance	Jun. 2015 - Nov. 2019
CARD Bank	Senior Vice President for Finance	2013 - 2015
CARD Bank	Vice President for Finance	2010 - 2013
CARD Bank	Assistant Vice President for Finance	2007 - 2010
CARD Bank	General Accountant	2000 - 2007
CARD Bank	Bookkeeper	1998 - 2000

## Ms. Marissa M. De Mesa

Executive Vice President for Audit

Age: 47 Years Old

Nationality: Filipino

Length of Service: 22 Years

### QUALIFICATIONS

#### Educational Attainment:

School Attended	Degree/Course	Years Attended
Asian Institute of Management	Executive Master's in Business Administration	2010
Trinity College	Master's in Business Administration	2004
Sacred Heart College, Lucena City	Bachelor of Science in Social Work	1993

#### Work Experience:

Institution	Position	Duration
CARD Bank	Senior Vice-President for Risk Management	Jun. 2015 - Mar. 2019
CARD Bank	First Vice-President for Operation	Dec. 2012 - May 2015
CARD Bank	Vice President for Operation	Jan. 2012 - Dec. 2012
CARD Bank	Assistant Vice President for Operation	Jan. 2011 - Jan. 2012
CARD Bank	Org. & Admin Director	Jul. 2003 - Jun. 2005
CARD Bank	Bank Manager/ Loan Officer	Sep. 1997 - Jan. 2001

# CARD BANK MANAGEMENT PROFILES

## Ms. Ma. Rowena F. Galarde

Senior Vice President  
for Finance

Age: 44 Years Old  
Nationality: Filipino  
Length of Service: 22 Years

### QUALIFICATIONS

#### Educational Attainment:

School Attended	Degree/Course	Years Attended
SAIDI School of OD	Master of Art's in Organizational Development specializing in Microfinance Management	2012
San Pablo Colleges	Bachelor of Science in Accountancy	1996

#### Work Experience:

Institution	Position	Duration
CARD Bank	Senior Vice-President for Risk	Jan. 2012 - Dec. 2015
CARD Bank	Sr. Dir. for Audit and Other Services	Jul. 2011 - Dec. 2011
CARD Bank	Internal Audit Director	Jan. 2009 - Jun 2011
CARD Bank	Internal Audit Director/ Compliance Officer	Jul. 2000 - Dec. 2008
CARD Bank	Internal Auditor	May 1998 - Jun. 2000
CARD Bank	Cashier	Sep. 1997 - Apr. 1998

## Ms. Laarne D. Paje

Vice President for  
Risk Management

Age: 42 Years Old  
Nationality: Filipino  
Length of Service: 8 Years

### QUALIFICATIONS

#### Educational Attainment:

School Attended	Degree/Course	Years Attended
SNHU, Philippine Campus	Master of Science -International Community Economic Development	2012
Acquinas University	Bachelor of Science in Accountancy	2000

#### Work Experience:

Institution	Position	Duration
CARD Bank	Vice-President for Audit	Jan. 2018 - March. 2019
CARD Bank	Assistant Vice-President for Audit	Jan. 2015 - Dec. 2017
CARD Bank	General Internal Audit Manager	Jul. 2011 - Jan. 2015
CARD, Inc.	Sr. Internal Audit Manager	2008 - 2011
CARD, Inc.	Internal Auditor	2001 - 2008

## Ms. Glenda C. Magpantay

Vice President for Operation

Age: 43 Years Old

Nationality: Filipino

Length of Service: 22 Years

### QUALIFICATIONS

#### Educational Attainment:

School Attended	Degree/Course	Years Attended
Harvard Business School	Senior Executive Leadership Program	2019
Asian Institute of Management	Management Development Program	
SAIDI / SNHU	Master of Science in International Community Economic Development	2010
Trinity College	Master's in Business Administration	2004
San Pablo Colleges	Bachelor of Science in Business Administration	1997

#### Work Experience:

Institution	Position	Duration
CARD Bank	Assistant Vice-President for Operation	Dec. 2010 – Dec. 2018
CARD Bank	Regional Director	Jun. 2006 – Nov. 2010
CARD Bank	Area Manager	Jan. 2000 – May. 2006
CARD Bank	Branch Manager	Jan. 1999 – Dec. 1999
CARD Bank	Account Officer	Sep. 1997 – Dec. 1998

## Ms. Herminigilda P. Manuba

Vice President for Operation

Age: 53 Years Old

Nationality: Filipino

Length of Service: 13 Years

### QUALIFICATIONS

#### Educational Attainment:

School Attended	Degree/Course	Years Attended
Development Academy of the Philippines	Master in Productivity and Quality Management major in Microfinance	2013
San Pablo Colleges	Bachelor of Elementary Education (BEED)	1989

#### Work Experience:

Institution	Position	Duration
CARD Bank	Assistant Vice-President for Operation	Dec. 2014 – Dec. 2018
CARD Bank	Regional Director	Jan. 2006 – Nov. 2014
CARD, Inc.	Area Manager	1998 – 2006
CARD, Inc.	Unit Manager	1996 – 1998
CARD, Inc.	Account Officer	1993 – 1996

# CARD BANK MANAGEMENT PROFILES

## Mr. Ronnie D. Fallega

Vice President for Information Technology  
/ Chief Information Officer

Age: 42 Years Old  
Nationality: Filipino  
Length of Service: 19 Years

### QUALIFICATIONS

#### Educational Attainment:

School Attended	Degree/Course	Years Attended
Asian Institute of Management	Management Development Program	
SAIDI School of OD	Master of Art's in Organizational Development specializing in Microfinance Management	2011
Masbate Colleges	Bachelor of Science in Accountancy	2005

#### Work Experience:

Institution	Position	Duration
CARD Bank	AVP for Operation	2009 – 2013
CARD Bank	Regional Director	2007 – 2009
CARD Bank	Area Manager	2006 – 2007
CARD Bank	Branch Manager	2005 –2006
CARD Bank	Savings and Loan Officer	2000 – 2005
CARD, Inc.	Account Officer	1998 – 2000

## Mr. Niceto Q. Lupig

Vice President for  
Information Technology

Age: 57 Years Old  
Nationality: Filipino  
Length of Service: 2 Years

### QUALIFICATIONS

#### Educational Attainment:

School Attended	Degree/Course	Years Attended
Batangas State University	Bachelor of Science in Mechanical Engineering	1989

#### Work Experience:

Institution	Position	Duration
CMIT, Inc.	CS Project Consultant	Apr. 2015 – Aug. 2015
CMIT, Inc.	CBS Project Manager	Sep. 2015 – Sep. 2017
Total Information Management Corp.	Senior Technical Consultant	Feb. 2014 – Mar. 2015
L and S Company	Senior System Consultant	Jun. 2008 – Jan. 2014
Luzon Development Bank	IT Specialist	Nov. 1992 – Jun. 2008

## Mr. Jeffrey M. Rondina

Vice President for Compliance  
/ Chief Compliance Officer

Age: 37 Years Old  
Nationality: Filipino  
Length of Service: 4 Years

### QUALIFICATIONS

#### Educational Attainment:

School Attended	Degree/Course	Years Attended
Asian Institute of Management	Executive Master's in Business Administration	2013
Laguna College	Bachelor of Science in Accountancy	2003

#### Work Experience:

Institution	Position	Duration
CARD SME Bank, Inc.	Chief Compliance Officer	May. 2012 – Mar. 2017
CARD SME Bank, Inc.	Compliance Officer	Jan. 2010 – May. 2012
Rural Bank of Sto. Tomas	Compliance Officer/Internal Audit Manager	Jan. 2009 – Jul. 2010
CARD Bank, Inc.	Internal Auditor	Apr. 2006 – Dec. 2008
CARD, Inc.	Internal Audit Assistant	Aug. 2004 – Mar. 2006
CARD, Inc.	Branch Cashier	Jun. 2003 – Jul. 2004

## Ms. Rizaline A. Manalo

Assistant Vice President  
for Operation

Age: 45 Years Old  
Nationality: Filipino  
Length of Service: 17 Years

### QUALIFICATIONS

#### Educational Attainment:

School Attended	Degree/Course	Years Attended
SAIDI School of OD	Master of Art's in Organizational Development specializing in Microfinance Management	2012
Manuel S. Enverga University	Bachelor of Science in Industrial Engineering	1996

#### Work Experience:

Institution	Position	Duration
CARD Bank	Regional Director	Aug. 2010 – Feb. 2016
CARD Bank	Area Manager	Jul. 2005 – Jun. 2007
CARD, Inc.	Unit Manager	Jul. 2003 – Jun. 2005
CARD, Inc.	Bookkeeper	Mar. 2002 – Jun. 2003
CARD Bank	Unit Manager	Feb. 1999 – Feb. 2002
CARD, Inc.	Account Officer	Jan. 1997 – Jan. 1999

# CARD BANK MANAGEMENT PROFILES

## Ms. Baby Analyn A. Malaborbor

Assistant Vice President  
for Operation

Age: 43 Years Old  
Nationality: Filipino  
Length of Service: 20 Years

### QUALIFICATIONS

#### Educational Attainment:

School Attended	Degree/Course	Years Attended
Asian Institute of Management	Management Development Program	
SAIDI School of OD	Master of Art's in Organizational Development specializing in Microfinance Management	2009
Laguna College	Bachelor of Science in Commerce Major in Management	1997

#### Work Experience:

Institution	Position	Duration
CARD Bank	Sr. Regional Director	2016 -2019
CARD Bank	Regional Director	2009 -2015
Rural Bank of Sto. Tomas (Batangas), Inc.	General Manager	2007 - 2009
CARD Bank	Area Manager	2006 - 2007
CARD Bank	Unit Manager	2004 - 2006
CARD Bank	Account Officer	1997 - 2004

## Ms. Clarita G. Mercado

Assistant Vice President  
for Operation

Age: 43 Years Old  
Nationality: Filipino  
Length of Service: 21 Years

### QUALIFICATIONS

#### Educational Attainment:

School Attended	Degree/Course	Years Attended
SAIDI School of OD	Master of Art's in Organizational Development specializing in Microfinance Management	2012
Manuel S. Enverga University	AB Psychology	1998

#### Work Experience:

Institution	Position	Duration
CARD Bank	Sr. Regional Director	2016 -2017
CARD Bank	Regional Director	2013-2016 / 2008-2013
CARD Bank	Remittance Manager	2013
CARD Bank	Area Manager	2007 - 2008
CARD Bank	Unit Manager	2006 - 2007
CARD Bank	Account Officer/ Loan Officer	1998 - 2006

## Ms. Raquel B. Saragoza

Assistant Vice President  
for Operation

Age: 46 Years Old

Nationality: Filipino

Length of Service: 14 Years

### QUALIFICATIONS

#### Educational Attainment:

School Attended	Degree/Course	Years Attended
Asian Institute of Management	Management Development Program	
SAIDI School of OD	Master of Art's in Organizational Development specializing in Microfinance Management	2012
Masbate Colleges	Bachelor of Science in Accountancy	1995

#### Work Experience:

Institution	Position	Duration
CARD Bank	Sr. Regional Director	Jan. 2019 – Jul. 2019
CARD Bank	Regional Director	Jul. 2012 – Dec. 2018
CARD, Inc.	Regional Head	Jan. 2005 – Jul. 2012
CARD Bank	Branch Manager	Jan. 1998 – Dec. 2004
CARD, Inc.	Account Officer	Apr. 1995 – Dec. 1997

### List of Major Stockholders of CARD Bank, Inc. (with more than 10% Equity Shares)

NAME OF STOCKHOLDER	NATIONALITY	TYPE OF SHARES	PERCENTAGE OF STOCKHOLDINGS	VOTING STATUS
Dr. Jamie Aristotle B. Alip	Filipino	Common	12.77%	Voting
Dr. Dolores M. Torres	Filipino	Common	11.11%	Voting
Ms. Lorenza dT. Bañez	Filipino	Common	10.06%	Voting
Center for Agriculture and Rural Development (CARD), Inc. (A Microfinance NGO)	Filipino	Common	29.57%	Voting
CARD Mutual Benefit Association, Inc.	Filipino	Preferred	59.37%	Non-Voting

## **ORIENTATION, SEMINARS, AND EDUCATION FOR BOARD AND SENIOR MANAGEMENT**

Board composition and dynamics are critical to bank's operation. Within the framework of positive board culture, the board will leverage their diverse skills set to excellent advantage. With this, Board of Directors training programs help build the skills for driving positive board culture - especially if undertaken as a team.

As the governing body of the Bank, Boards of Directors provide the leadership and accountability that determine the success of the institution. The board recognizes the importance of training and development of individual directors and the board as a whole. It was recognized as an important investment for the bank as it intends to operate at its greatest effectiveness.

All directors of the Bank have attended Corporate Governance Seminar conducted by accredited private institutions prior to, or at least immediately after, assumption of office. All newly elected Board of Directors undergone orientation on their duties and responsibilities as board of directors including the general operating procedures of the Bank. Prior to his election as member of the Board of Directors, candidates were invited to seat as observers in the meeting of the Bank's committee and board of directors to get familiar with the banking operations.

In 2019, majority of the members of the Board of Directors and Senior Management have attended "IT Governance Principle Course" and "Anti-Money Laundering & Combating the Financing of Terrorism" seminars conducted by ISACA Manila Chapter and Bankers Association of the Philippines (BAIPHIL), respectively. In addition, the board is continually updated of the anti-money laundering initiatives, Bangko Sentral ng Pilipinas circulars, and other banking-related issues, as needed.

In-house and external training programs (locally and internationally) are also provided to senior officers to further expand and strengthen their areas of expertise, update them on regulatory matters, bring in new ideas and practices to the organization, and expand their networks. These local and international training programs include technical training programs, conferences, and conventions. As part of the capacity building program of the bank for its Senior Management, qualified officers were sent to master's degree and short degree programs, both locally and internationally.

## **BOARD AND SENIOR MANAGEMENT SELECTION PROCESS**

### **Board Selection Process**

To ensure that clients are represented on the policy making body of the Bank, seat/(s) in the board are allotted for the member-board of directors. To ensure, however, that the board passed the required qualifications, selection process is needed.

1. The Selection Committee is informed through the Governance Committee of the need to conduct selection/nomination at least one year before the position will be vacated or replaced.
2. Invitation will be sent to the members through the operations staff (from Regional Head to Unit Manager). It must be clear that nomination will directly come from the members and not as endorsed or selected by the Account Officer.
3. Nomination will be forwarded to the HR personnel who then will forward to the Selection Committee.
4. Personal interview will be conducted by the Selection Committee at the place where the nominees are residing. Selection committee shall consist of two (2) Board of Directors and an HR.





5. Selection Committee prepares reports and conduct deliberation based on the selection criteria as to who shall be the shortlist nominees.

The nomination selection criteria for the committee member/board member are as follows:

- a. Membership record performance (repayment, attendance, and length of membership with CARD)
  - b. Business potential to support the family needs as well as other family activities or engagement: on-going business, at least college graduate or have at least 5 years' experience in business, legality of the business.
  - c. Achievements and development work involvement: in CARD, in family, and in the community.
  - d. Personal attributes: Self-confidence, communication skills, values and principle in life, and good grooming.
  - e. Reputation in the community, family background and how the family is regarded in the community.
6. Result of the deliberation shall be submitted to the Governance Committee for review and approval for further endorsement to the Board.
7. As part of the process, shortlisted nominees

are invited to become board member observer to the board meeting for three (3) consecutive months, one at a time (while first priority nominee attends for three consecutive meetings, record/profile/background of the next nominee is also evaluated/revalidated prior to her turn to take the place as the next board member observer). This is to give ample time to further evaluate them and see their fitness to the position.

8. The finalist/top selected nominees are then endorsed to the Governance committee for further endorsement to the board.
9. The final selected nominees attend the board meeting as a regular observer.
10. While her status remains as a regular member observer to the board, she is also invited to join the board committee (usually in the Remittance and Savings Mobilization Committee).
11. While attending as regular member observer to the board, she is also given opportunity to share and report based on the center visit she conducted during the month.
12. When available position in the board opens, regular member observer to the board is further endorsed to the board for confirmation.
13. Once confirmed by the board, submission of the profile/bio-data to the BSP is done.
14. Selected Board Member is also required to attend the Corporate Governance and Risk Management Seminar.



### **Senior Management Selection Process**

Senior management is filled from within the ranks prioritizing them for opportunities on growth and career development. This is without prejudice to recruitment outside of the institution, except when certain special qualifications, experience, and training are required for the job. In offering this opportunity, it is the policy of the CARD SME Bank, Inc., to likewise provide equal chances among all qualified employees across CARD MRI.

### **PERFORMANCE ASSESSMENT**

#### **Board Members**

Consistent with the principles of good corporate governance, the corporate governance committee is responsible in ensuring the effectiveness and due observance of the board on the principles and guidelines stated in the Corporate Governance manual. It includes overseeing periodic performance evaluation of the board and its committees including executive management. An annual performance assessment was conducted to measure director's effectiveness and if adequately carrying out their duties as director, and their contribution and performance (e.g. duty of care, duty of loyalty, duty of obedience, management accountability, strategic planning, and policy setting). Committee's performance was also evaluated based on their respective duties and responsibilities.

The result of the evaluation should be forwarded to the committee who will be responsible in deciding whether each director has been adequately carrying out his duties using the criteria stated in the evaluation form. The result of the evaluation shall be the basis of the committee in recommending continuing education of directors and succession plan for the board members and senior officers.

### **REMUNERATION POLICY**

#### **Board Members**

Consistent with the section 29 of the Corporation Code of the Philippines and as provided in the ByLaws of the Bank, Directors shall not receive any compensation, except for reasonable per diems. In which no case shall the total yearly compensation of directors exceed ten percent (10%) of the net income before income tax of the bank during preceding year. Further, only expenses deemed necessary for them to attend the meetings and discharge their official duties shall be allowed for reimbursement.

#### **Senior Management**

CARD Bank, Inc. has adopted a standardized salary grading system applicable for all level of position with a corresponding rates of pay that are fair and equitable in relation to the job requirements in terms of complexity, responsibility, skills and qualifications. The Bank maintains a salary and benefits structure competitive with the prevailing rates/system of similar agencies and organizations compatible with the financial condition and objectives of the institution. These remuneration policies of the bank are duly approved by the Board of Directors. There will be a provision on annual increase and performance assessment measures.

All officers and employees of the bank are entitled for all regulatory benefits mandated by law, including other institutional benefits such as but not limited to retirement benefits, life and health insurance, further studies locally and abroad, international exposures, performance bonus and salary appraisal.

#### **Retirement, Succession Planning and Development Program**

Elected Directors serve for a period of one (1)

year from May to April of the succeeding year shall continue to serve until their successor is duly appointed. Members of the Board of Directors are not entitled to any retirement benefits. There is no prescribed age limit for Directors, provided, they are physically and mentally fit for the position.

As CARD Bank, Inc. continues to grow and expand, it is fundamental to ensure readiness of the next generation of leaders. The bank aims to sustain its core values of excellence by ensuring that next-in-line leaders are equipped with adequate knowledge and competence. This is to prepare next level officers assuming vacancies in senior management positions brought about by expansion, promotion, and retirement, among others. Through the succession program of the bank support by its CORPORATE GOVERNANCE AND RISK MANAGEMENT 47 capacity building program, it ensures that qualified employees are recruited and developed to fill each key role within the bank.

Under this program are as follows:

- Succession Management program for middle to senior management officers to assume leadership position.
- Master's Degree Program and short-term leadership management course for middle management officers.
- The mandatory retirement age for all Bank officers and staff including senior officers is 60 years old.

### **Policy Statement**

1. CARD Bank, Inc. must ensure continuity of a strong leadership through operationalizing an effective and sound succession planning and development program.
2. CARD Bank, Inc. must ensure that a strong and sound succession planning program identifies and fosters the next generation of leaders.
3. CARD Bank, Inc. must ensure that employees have development opportunities to hone their leadership skills and must guarantee that the organization has a leadership plan in place for success in the future.
4. The Succession Planning and Development Program must link talent development with the strategic goals of the Board, the institution, and the staff.

5. The President and CEO may only serve for a total of five years term, however, he/she may be re-appointed subject to the approval of the Board of Directors and confirmation of the Bangko Sentral ng Pilipinas.

### **Scope**

The Succession Planning and Development Program covers key positions particularly in the Executives, Management Committee and the Middle Management.

### **Policy Guidelines**

1. Succession Planning and Development Program particularly for the Senior Management is reviewed at the Board level through the Governance Committee at least annually.
2. In operationalizing the program, the HRD works with the management and the Board in identifying, developing (through mentoring, training, and stretch assignments), transitioning, and posting of the next generation of leaders.

### **Roles and Responsibilities**

1. Succession Planning and Development for Key Officers is centralized to the President with the assistance of the HRD. Meanwhile, for the Management Committee and Middle Managers are the responsibility of the HRD with the support from the Supervisors and guidance from the President.
2. The HRD is responsible in finding people who embody the culture of the Bank and will be able to help them develop skills to make CARD Bank, Inc. stay viable in the future.
3. Supervisors and Managers, in line with the staff development program, must look for opportunities for their staff for them to gain experience and must provide them with necessary support and coaching to be more successful.

### **Policy Violation and Non-compliance**

Success in the Succession Planning and Development Program relies on the support and cooperation of all, particularly from the Management. Hence, they are held accountable and responsible for any violation and noncompliance in this policy.

### **Exemption Handling**

Any deviation from this policy shall be approved by the President and the Chairman of the Board.

## DIVIDEND POLICY

The Bank's dividend policy is an integral component of its capital management policy rather than a stand-alone process. Its fundamental and overriding policy is sustainability.

Dividends are declared and paid out of unrestricted retained earnings of the Bank at such intervals as the Board of Directors may determine and in accordance with the provisions of the law and the regulations of the Bangko Sentral ng Pilipinas (BSP) and the Securities and Exchange Commission (SEC).

The payment of dividends in the future will depend on the Bank's earnings, cash flow, financial condition, regulatory requirements for capital, and other factors. Circumstances which could restrict the payment of cash dividends include, but not limited to, when the Bank undertakes major projects and developments requiring substantial cash expenditures. The Board of Directors may, at any time, modify the Bank's dividend payout ratio depending on the results of operations and future projects and plans of the Bank. The Bank also consider the Bank's internally set limits on Capital Adequacy Ratio Liquidity Ratio before and after dividends declaration.

At the time of dividends declaration, the bank ensures that it is compliance with the requirements on the declaration of dividends under Section 124 of the Manual of Regulation for Bank of the BSP, as follows:

1. Clearing account with the Bangko Sentral is not overdrawn;
2. Liquidity floor requirement for government funds;
3. Minimum capitalization requirement and risk-based capital ratios as provided under applicable and existing capital adequacy framework;
4. Has not committed any unsafe or unsound banking practice and/or major acts or omissions as may be determined by the Bangko Sentral;
5. Has accumulated reserves of \_\_\_ for the retirement of the government preferred stock which is at least equal to the amount prescribed in Subsection 3136.2 of the MORB;
6. Has complied with the provisions of Section 43 (Power to declare dividends) of The Corporation Code of the Philippines (Batas Pambansa Blg. 68), as may be applicable; and
7. (incomplete)

## CONSUMER PROTECTION PRACTICES

In view of the Bangko Sentral ng Pilipinas (BSP) mandates for Financial Consumer Protection, the Bank has adopted a Consumer Protection Compliance Program to provide better protection of the interest of the consumers. This will assist the bank in achieving the following objectives towards customer's protection.

- Promote fair and equitable financial services practices by setting standards in dealing with customers.
- Increase transparency to inform and empower consumers regarding financial services.
- Provide efficient and effective mechanisms in handling consumer complaints relating to the provision of financial products and services.

### Consumer Protection Risk Management System

To ensure that consumer protection risks inherent in the bank's operations are identified, measured, monitored, and controlled, the Bank adopted a risk management system that is adherence to consumer protection standards and compliance with consumer protection laws, rules, and regulations.

The Board of Directors have the ultimate duties and responsibilities to ensure full compliance with the consumer protection policies and procedures. The board is responsible for the development and maintenance of a sound Customer Protection and Risk Management System for all products and services life cycle. The Board and Senior Management ensure that effectiveness of this system is periodically reviewed including reporting of findings and audit mechanism in place. The Compliance unit is the designated office to monitor the implementation of this program. Simultaneous with operations and financial audit, Internal Audit unit likewise ensure that bank's consumer protection practices have been implemented and reviewed.

The continuing education of the Bank's personnel and customers is vital towards maintaining a sound consumer protection compliance program. As such, the bank sees to it that all bank employees and customers shall be given appropriate training on consumer protection.

#### *a. Disclosure and Transparency*

Recognizing the contribution as well as the rights of customers, the Bank in its policy

promotes disclosure and transparency by providing customers with sufficient information to understand the products and services being offered. This information will enable customers to make informed financial decisions by providing them easy access to information such as terms and condition of the products/services being availed of, benefits, and its associated risks.

#### **b. Protection of customer information**

It is always the bank's primary responsibility to ensure protection of its client information. As such, the bank ensures that policies and procedures to protect customer information and records are in place. This covers protection against any threat to security or integrity of customer's records and information and unauthorized access or use.

#### **c. Fair Treatment**

The bank ensures that customer is treated fairly, honestly, and professionally. Fair treatment of the client shall also cover dealing of the bank employee in marketing and delivering products and services.

#### **Conflict of Interest**

The members of the board, management, officers, and employees adheres to ethical business conduct and shall not enter into business transactions where conflict of interest may arise. As such, the bank ensures that the following are consistently complied for the protection of the bank and its customer.

- a. Full disclosure to the customer prior to any transaction that the bank or its staff has an interest in a direct/cross transaction with consumer.
- b. Should products be marketed is issued by a related company, the bank informs the customer on the limited availability of the products being marketed.
- c. Basis of the remuneration (e.g. commission, incentives, etc.) of the bank at pre-contractual

stage is disclosed.

- d. Regular monitoring to promptly identify issues and matters that may be detrimental to the customer is conducted.

#### **Consumer Assistance Management System (CAMS)**

To ensure that clients have accessible way of reaching the management for their queries, clarifications, and complaints on the bank's products and services, the Bank has implemented the consumer assistance management system. The consumer assistance management system was posted within the bank's premise and website ([www.cardbankph.com](http://www.cardbankph.com)) to achieve a good communication system.

- Established a consumer service unit that is responsible in dealing with consumer concerns independently. The personnel handling customer service is equipped with the necessary knowledge and skills in the implementation of customer assistance program of the bank.
- Several channels have been set up by the bank to ensure that customers are given option to lodge their concern as follows:

1. Customer Service Officer (CSO) in the branch for walk-in clients;

2. Customer Service Desk  
Customer Service hotline numbers:  
+6349-503-4156  
+6349-503-1547  
+63909-233-6852

3. Bank email address:  
[cardbankcsr@cardmri.com](mailto:cardbankcsr@cardmri.com) or  
visit our website [www.cardbankph.com](http://www.cardbankph.com)

- Installation of suggestion box and incidents complaint logbooks to all branches and branch-lite unit offices.

# CORPORATE SOCIAL RESPONSIBILITY

## Policy Objective

To cater in social empowerment in Corporate Social Responsibility (CSR) programs for CARD Bank create more opportunities to raise savings mobilization, reduce default rates and measure more positive community impact among members.

## Policy Statement

CARD Bank shall ensure that the CSR investment shall proactively consider as a business opportunity and strategy to support the Social Performance Management as a whole.

For almost three decades, CARD Bank assured that the CSR addresses the impact on the lives of its beneficiaries, its relevance in addressing current society concerns, its long term commitment to continue the program and services, and its effectiveness in inspiring other institutions to resonate the same initiatives.

CARD Bank aim to provide holistic social development service to the poor by giving its clients access to health services. CARD Bank clients, their children and deserving students from indigent and poorest communities have also the opportunity to get educational assistance and scholarships. CARD Bank also ensures that its members and their families can get back on their feet through immediate provision of relief goods, stress debriefing, health missions, and immediate claims payment.

CARD Bank believes that financial support must be paired with suitable and effective community development services so that poverty eradication can be achieved. CARD Bank has been very active in delivering various programs which may assist its clients in order to support their growing enterprises as well as their other needs in health and education.

#### **A. SCHOLARSHIP PROGRAM**

Believing that education brings about change in the community, CARD Bank offers educational assistance and scholarship through the CARD Scholarship Program (CSP) under the Resource Mobilization Unit (RMU) of CARD MRI. This was launched in 2000 and CSP has been actively and successfully providing a platform for qualified students to have well-deserved opportunities for education.

#### **B. HEALTH PROTECTION PROGRAM**

CARD Bank ensures that health condition of its clients is protected. We found out that most members and their families suffer from common, treatable, and/or preventable illnesses. Thus, the Microfinance and Health Protection Program was conceptualized. Greater availability and access to affordable physician consultation services; affordable, quality prescription drugs to treat the most common diseases; and more information about how to use health care services that are available, including when to seek treatment for themselves and their families are the greatest healthcare needs of these families.

We continue to provide these primary healthcare needs which we already extended across the country.



## PRODUCTS AND SERVICES

### Savings Products

Product	Target	Value Proposition	Benefit Statement	Interest Rate
Pledge Savings	18-65 yrs	Saving leading to CB stock ownership	Your gateway to Card Bank ownership	2%
Kayang-kaya	16 yrs and up	Accessibility and affordability	Easy way to start saving	1.5%
Matapat	16 yrs and up	Convenience and Accessibility	24/7 access to your savings	1%
Maagap	Below 16 yrs	Affordable and fun way for kids to save	Build your child's saving habits early	1.5%
Tiwala	18 yrs and up	Long term savings, high returns	Secured savings for a better future	2% to 4.25%
Tagumpay	18 yrs and up	Habitual savings, Higher returns	Big dreams start with small savings	1.5% 6% for 5 year contract
Checking Account	18 yrs and up, business operator	Easy payment for business transactions	Easy way to manage your business	1% for the interest bearing account with maintaining balance of P20,000
Dollar Account	18 yrs old and up	For investment	Easy way to accept remittance	.25%

### Loan Products

#### Microfinance Loans

- MF-Sikap 1 Loan – For working and business capital
- MF-Sikap Additional Loan - For additional fund for better cash flow and overall business
- MF-Sipag Loan - For small entrepreneurs not belonging to any CARD Bank center
- Micro Housing Loan – For housing improvement and/or renovation
- Micro-Agri Loan – For agriculture-related business
- Microfinance Plus – For business capital amounting up to PhP300,000

Loan Products

Corporate Information 33





### **SME Loan**

- For clients needing working capital of more than PhP300, 000.
- SME – Working Capital
- SME – Investment

### **Other Loans**

- Solar Loan - to assist clients in availing a solar power equipment
- Health Loan – for paying SSS, PhilHealth contribution and insurance premium
- Calamity Loan – to restart business or rebuild destroyed houses of members due to calamities
- Educational Loan – to assist clients needing financial assistance in sending their children to school
- Salary Loan - in partnership with other government agencies or private institutions
- Mobile Phone/Cellphone Loan

### **Remittance Service**

1. Domestic Remittance (in-house) through:

a. CARD Sulit Padala - CARD Bank and received by their loved ones in any CARD Bank or CARDE SME Bank branches nationwide.

b. Domestic Remittance Partners - A domestic remittance service in partnership with local remittance service providers. Clients can now send money through CARD Bank and receive it in any GCash outlet, Cebuana Lhuiller or vice versa.

2. International Remittance  
CARD Bank also offers international remittance services in partnership with remittance service providers abroad such as BDO Remit, Xpress Money, Worldremit, Inc., Globe Telecom, MoneyGram, Xoom and Transfast. Clients can now receive money from their loved ones abroad in any CARD Bank branch.

# Management Committee

**Ms. Marivic M. Austria**  
*President and CEO*

**Ms. Lourdes B. Dijan**  
*Executive Vice President*

**Ms. Rizaline A. Manalo**  
*Assistant Vice President*

**Ms. Glenda C. Magpantay**  
*Vice President for Operations*

**Ms. Glenda C. Castronuevo**  
*MOPG Manager - OIC*

**Mr. Ronnie D. Fallega**  
*Vice President for IT*

**Ms. Marissa M. de Mesa**  
*Senior Risk Manager*

**Ms. Herminigilda P. Manuba**  
*Vice President for Operations*

**Ms. Rowena F. Galarde**  
*Assistant Vice President  
for Accounting and Finance*

**Mr. Jeffrey M. Rondina**  
*Vice President for Compliance*



**Mr. Niceto Q. Lupig**  
*Vice President for IT/ CBS Project  
Director*

**Ms. Clarita G. Mercado**  
*Senior Regional Director*

**Ms. Baby Analyñ  
A. Malaborbor**  
*Senior Regional Director*

**Ms. Raquel B. Zaragoza**  
*Senior Regional Director*





## REGIONAL DIRECTORS

Mr. Juanito I. dela Cueva  
Ms. Jessica J. Dichoso  
Ms. Jenet R. Constantino  
Mr. Jonel A. Rapera  
Ms. Ma. Luella S. Bulalacao  
Ms. Marissa D. Carandang  
Ms. Marissa P. Escalona  
Ms. Wilma D. Laurio

Mr. Fundard P. Buncaras  
Ms. Zabeth M. Opis  
Mr. Joseph I. Labastida  
Ms. Geralyn C. Macasinag  
Ms. Jocelyn L. Lampas  
Ms. Medy M. Valenzuela  
Ms. Maridel C. Mendoza  
Ms. Leslie C. Marcaida



# Board of Directors



**Dr. Jaime Aristotle B. Alip**  
*Chairperson*

**Ms. Flordeliza L. Sarmiento**  
*Vice Chairperson for  
Administration*

**Dr. Dolores M. Torres**  
*Vice Chairperson for  
Management & External Affairs*

**Ms. Lorenza dT. Bañez**  
*Director/Corporate Treasurer*

**Ms. Marivic M. Austria**  
*Director, President  
and CEO*

**Ms. Ma. Luisa P. Cadaing**  
*Director*

**Dr. Gilberto M. Llanto**  
*Independent Director*

**Ms. Mercedita G. Medequiso**  
*Independent Director*

**Ms. Malvarosa P. Perote**  
*Independent Director*

**Ms. Lourdes B. Dijan**  
*Corporate Secretary*

**Atty. Edgardo R. Marilim**  
*Legal Counsel*

# Areas of Coverage

We served Filipinos nationwide through our **96** branches including our Head Office and **814** Banking Units and Branch-Lite Units.

## MAIN OFFICE San Pablo City, Laguna

### LUZON MAIN BRANCHES

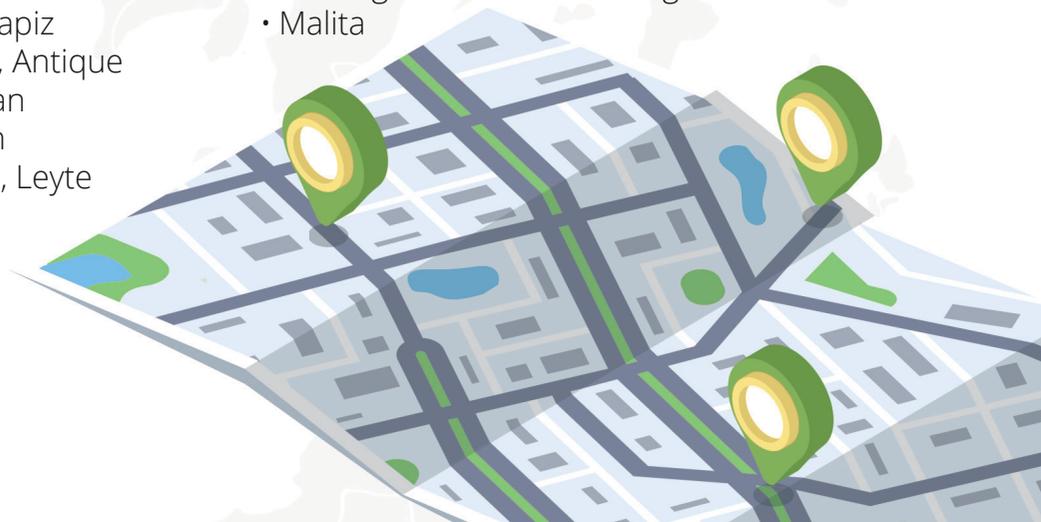
- Alaminos, Pangasinan
- Aroroy
- Atimonan
- Baguio
- Bangued
- Barleta
- Bay
- Calapan
- Calauag
- Candelaria
- Candon
- Cataingan
- Daet
- Dimasalang
- Dolores
- Gasan
- Goa
- Gumaca
- Infanta
- Labo
- Laoag
- Las Piñas
- La Trinidad
- Legaspi
- Libmanan
- Ligao
- Lingayen
- Lucban
- Lucena
- Maharlika
- Makati
- Mamburao
- Mandaluyong
- Masbate
- Mogpog
- Mulanay
- Naga
- Nabua
- Nagcarlan
- Parañaque
- Pasay
- Pili
- Pinamalayan
- Puerto Galera
- Quezon, Quezon
- Roxas, Oriental Mindoro
- Sablayan
- San Carlos
- San Fernando, La Union
- San Fernando, Masbate
- San Jose, Occidental Mindoro
- Sariaya
- Sipocot
- Socorro
- Sorsogon
- Sta. Cruz, Marinduque
- Tagkawayan
- Talon
- Tarlac
- Tiaong
- Urdaneta
- Torrijos
- Victoria

### VISAYAS MAIN BRANCHES

- Balanggiga
- Barotac Nuevo
- Baybay
- Boracay
- Borongan
- Catbalogan
- Culasi
- Danao
- Estancia
- Guiuan
- Jordan
- Iloilo
- Maasin
- Miagao
- Naval
- Passi
- Roxas, Capiz
- San Jose, Antique
- Tagbilaran
- Tacloban
- Tanauan, Leyte

### MINDANAO MAIN BRANCHES

- Buhangin
- Davao
- Kabacan
- Kidapawan
- Malalag
- Malita
- Mati
- Matina
- Midsayap
- Nabunturan
- Tagum



# Institutional Partnership



- ATTF LUXEMBOURG
- BANCNET
- BANCO DE ORO (BDO)
- BANK OF THE PHILIPPINE ISLANDS (BPI)
- BAYAD CENTER
- BDO REMIT
- CEBUANA LHUILLIER
- DEVELOPMENT BANK OF THE PHILIPPINES (DBP)
- GRAMEEN FOUNDATION USA
- INTERNATIONAL FINANCE CORPORATION (IFC)
- LAND BANK OF THE PHILIPPINES
- MONEYGRAM
- PEOPLE'S CREDIT AND FINANCE CORPORATION
- PHILHEALTH
- PLANTERS DEVELOPMENT BANK
- SECURITY BANK CORPORATION
- SMALL BUSINESS CORPORATION
- SOCIAL SECURITY SYSTEM (SSS)
- TRANS-FAST
- UNION BANK OF THE PHILIPPINES
- WOMEN'S WORLD BANKING
- XOOM GLOBAL MONEY TRANSFER
- XPRESSMONEY

Audited  
Financial  
Statements

2019



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

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
Cash and other cash items (Note 6)	<b>₱175,850,046</b>	₱135,437,786
Due from Bangko Sentral ng Pilipinas (Notes 6 and 13)	<b>375,395,257</b>	323,613,641
Due from other banks (Note 6)	<b>2,657,500,639</b>	1,500,449,173
Financial assets at fair value through other comprehensive income (Note 7)	<b>901,886,290</b>	851,523,493
Financial assets at amortized cost (Note 8)	<b>744,940,616</b>	704,052,548
Loans and receivables, net (Note 9)	<b>11,643,215,708</b>	10,407,292,246
Investments in associates (Note 10)	<b>393,456,340</b>	323,874,988
Property and equipment, net (Note 11)	<b>710,339,756</b>	481,717,442
Retirement asset (Note 19)	<b>212,484,594</b>	248,783,407
Deferred tax assets (Note 21)	<b>56,422,481</b>	1,840,203
Other assets (Note 12)	<b>198,473,704</b>	155,640,295
	<b>₱18,069,965,431</b>	₱15,134,225,222
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
Deposit liabilities (Notes 13 and 22)		
Demand	<b>₱206,327,716</b>	₱223,492,822
Savings	<b>11,792,129,921</b>	10,014,106,323
	<b>11,998,457,637</b>	10,237,599,145
Bills payable (Note 14)	<b>546,811,349</b>	529,496,198
Income tax payable (Note 21)	<b>312,270,341</b>	230,640,743
Other liabilities (Note 15)	<b>929,045,000</b>	443,290,933
	<b>13,786,584,327</b>	11,441,027,019
<b>Equity</b>		
Capital stock (Note 17)		
Preferred stock	<b>1,000,000,000</b>	1,000,000,000
Common stock	<b>1,000,000,000</b>	1,000,000,000
	<b>2,000,000,000</b>	2,000,000,000
Surplus	<b>2,060,648,802</b>	1,492,551,831
Surplus reserve	<b>179,604,796</b>	181,969,854
Remeasurement gains on retirement liabilities (Note 19)	<b>29,249,997</b>	59,500,259
Share in other comprehensive income of an associate (Note 10)	<b>2,159,596</b>	6,707,174
Net unrealized gains (losses) on financial assets at fair value through other comprehensive income (Note 7)	<b>11,717,913</b>	(47,530,915)
	<b>4,283,381,104</b>	3,693,198,203
	<b>₱18,069,965,431</b>	₱15,134,225,222

*See accompanying Notes to Financial Statements.*

**CARD BANK, INC.**  
**(A MICROFINANCE-ORIENTED RURAL BANK)**  
**STATEMENT OF INCOME**

	<b>Years Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
<b>INTEREST INCOME ON</b>		
Loans and receivables (Note 9)	<b>₱5,502,096,819</b>	₱4,485,685,850
Due from other banks (Note 6)	<b>114,718,022</b>	55,032,894
Investment securities and security deposits (Notes 7, 8 and 12)	<b>76,775,773</b>	65,223,537
	<b>5,693,590,614</b>	4,605,942,281
<b>INTEREST EXPENSE ON</b>		
Deposit liabilities (Notes 13 and 22)	<b>255,814,381</b>	208,483,125
Bills payable (Note 14)	<b>51,532,740</b>	30,633,662
Finance lease liability (Note 20)	<b>12,883,049</b>	-
	<b>320,230,170</b>	239,116,787
<b>NET INTEREST INCOME</b>	<b>5,373,360,444</b>	4,366,825,494
Miscellaneous (Note 18)	<b>15,728,545</b>	11,394,087
<b>TOTAL OPERATING INCOME</b>	<b>5,389,088,989</b>	4,378,219,581
<b>OPERATING EXPENSES</b>		
Compensation and benefits (Notes 19 and 22)	<b>1,575,784,917</b>	1,280,653,532
Taxes and licenses (Note 26)	<b>307,807,964</b>	249,534,020
Transportation and travel	<b>262,815,766</b>	223,118,786
Provision for (recovery from) credit losses (Note 9)	<b>194,222,326</b>	(35,123,428)
Depreciation and amortization (Note 11)	<b>188,354,820</b>	106,645,220
Information and technology (Note 22)	<b>174,337,318</b>	130,806,286
Stationery and office supplies	<b>172,615,322</b>	149,352,822
Rent (Notes 20 and 22)	<b>106,009,802</b>	168,530,444
Security, messengerial and janitorial	<b>103,475,408</b>	89,240,544
Employee trainings (Note 22)	<b>96,041,935</b>	85,556,039
Postage, telephone and cable	<b>89,502,450</b>	69,582,154
Members training and development (Note 22)	<b>49,991,699</b>	41,762,370
Power, light and water	<b>44,014,055</b>	39,687,381
Insurance	<b>27,403,230</b>	22,474,482
Seminars and meetings (Note 22)	<b>25,118,529</b>	17,752,239
Repairs and maintenance	<b>22,966,132</b>	20,291,201
Management and other professional fees	<b>19,738,446</b>	19,491,615
Directors' fee	<b>17,080,024</b>	17,130,970
Program monitoring and evaluation	<b>11,479,514</b>	8,702,324
Miscellaneous (Notes 18 and 22)	<b>172,586,474</b>	106,139,727
	<b>3,661,346,131</b>	2,811,328,728
<b>INCOME BEFORE SHARE IN NET</b>		
<b>INCOME OF AN ASSOCIATE</b>	<b>1,727,742,858</b>	1,566,890,853
<b>SHARE IN NET INCOME OF AN ASSOCIATE</b> (Note 10)	<b>151,382,349</b>	142,982,847
<b>INCOME BEFORE TAX</b>	<b>1,879,125,207</b>	1,709,873,700
<b>PROVISION FOR INCOME TAX</b> (Note 21)	<b>522,081,382</b>	467,868,612
<b>NET INCOME</b>	<b>₱1,357,043,825</b>	₱1,242,005,088

*See accompanying Notes to Financial Statements.*

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

	<b>Years Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
<b>NET INCOME</b>	<b>₱1,357,043,825</b>	<b>₱1,242,005,088</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
<i>Items that may not be reclassified to profit or loss:</i>		
Remeasurement gain (loss) on retirement liabilities (Note 19)	(43,214,661)	(1,054,048)
Income tax effects (Note 21)	12,964,398	316,214
	<b>(30,250,262)</b>	<b>(737,834)</b>
<i>Items that may be reclassified to profit or loss:</i>		
Changes in net unrealized gains (losses) on:		
Financial assets through other		
comprehensive income (Note 7)	84,641,183	(57,002,642)
Income tax effects (Note 21)	(25,392,355)	17,112,047
	<b>59,248,828</b>	<b>(39,890,595)</b>
Share in other comprehensive income (loss) of		
an associate (Note 10)	(4,547,578)	3,929,563
	<b>24,450,988</b>	<b>(36,698,866)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱1,381,494,813</b>	<b>₱1,205,306,222</b>

*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	Surplus Reserve	Remeasurement Gains on Retirement Liabilities (Note 19)	Share in Other Comprehensive Income (Loss) of an Associate (Note 10)	Net Unrealized Gains (Losses) on Financial Assets at Fair Value Through Other Comprehensive Income and Available-for-sale Investments (Note 7)	Total
<b>Balance at January 1, 2019</b>	₱1,000,000,000	₱1,000,000,000	₱1,492,551,831	₱181,969,854	₱59,500,259	₱6,707,174	₱47,530,915	₱3,693,198,203
Effect of adopting Philippine Financial Reporting Standard (PFRS) 16 (Note 2)	-	-	(1,311,912)	-	-	-	-	(1,311,912)
Balance at January 1, 2018, as restated	1,000,000,000	1,000,000,000	1,491,239,919	181,969,854	59,500,259	6,707,174	(47,530,915)	3,691,886,291
Total comprehensive income	-	-	1,357,043,825	-	(30,250,262)	(4,547,578)	59,248,828	1,381,494,813
Transfers from surplus reserve (Note 17)	-	-	2,365,058	(2,365,058)	-	-	-	-
Cash dividends (Note 17)	-	-	(790,000,000)	-	-	-	-	(790,000,000)
<b>Balance at December 31, 2019</b>	₱1,000,000,000	₱1,000,000,000	₱2,060,648,802	₱179,604,796	₱29,249,997	₱2,159,596	₱11,717,913	₱4,283,381,104
Balance at January 1, 2018, as previously reported	₱681,763,800	₱999,992,600	₱1,075,001,586	₱-	₱60,238,093	₱2,777,611	₱7,640,320	₱2,812,133,370
Total comprehensive income	-	-	1,242,005,087	-	(737,834)	3,929,563	(39,890,595)	1,205,306,221
Issuance of shares of stocks	318,146,400	-	-	-	-	-	-	318,146,400
Collection of subscription receivable (Note 17)	89,800	7,400	-	-	-	-	-	97,200
Transfers to surplus reserve	-	-	(181,969,854)	181,969,854	-	-	-	-
Cash dividends (Note 17)	-	-	(642,484,988)	-	-	-	-	(642,484,988)
<b>Balance at December 31, 2018</b>	₱1,000,000,000	₱1,000,000,000	₱1,492,551,831	₱181,969,854	₱59,500,259	₱6,707,174	₱47,530,915	₱3,693,198,203

See accompanying Notes to Financial Statements.

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

	<b>Years Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	<b>₱1,879,125,207</b>	<b>₱1,709,873,700</b>
Adjustments for:		
Provision for (recovery from) credit losses (Note 9)	<b>194,222,326</b>	<b>(35,123,428)</b>
Depreciation and amortization (Note 11)	<b>188,354,820</b>	<b>106,645,220</b>
Share in net income of an associate (Note 10)	<b>(151,382,348)</b>	<b>(142,982,847)</b>
Retirement expense (Note 19)	<b>10,670,697</b>	<b>16,785,329</b>
Amortization of net discount on financial assets at amortized cost (Note 8)	<b>(3,128,043)</b>	<b>(1,944,104)</b>
Amortization of net premium on FVOCI investments (Note 7)	<b>(2,481,182)</b>	<b>(1,631,476)</b>
Amortization of premium/discount on bills payable (Note 14)	<b>1,640,924</b>	<b>2,412,936</b>
Net unrealized gains on foreign exchange transactions	<b>179,191</b>	<b>(244,376)</b>
(Gain) loss on disposal of property and equipment (Note 18)	<b>(147,211)</b>	<b>356,877</b>
Operating income before changes in operating assets and liabilities:	<b>2,117,054,381</b>	<b>1,654,147,831</b>
Increase in the amounts of:		
Loans and receivables	<b>(1,430,145,793)</b>	<b>(2,473,630,489)</b>
Other assets	<b>(51,687,012)</b>	<b>(14,687,170)</b>
Increase (decrease) in the amounts of:		
Deposit liabilities	<b>1,760,858,497</b>	<b>2,215,038,505</b>
Other liabilities	<b>342,889,367</b>	<b>97,762,934</b>
Net cash generated from operations	<b>2,738,969,440</b>	<b>1,478,631,611</b>
Income taxes paid	<b>(508,773,932)</b>	<b>(324,411,459)</b>
Contribution to retirement fund (Note 19)	<b>(17,586,545)</b>	<b>(14,468,132)</b>
Net cash provided by operating activities	<b>2,212,608,963</b>	<b>1,139,752,020</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of:		
Property and equipment (Note 11)	<b>(402,254,884)</b>	<b>(81,322,993)</b>
Financial assets at FVOCI	<b>(183,149,430)</b>	<b>(531,207,527)</b>
Financial assets at amortized cost (Note 8)	<b>(58,931,111)</b>	<b>(489,064,462)</b>
Software costs (Note 12)	<b>(4,556,742)</b>	<b>(1,963,740)</b>
Dividends received (Notes 10 and 17)	<b>100,800,000</b>	<b>70,250,000</b>
Additional investment in associates (Notes 10 and 23)	<b>(23,546,581)</b>	<b>–</b>
Proceeds from:		
Redemption of FVOCI investments (Note 7)	<b>219,909,000</b>	<b>–</b>
Maturity of financial assets at amortized cost (Note 8)	<b>21,171,085</b>	<b>194,799,334</b>
Disposal of property and equipment (Note 11)	<b>147,214</b>	<b>1,809,970</b>
Net cash used in investing activities	<b>(330,411,449)</b>	<b>(836,699,418)</b>

*(Forward)*

	<b>Years Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Availments of bills payable (Note 14)	<b>₱298,834,227</b>	₱199,268,493
Settlements of bills payable (Note 14)	<b>(283,160,000)</b>	(583,160,000)
Payment of principal portion of lease liability	<b>(94,317,285)</b>	–
Proceeds from (Note 17):		
Collection of subscriptions receivable on common stock	<b>239,318,420</b>	7,400
Collection on issuance of preferred stock	–	318,146,400
Collection of subscriptions receivable on preferred stock	–	89,800
Dividends paid (Note 17)	<b>(793,448,343)</b>	(626,120,915)
Net cash used in financing activities	<b>(632,772,981)</b>	(691,768,822)
<b>EFFECTS OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS</b>		
	<b>(179,191)</b>	244,376
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
	<b>1,249,245,342</b>	(388,471,844)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		
Cash and other cash items	<b>135,437,786</b>	143,046,805
Due from Bangko Sentral ng Pilipinas	<b>323,613,641</b>	256,064,797
Due from other banks	<b>1,500,449,173</b>	1,948,860,842
	<b>1,959,500,600</b>	2,347,972,444
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		
Cash and other cash items	<b>175,850,046</b>	135,437,786
Due from Bangko Sentral ng Pilipinas	<b>375,395,257</b>	323,613,641
Due from other banks	<b>2,657,500,639</b>	1,500,449,173
	<b>₱3,208,745,942</b>	₱1,959,500,600

#### **OPERATIONAL CASH FLOWS FROM INTEREST**

	<b>Years Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Interest received	<b>₱5,629,862,632</b>	₱4,481,458,237
Interest paid	<b>287,232,867</b>	241,246,741

*See accompanying Notes to Financial Statements.*

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

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**NOTES TO FINANCIAL STATEMENTS**

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**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, 2019 and 2018, the Bank is 29.57% owned by CARD, Inc.

The Bank's executive office is located at 20 M. L. Quezon Street, City Subdivision, San Pablo City, Laguna. The head office is located at No. 35 P. Burgos Street, corner M. Paulino Street, San Pablo City, Laguna. As at December 31, 2019 and 2018, the Bank has 96 and 92 branches, respectively.

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**2. Summary of Significant Accounting Policies**

Basis of Presentation

The accompanying financial statements have been prepared on a historical cost basis except for financial assets at fair value through other comprehensive income (FVOCI) that have been measured at fair value. The financial statements are presented in Philippine peso (₱), which is the Bank's presentation currency. All values are rounded to the nearest peso, except when otherwise indicated.

The financial statements of the Bank include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of the RBU and the FCDU is the Philippine peso and United States dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine pesos (see accounting policy on Foreign Currency Transactions and Translation). The financial statements of these units are combined after eliminating inter-unit accounts 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 statements of financial position of the Bank are presented in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 16.

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

The Bank has no offsetting arrangements with its counterparties.

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

## Changes in Accounting Policies and Disclosures

The accounting policies adopted by the Company are consistent with those of the previous financial year, except for the following new accounting pronouncements which were adopted starting January 1, 2019.

### *PFRS 16, Leases*

PFRS 16 supersedes PAS 17, *Leases*, Philippine Interpretation IFRIC 4, *Determining whether an Arrangement contains a Lease*, Philippine Interpretation SIC-15, *Operating Leases-Incentives* and Philippine Interpretation SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. Therefore, PFRS 16 did not have an impact for leases where the Company is the lessor.

The Company adopted PFRS 16 using the modified retrospective approach upon adoption of PFRS 16 in 2019 and elects to apply the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC-4. The Company will therefore not apply the standard to contracts that were not previously identified as containing a lease applying PAS 17 and Philippine Interpretation IFRIC-4.

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

Impact in the Statement of Financial Position

	As at December 31, 2018	Adjustments	As at January 1, 2019
<b>Assets</b>			
Property and equipment	₱481,717,442	₱180,863,168	₱662,580,610
Prepayment and other current assets	155,640,295	(6,975,200)	148,665,095
	<u>637,357,737</u>	<u>173,887,968</u>	<u>811,245,705</u>
<b>Liabilities</b>			
Accounts payable and other accrued expenses	930,991,309	(2,602,160)	928,389,149
Finance lease payable	–	176,490,128	176,490,128
Deferred tax liabilities	–	1,311,912	1,311,912
	<u>930,991,309</u>	<u>175,199,880</u>	<u>1,106,191,189</u>
<b>Equity</b>			
Surplus – unappropriated	1,492,551,831	(1,311,912)	1,491,239,919

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

- a. Property and equipment were recognized for the amount of right-of-use assets as at transition date.
- b. Additional lease liability of ₱176.5 million was recognized.
- c. Prepaid rent and security deposits presented under Prepayments and Other Current Assets and Miscellaneous Assets, respectively, and accrued rent payable under Accounts Payable and Other Accrued Expenses were derecognized.

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

Operating lease commitments as at December 31, 2018	₱313,096,293
Gross lease payments pertaining to short-term or low-value leases	(422,179)
Total gross lease payments as of December 31, 2018	<u>312,674,114</u>
Weighted average incremental borrowing rate at 1 January 2019	7.12%
Lease liabilities recognized at January 1, 2019	<u>₱176,490,128</u>

Due to the adoption of PFRS 16, the Company's operating profit in 2019 will improve, while its interest expense will increase. This is due to the change in the accounting for rent expense related to leases that were classified as operating leases under PAS 17.

The adoption of PFRS 16 will have a net impact on the Bank's changes in equity amounting to ₱1.3 million due to recognition of deferred tax liability. It has no material impact on the Bank's capital adequacy ratio (CAR) and Common Equity Tier 1 (CET1) ratio.

### Philippine Interpretation–23, *Uncertainty over Income Tax Treatment*

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*. It does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

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

The Bank determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty. The Bank assumes that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. When the Bank concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment, using the method the entity expects to better predict the resolution of the uncertainty. The Bank applies significant judgment in identifying uncertainties over income tax treatments. Upon adoption of the Interpretation, the Bank considered whether it has any uncertain tax positions. The Bank determined after some consultations and research that it has no material uncertain tax treatments, accordingly, the adoption of this Interpretation has no significant impact on the financial statements.

Several other amendments and interpretations as listed below apply for the first time in 2019, but do not have an impact on the financial statements of the Bank.

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

The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

## **Significant Accounting Policies**

### Foreign Currency Transactions and Translation

#### *Transactions and balances*

The books of accounts of the RBU are maintained in Philippine peso, the RBU's functional currency, while those of the FCDU are maintained in USD, the FCDU's functional currency. For financial reporting purposes, the foreign currency-denominated monetary assets and monetary liabilities in the RBU are translated in Philippine peso based on the Bankers Association of the Philippines (BAP) closing rates prevailing at end of the year and foreign currency-denominated income and expenses based on the exchange rates at transaction dates. Foreign exchange differences arising from restatements of foreign currency-denominated assets and liabilities in the RBU are credited to or

charged against the operations in the period which the rates change. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

#### *FCDU*

As at reporting date, the assets and liabilities of the FCDU are translated into the Bank's presentation currency, the Philippine peso, using BAP closing exchange rates and its income and expenses are translated at BAP weighted average rate (WAR) for the year.

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

#### Fair Value Measurement

For measurement and disclosure purposes, the Bank determines the fair value of an asset or liability at initial measurement or at each reporting date.

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

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

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

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

If the asset or liability measured at fair value has a bid and ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value, regardless of where the input is categorized within the fair value hierarchy.

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

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

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

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

#### Cash and Cash Equivalents

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

Due from BSP includes statutory reserves required by the Bank which the Bank considers as cash and cash equivalents as withdrawals can be made to meet the Bank's cash requirements as allowed by the BSP.

#### 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 market are recognized on settlement date. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the Bank, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that such asset is delivered by the Bank. Deposits and receivables from borrowers are recognized when cash is received or advanced to the borrowers.

##### *Initial recognition of financial instruments*

All financial instruments are initially recognized at fair value. Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial instruments includes transaction costs.

##### *'Day 1' difference*

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Bank recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of income under 'Miscellaneous' unless it qualifies for recognition as some other type of asset or liability. 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.

## Classification and Measurement of Financial Assets

### *Classification and measurement*

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

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

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

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

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

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

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

The Banks's measurement categories are described below:

### *Financial assets at amortized cost*

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

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

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method less any impairment in value, with the interest calculated recognized as 'Interest income' in the statement of income. The Bank classified cash and other cash items (COCI), due from BSP, due from other banks, investment

securities at amortized cost, loans and receivables, security deposits (included under “other assets”) as financial assets at amortized cost.

#### *Financial assets at FVTPL*

Debt financial assets that do not meet the amortized cost criteria, or that meet the criteria but the Bank has chosen to designate as at FVTPL at initial recognition, are measured at fair value through profit or loss. Equity investments are classified as at FVTPL, unless the Bank designates an investment that is not held for trading as at FVOCI at initial recognition.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

As of December 31, 2019, the Bank has not designated any debt instrument that meets the amortized cost criteria as FVTPL. The Bank does not have financial assets at FVTPL as of reporting date.

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the Bankers Association of the Philippines (BAP) closing rate at the statements of reporting date. The foreign exchange component forms part of its fair value gain or loss.

#### *Financial assets at FVOCI*

The Bank applies the new category under PFRS 9 of debt and equity instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

Financial assets at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost. On derecognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

#### *Reclassification of financial assets*

The Bank can reclassify financial assets if the objective of its business model for managing those financial assets changes. The Bank is required to reclassify the following financial assets:

- from amortized cost to FVTPL if the objective of the business model changes so that the amortized cost criteria are no longer met; and
- from FVTPL to amortized cost if the objective of the business model changes so that the amortized cost criteria start to be met and the instrument’s contractual cash flows meet the amortized cost criteria.; and
- from FVOCI to amortized cost if the objective of the business model changes so that the fair value criteria are no longer met but the amortized cost
- criteria is still met and the instrument’s contractual cash flows meet the amortized cost criteria.

Reclassification of financial assets designated as at FVTPL or equity financial assets at FVOCI at initial recognition is not permitted.

A change in the objective of the Bank's business model must be effected before the reclassification date. The reclassification date is the beginning of the next reporting period following the change in the business model.

#### Financial Liabilities at Amortized Cost

This category represents issued financial instruments or their components, which are not designated at FVPL where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The financial liabilities at amortized cost are classified under the statement of the financial position captions 'Deposit liabilities' and 'Bills payable', and financial liabilities presented under 'Other liabilities'. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are integral part of the EIR.

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

#### *Restructured loans*

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This 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 as past due.

Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loan continues to be subject to an individual impairment calculated using the original EIR or collective impairment.

#### Impairment of Financial Assets

The Bank records expected credit losses (ECL) for all loans and other debt financial assets not classified as FVTPL.

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

For non-credit-impaired financial instruments:

- Stage 1 is comprised of all non-impaired financial assets which have not experienced a SICR since initial recognition or is considered of low credit risk as of the reporting date. The Bank recognizes a 12-month ECL for Stage 1 financial instruments.

- Stage 2 is comprised of all non-impaired financial assets which have experienced a SICR since initial recognition. The Bank recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:

- Stage 3 is comprised of all financial assets that have objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The Bank recognizes a lifetime ECL for impaired financial instruments.

The Bank records the allowance for expected credit losses for all loans and receivables and other debt financial assets not held at FVTPL. Equity investment are not subject to impairment under PFRS 9. The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime ECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12-month ECL, as outlined in Note 2 *Changes in Accounting Policies*. The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 2 *Changes in Accounting Policies*.

Both lifetime ECL and 12-month ECL are calculated on an individual and collective basis.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 2 *Changes in Accounting Policies*.

#### *Debt instruments measured at fair value through OCI*

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets are measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to the profit and loss upon derecognition of the assets.

#### Derecognition of Financial Assets and Financial Liabilities

##### *Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

- 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 and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred control over the asset.

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

### *Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When 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.

### Write-offs

Financial assets are written off either partially or in their entirety when the Bank no longer expects collections or recoveries within a foreseeable future. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

### Investments in Associates

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

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

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

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

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

### Property and Equipment

The Company's property and equipment consist of land, building, furniture, fixtures and equipment, land and leasehold improvements and right-of-use assets that do not qualify as investment properties.

Effective January 1, 2019, it is the Bank's policy to classify right-of-use assets as part of property and equipment. Prior to that date, all of the Bank's leases are accounted for as operating leases in accordance with PAS 17, hence, not recorded on the statement of financial position. The Bank recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are initially measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The

initial cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and lease term. Right-of-use assets are subject to impairment.

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

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

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

Building	7 to 15 years
Furniture, fixtures and equipment	3 to 7 years
Leasehold improvements	3 years or the terms of the related leases, whichever is shorter
Land improvements	5 years
Transportation equipment	3 years
Right-of-use assets – office space	1.5 to 10 years
Right-of-use assets – vehicles	1.5 to 2 years

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

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

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

#### Intangible Assets

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

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

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

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

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

#### Impairment of Nonfinancial Assets

At each reporting date, the Bank assesses whether there is any indication that its nonfinancial assets (e.g., investment in an associate, property and equipment, and intangible assets) may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit (CGU) to which it belongs. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset (or CGU) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or CGU).

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

### Accounting Policy on Leases Effective January 1, 2019

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

#### *Bank as a lessee*

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

#### *a. Right-of-use assets*

The Bank recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized adjusted by lease payments made at or before the commencement date and lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the depreciable assets. The depreciation expense is presented under 'Depreciation and amortization' in the statement of income.

If ownership of the leased asset transfers to the Bank at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in Impairment of Nonfinancial Assets. Right-of-use assets are presented under Property and Equipment in the statement of financial position.

#### *b. Lease liabilities*

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

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

#### *c. Short-term leases and leases of low-value assets*

The Bank applies the short-term lease recognition exemption to its short-term leases of branch sites (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition

exemption to leases of branch sites that are considered to be low value (i.e., below ₱250,000). Lease payments on short-term leases and leases of low value assets are recognized as expense on a straight-line basis over the lease term.

#### *Bank as a lessor*

Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising from leased properties is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

#### Leases (Prior to January 1, 2019)

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

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

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (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 benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term and included in the statement of income as 'Occupancy cost'.

#### *Bank as lessor*

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

#### Equity

##### *Capital stock*

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

### *Surplus*

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

### *Dividends*

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

### Deposit for Future Stock Subscription

Deposit for future stock subscription (DFS) shall be classified under equity account if all of the following conditions are present as of reporting date:

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

DFS does not meet the foregoing provisions and is treated as a non-financial liability.

### Revenue Recognition

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

Under PFRS 15, revenue from contracts with customers is recognized when control of the services is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services. Prior to January 1, 2018, under PAS 18, Revenue, revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has generally concluded that it is the principal in its revenue arrangements.

Unearned revenue represents revenues collected but not earned as of the reporting date

Cost and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. These are recognized as incurred.

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

### *Interest income*

For all financial instruments measured at amortized cost and AFS investments, income is recorded at EIR, which is the rate that exactly discounts estimated future cash flows through the expected useful

life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as 'Interest income' in the statement of income.

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

Under PFRS 9, when a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3 (as discussed in "Impairment of Financial Assets" above), the Bank calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis. Under PAS 39, once the recorded value of a financial asset or group of similar financial assets carried at amortized cost has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount. The unearned discount is taken up to interest income over the installment terms and is computed using the EIR method.

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

Commissions are accrued when earned. Using an output method, revenue is recognized if the Bank has a right to invoice the customer for services directly corresponding to performance completed to date. These includes deposit-related fees, penalties and bank charges are recognized only upon collection or where there is a reasonable degree of certainty as to their collectability. These items are reported under 'Miscellaneous' in the statement of income.

The Bank assessed that there is no difference in accounting for service fees and commission income under PFRS 15 and PAS 18.

#### *Rental income*

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

#### Expense Recognition

Expense is recognized when it is probable that decrease in the future economic benefits related to decrease in an asset or an increase in liability has occurred and that the decrease in economic benefits can be measured reliably. Expense is recognized when incurred.

#### *Interest expense*

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

#### *Other expenses*

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

#### Retirement Benefits

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

#### *Defined benefit retirement plan*

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

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

Defined benefit costs comprise the following:

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

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

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

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

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

#### *Defined contribution plan*

The Bank also operates defined contribution plan referred to as "Hybrid Plan" which provides a retirement benefit equal to 100% of the member's employer accumulated value, if any, provided that in no case shall 100% of the employee accumulated value in Fund A be less than 100% of plan salary for every year of credited service. As at December 31, 2018 and 2017, the Bank does not value its defined benefit assets (liability) for the contributions made to the Hybrid Plan.

### *Employee leave entitlement*

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

### Provisions and Contingencies

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

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

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

### Income Taxes

#### *Current tax*

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

#### *Deferred tax*

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that future taxable income will be available against which the deductible temporary differences and carryforward of unused excess MCIT over RCIT and unused NOLCO can be utilized. Deferred tax assets, 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 transaction, affects neither the accounting income nor taxable income.

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

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

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

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

#### Events After the Reporting Period

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

#### Standards Issued but not yet Effective

There are new PFRSs, amendments, interpretation and annual improvements, to existing standards effective for annual periods subsequent to 2019, which are adopted by the Financial Reporting Standards Council. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Bank's financial statements:

#### *Effective beginning on or after January 1, 2020*

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

The amendments refine the definition of material in PAS 1 and align the definitions used across PFRS and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgments.

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

Early application is permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Bank.

- PAS 28 (Amendments), *Long-term Interests in Associates and Joint Ventures*. The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively, with early application permitted. Since the Bank does not have much long-term interests in its associate and joint venture, the amendments will not have an impact on its financial statements.

- Amendments to PFRS 3, *Definition of a Business*. The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Bank but may apply to future transactions.

Earlier application is permitted.

#### *Effective beginning on or after 1 January 2021*

##### *PFRS 17, Insurance Contracts*

- PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4 Insurance Contracts (PFRS 4) that was issued in 2005. PFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:
  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted, provided the entity also applies PFRS 9 and PFRS 15 on or before the date it first applies IFRS 17.

Early application is permitted. This standard has no impact on the Bank as it has no insurance operations.

#### *Deferred effectivity*

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*. The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not

constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

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### 3. Significant Accounting Judgments and Estimates

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

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

#### Judgments

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

*a. Fair value of financial instruments*

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position or disclosed in the notes cannot be derived from active markets, they are determined using discounted cash flow model, incorporating inputs such as current market rates of comparable instruments. The carrying values and corresponding fair values of financial instruments, as well as the manner in which fair values were determined, are discussed in more detail in Note 4.

*b. Business model test*

The Bank manages its financial assets based on business models that maintain adequate level of financial assets to match expected cash outflows and maintain adequate level of high-quality liquid assets while maintaining a strategic portfolio of financial assets for trading activities consistent with its risk appetite.

The Bank's business model can be to hold financial assets to collect contractual cash flows even when sales of certain financial assets occur. PFRS 9, however, emphasizes that if more than an infrequent number of sales are made out of a portfolio of financial assets carried at amortized cost and those sales are more than insignificant in value (either individually or in aggregate), the entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows.

In making this judgment, the Bank considers the circumstances surrounding the disposal as well as the requirements of BSP Circular No. 1011, *Guidelines on the adoption of PFRS 9*.

c. *Cash flow characteristics test*

In determining the classification of financial assets under PFRS 9, the Bank assesses whether the contractual terms of these financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows

d. *Determination of significant influence over another entity*

The determination of significant influence over another entity, other than the rebuttable presumption of ownership over twenty percent (20.0%), requires significant judgment. In making judgment, the Bank evaluates existence of the following:

- representation on the Board of Directors (BOD) or equivalent governing body of the investee;
- participation in policy-making processes, including participation in decisions about dividends or other distributions;
- material transactions between the entity and its investee;
- interchange of managerial personnel; or
- provision of essential technical information.

As at December 31, 2019 and 2018, the Bank determined that it exercises significant influence over, and CARD MRI Rizal Bank, Inc. (CMRBI) in which it holds a 40.00% ownership interest for both years. Although the Bank holds less than 20.0% of the ownership interest and voting rights in Microfinance Information Data Sharing Inc. (MIDAS), the Bank considers that it exercises significant influence through both its significant shareholding and its representation in MIDAS' BOD. As at December 31, 2019 and 2018, entities on which the Bank has significant influence are disclosed in Note 10.

e. *Leases*

*Bank as lessor*

The Bank has entered into commercial property leases on its office space and building and over various transportation equipment. The Bank has determined, based on an evaluation of the terms and conditions of the arrangements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

*Bank as lessee*

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

*Extension and termination options*

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

### Estimates

The key assumptions concerning the future and other sources of estimation uncertainty at the reporting date that have a significant risk of causing material adjustment to the carrying amounts in the statement of financial position within the next financial year are described below:

*a. Impairment of financial assets (PFRS 9)*

The measurement of impairment losses under PFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- Internal credit grading model, which assigns PDs to the individual grades
- Criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a life time CL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

The ECL models and all ECL-related policies are approved by the Risk Oversight Committee and the Board of Directors. The Risk Management Unit in collaboration with the Data Collection Center calculates the ECL for all credit risk exposures. The total ECL that will be booked by the Finance and Accounting Division is approved by both the Director for Finance and Accounting and the Director of Risk Management Unit.

The related allowance for credit losses of financial assets are disclosed in Note 9.

*b. Net plan assets and retirement expense*

Net plan assets and retirement expense are dependent on the selection of certain assumptions used by the actuary in calculating such amounts. Those assumptions are described in Note 19 and include, among others, discount rates, future salary increases and mortality rates, 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.

Since there is no deep market in high-quality corporate bonds in the Philippines, the Bank's discount rate for the defined benefit obligation was determined by considering the yields on long-term government securities. A lower discount rate would increase the present value of benefit obligations. The expected rate of salary increase was determined by considering the inflation, seniority, promotion and other market factors. The Bank evaluates these assumptions on a periodic basis taking into consideration current market conditions and historical market data.

Mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements, while future salary increases is based on the budgeted salary rate increase approved by the BOD. While the Bank believes that the assumptions are reasonable and appropriate, significant differences between actual experience and assumptions may materially affect the cost of employee benefits related to obligations. Employee turnover was assumed based on the multiple turnover experience rates with margins for fluctuations.

As at December 31, 2019 and 2018, the present value of retirement obligation and fair value of plan assets of the Bank are disclosed in Note 19.

c. *Recognition of deferred income taxes*

Deferred tax assets are recognized for all unused tax losses and deductible 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 assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The estimates of future taxable income indicate that certain temporary differences will be realized in the future. The recognized net deferred tax assets and unrecognized deferred tax assets are disclosed in Note 21.

d. *Net retirement asset (liability) and retirement expense*

The determination of the Bank's net retirement asset (liability) and annual retirement expense is dependent on the selection of certain assumptions used in calculating such amounts. These assumptions include, among others, discount rates and salary increase.

The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of the reporting date. The salary projection rate was based on the historical trend of salary increase rate of the Company. Refer to Note 19 for the details on the assumptions used in calculating the defined benefit asset (liability).

The present value of the retirement obligation and fair value of plan assets are disclosed in Note 19.

e. *Incremental borrowing rate used for lease liabilities*

If the Bank cannot readily determine the interest rate implicit in the lease, it uses its incremental borrowing rate in measuring its lease liabilities. The incremental borrowing rate is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value in a similar economic environment. The Bank estimates the incremental borrowing rate using observable inputs (prevailing risk-free market rates) adjusted by the credit risk of the Bank (i.e., credit spread).

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#### 4. Fair Value Measurement

The fair values of cash and cash equivalents, current loans and receivables, refundable deposits, current portion of deposit liabilities, current portion of bills payable and financial liabilities under 'Other liabilities' approximate their carrying values in view of the relatively short-term maturities of these instruments. Significant amount of loans and receivables are due within 1 year from the reporting date.

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

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

*Financial asset at FVOCI investments and Hold-to-Collect Investments*

Quoted government securities are generally based on quoted market prices, which is within the bid-ask price. FVOCI and Hold-to-collect 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.

*Loans and receivables*

Fair values are estimated using the discounted cash flow methodology, using the Bank's current incremental lending rates for similar types of receivables or securities. The discount rates used in estimating the fair value of loans and receivables are the incremental lending rates ranging from 3.3% to 7.3% in 2019 and 2018.

The discount rates used in estimating the fair values of government debt securities are the incremental lending rates ranging from 3.1% to 5.2% in 2019 and 3.6% to 6.8% in 2018.

*Noncurrent portion of deposit liabilities and bills payable*

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 3.7% to 6.8% in 2019 and 2018, with maturities consistent with those remaining for the liability being valued, if any.

Fair values of long-term bills payable were based on interpolation of Philippine zero rate of 3.8% and 4.7% in 2019 and 2018, respectively.

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, 2019 and 2018 (amounts in thousands):

	2019				Total
	Carrying Value	Level 1	Level 2	Level 3	
<b>Recurring fair value measurements</b>					
Financial assets at FVOCI					
Government debt securities	₱901,886	₱901,886	₱–	₱–	₱901,886
<b>Assets and liabilities for which fair values are disclosed*:</b>					
<b>Financial assets</b>					
Financial assets at amortized cost					
Government debt securities	744,941	–	382,541	208,241	590,782
Loans and receivables					
Receivables from borrowers	19,069	–	–	18,997	18,997
<b>Financial liabilities carried at amortized cost</b>					
Bills payable	546,811	–	–	559,505	559,505
Deposit liabilities					
Special savings	1,490,875	–	–	576,854	576,854

\*pertain to noncurrent assets and liabilities

	2018				Total
	Carrying Value	Level 1	Level 2	Level 3	
Recurring fair value measurements					
Financial assets at FVOCI					
Government debt securities	₱851,523	₱627,476	₱224,047	₱–	₱851,523
Assets and liabilities for which fair values are disclosed*:					
Financial assets					
Financial assets at amortized cost					
Government debt securities	704,053	–	456,367	75,070	531,437
Loans and receivables					
Receivables from borrowers	30,974	–	–	27,074	27,074
Financial liabilities					
Bills payable	529,496	–	–	502,845	502,845
Deposit liabilities					
Special savings	841,066	–	–	793,733	793,733

*\*pertain to noncurrent assets and liabilities*

As at December 31, 2019 and 2018, there were no transfers of financial instruments between Levels 1, 2, and 3.

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

## 5. Financial Risk Management Objectives and Policies

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

- Credit risk
- Market risk
- Liquidity risk

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

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

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

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

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

### Credit Risk

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

#### *Management of credit risk*

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

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

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

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

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

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

Consistent monitoring for the all past due or impaired accounts are 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. 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 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, 2019 and 2018:

	2019			
	Maximum Exposure*	Fair Value of Collateral	Financial Effect of Collateral	Net Exposure
Receivables from borrowers	₱11,618,182,627	₱2,905,503,650	₱2,815,024,617	₱8,803,158,010

\*Includes accrued interest receivable, net of allowance for credit losses on receivables from borrowers

	2018			
	Maximum Exposure*	Fair Value of Collateral	Financial Effect of Collateral	Net Exposure
Receivables from borrowers	₱10,407,292,246	₱7,850,451,329	₱5,293,610,412	₱2,556,840,917

\*Includes accrued interest receivable, net of allowance for credit losses on receivables from borrowers

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, 2019 and 2018 (Note 13).

As at December 31, 2019 and 2018, 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, 2019 and 2018 (in thousands):

	2019				
	Loans and Receivables*	Financial assets at FVOCI	Financial assets at amortized cost	Security Deposits**	Total
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	₱10,367,238	₱-	₱-	₱-	₱10,367,238
Real estate, renting and business activities	1,336,024	-	-	-	1,336,024
Financial institutions	1,993,888	-	-	-	1,993,888
Government	1,041,663	901,886	744,941	-	2,688,490
Agriculture, hunting and forestry	181,033	-	-	-	181,033
Education	57,681	-	-	-	57,681
Other community, social and personal service activities	26,320	-	-	37,925	64,245
Manufacturing	17,189	-	-	-	17,189
	15,021,036	901,886	744,941	37,925	16,705,788
Less allowance for credit losses	344,925	-	-	-	344,925
Total	₱14,676,111	₱901,886	₱744,941	₱37,925	₱16,360,863

\*Consist of due from BSP and other banks, receivable from borrowers and other receivables

\*\*Reported under 'Other Assets'

	2018				Total
	Loans and Receivables*	AFS Investments	HTM Investments	Security Deposits**	
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	₱8,943,711	₱-	₱-	₱-	₱8,943,711
Agriculture, hunting and forestry	292,680	-	-	-	292,680
Financial institutions	1,339,820	-	-	-	1,339,820
Other community, social and personal service activities	36,120	-	-	43,637	79,757
Government	505,799	851,523	704,053	-	2,061,375
Real estate, renting and business activities	1,140,569	-	-	-	1,140,569
Education	107,284	-	-	-	107,284
Manufacturing	16,104	-	-	-	16,104
	12,382,087	851,523	704,053	43,637	13,981,300
Less allowance for credit losses	150,731	-	-	-	150,731
<b>Total</b>	<b>₱12,231,356</b>	<b>₱851,523</b>	<b>₱704,053</b>	<b>₱43,637</b>	<b>₱13,830,569</b>

\*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 credit quality of financial assets is monitored and managed based on the credit standing and history.

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

#### Stage 1

##### *Microfinance loans*

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

##### *Other loans*

Agri loans, Educ loans and Other loans

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

##### *Other loans*

SME loans and Fringe loans

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

#### Stage 2

##### *Other loans*

SME loans and Fringe loans

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

#### Stage 3

##### *Microfinance loans*

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

*Other loans*

Agri loans, Educ loans and Other loans

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

*Other loans*

SME loans and Fringe loans

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

The following tables illustrate the Bank's credit exposures as at December 31, 2019 and 2018:

Due from BSP	2019			Total
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Neither past due nor impaired				
High grade	₱375,395,257	₱-	₱-	₱375,395,257
Standard grade	-	-	-	-
Past due but not impaired	-	-	-	-
Past due and impaired	-	-	-	-
<b>Gross carrying amount</b>	<b>₱375,395,257</b>	<b>₱-</b>	<b>₱-</b>	<b>₱375,395,257</b>

Due from BSP	2018			Total
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Neither past due nor impaired				
High grade	₱323,613,641	₱-	₱-	₱323,613,641
Standard grade	-	-	-	-
Past due but not impaired	-	-	-	-
Past due and impaired	-	-	-	-
<b>Gross carrying amount</b>	<b>₱323,613,641</b>	<b>₱-</b>	<b>₱-</b>	<b>₱323,613,641</b>

Due from other banks	2019			Total
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Neither past due nor impaired				
High grade	₱663,612,860	₱-	₱-	₱663,612,860
Standard grade	1,993,887,779	-	-	1,993,887,779
Past due but not impaired	-	-	-	-
Past due and impaired	-	-	-	-
<b>Gross carrying amount</b>	<b>₱2,657,500,639</b>	<b>₱-</b>	<b>₱-</b>	<b>₱2,657,500,639</b>

Due from other banks	2018			Total
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Neither past due nor impaired				
High grade	₱21,555,959	₱-	₱-	₱21,555,959
Standard grade	1,332,357,489	-	-	1,332,357,489
Past due but not impaired	-	-	-	-
Past due and impaired	-	-	-	-
<b>Gross carrying amount</b>	<b>₱1,353,913,448</b>	<b>₱-</b>	<b>₱-</b>	<b>₱1,353,913,448</b>

Financial assets at FVOCI	2019			Total
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Neither past due nor impaired				
High grade	₱901,886,290	₱-	₱-	₱901,886,290
Standard grade	-	-	-	-
Past due but not impaired	-	-	-	-
Past due and impaired	-	-	-	-
<b>Gross carrying amount</b>	<b>₱901,886,290</b>	<b>₱-</b>	<b>₱-</b>	<b>₱901,886,290</b>

2018				
Financial assets at FVOCI	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Neither past due nor impaired				
High grade	₱851,523,493	₱-	₱-	₱851,523,493
Standard grade	-	-	-	-
Past due but not impaired	-	-	-	-
Past due and impaired	-	-	-	-
<b>Gross carrying amount</b>	<b>₱851,523,493</b>	<b>₱-</b>	<b>₱-</b>	<b>₱851,523,493</b>

2019				
Financial assets at amortized cost	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Neither past due nor impaired				
High grade	₱744,940,616	₱-	₱-	₱744,940,616
Standard grade	-	-	-	-
Past due but not impaired	-	-	-	-
Past due and impaired	-	-	-	-
<b>Gross carrying amount</b>	<b>₱744,940,616</b>	<b>₱-</b>	<b>₱-</b>	<b>₱744,940,616</b>

2018				
Financial assets at amortized cost	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Neither past due nor impaired				
High grade	₱704,052,547	₱-	₱-	₱704,052,547
Standard grade	-	-	-	-
Past due but not impaired	-	-	-	-
Past due and impaired	-	-	-	-
<b>Gross carrying amount</b>	<b>₱704,052,547</b>	<b>₱-</b>	<b>₱-</b>	<b>₱704,052,547</b>

### Receivable from borrowers

2019				
Microfinance loans	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Neither past due nor impaired				
High grade	₱-	₱-	₱-	₱-
Standard grade	9,213,989,288	-	-	9,213,989,288
Past due but not impaired	-	-	55,575,459	55,575,459
Past due and impaired	-	-	229,657,164	229,657,164
<b>Gross carrying amount</b>	<b>₱9,213,989,288</b>	<b>₱-</b>	<b>₱285,232,623</b>	<b>₱9,499,221,911</b>

2018				
Microfinance loans	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Neither past due nor impaired				
High grade	₱	₱-	₱-	₱-
Standard grade	8,619,610,173	-	-	8,619,610,173
Past due but not impaired	-	-	36,703,443	36,703,443
Past due and impaired	-	-	153,782,707	153,782,707
<b>Gross carrying amount</b>	<b>₱8,619,610,173</b>	<b>₱-</b>	<b>₱190,486,150</b>	<b>₱8,810,096,323</b>

2019				
Other loans	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Neither past due nor impaired				
High grade	₱2,201,089,571	₱-	₱-	₱2,201,089,571
Standard grade	-	-	-	-
Past due but not impaired	222,542	904,320	11,644,016	12,770,878
Past due and impaired	-	-	25,496,835	25,496,835
<b>Gross carrying amount</b>	<b>₱2,201,312,113</b>	<b>₱904,320</b>	<b>₱37,140,851</b>	<b>₱2,239,357,284</b>

Other loans	2018			Total
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Neither past due nor impaired				
High grade	₱1,471,968,678	₱–	₱–	₱1,471,968,678
Standard grade	–	–	–	–
Past due but not impaired	–	5,837,488	–	5,837,488
Past due and impaired	–	–	11,785,941	11,785,941
<b>Gross carrying amount</b>	<b>₱1,471,968,678</b>	<b>₱5,837,488</b>	<b>₱11,785,941</b>	<b>₱1,489,592,107</b>

### Other receivables

Accrued interest receivables	2019			Total
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Neither past due nor impaired				
High grade	₱19,404,684	₱–	₱–	₱19,404,684
Standard grade	222,772,556	–	–	222,772,556
Past due but not impaired	–	–	–	–
Past due and impaired	–	–	–	–
<b>Gross carrying amount</b>	<b>₱242,177,240</b>	<b>₱–</b>	<b>₱–</b>	<b>₱242,177,240</b>

Accrued interest receivables	2018			Total
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Neither past due nor impaired				
High grade	₱21,555,959	₱–	₱–	₱21,555,959
Standard grade	232,917,044	–	–	232,917,044
Past due but not impaired	–	–	–	–
Past due and impaired	–	–	–	–
<b>Gross carrying amount</b>	<b>₱254,473,003</b>	<b>₱–</b>	<b>₱–</b>	<b>₱254,473,003</b>

Accounts receivables	2019			Total
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Neither past due nor impaired				
High grade	₱–	₱–	₱–	₱–
Standard grade	7,384,529	–	–	7,384,529
Past due but not impaired	–	–	–	–
Past due and impaired	–	–	–	–
<b>Gross carrying amount</b>	<b>₱7,384,529</b>	<b>₱–</b>	<b>₱–</b>	<b>₱7,384,529</b>

Accounts receivables	2018			Total
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Neither past due nor impaired				
High grade	₱–	₱–	₱–	₱–
Standard grade	3,862,293	–	–	3,862,293
Past due but not impaired	–	–	–	–
Past due and impaired	–	–	–	–
<b>Gross carrying amount</b>	<b>₱3,862,293</b>	<b>₱–</b>	<b>₱–</b>	<b>₱3,862,293</b>

Security deposits	2019			Total
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Neither past due nor impaired				
High grade	₱–	₱–	₱–	₱–
Standard grade	37,925,065	–	–	37,925,065
Past due but not impaired	–	–	–	–
Past due and impaired	–	–	–	–
<b>Gross carrying amount</b>	<b>₱37,925,065</b>	<b>₱–</b>	<b>₱–</b>	<b>₱37,925,065</b>

Security deposits	2018			Total
	ECL Staging			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Neither past due nor impaired				
High grade	P-	P-	P-	P-
Standard grade	43,637,024	-	-	43,637,024
Past due but not impaired	-	-	-	-
Past due and impaired	-	-	-	-
Gross carrying amount	P43,637,024	P-	P-	P43,637,024

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, 2019 and 2018, the Bank's receivables that are past due for more than 90 days are considered impaired.

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

Restructured receivables have principal terms and conditions that have been modified in accordance with an agreement setting forth a new plan of payment or a schedule of payment on a periodic basis.

When the receivable account becomes past due and is being restructured or extended, the approval of the BOD is required before loan booking and is always governed by the BSP rules on restructuring.

As at December 31, 2019 and 2018, the Bank's outstanding restructured receivables tagged as impaired account amounted P0.3 million.

*Impairment assessment (prior to adoption of PFRS 9)*

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than ninety (90) days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed impairment and collectively assessed impairment.

*Individually assessed impairment*

The Bank determines the allowances appropriate for each significant loan or advances on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

#### *Collectively assessed impairment*

Allowances are assessed collectively for losses on loans and advances that are not individually significant (including residential mortgages and unsecured consumer lending) and for individually significant loans and advances that have no objective evidence as a result of individual impairment assessment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no objective evidence of impairment yet in an individual assessment. Impairment losses are estimated by taking the following information into consideration: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

Management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

#### *Impairment assessment (PFRS 9)*

The Bank recognizes a credit loss allowance on a financial asset based on whether it has had a significant increase in credit risk since initial recognition. Accordingly, the Bank categorizes its financial assets into three categories:

- stage 1 - financial asset that has not had a significant increase in credit risk;
- stage 2 - financial asset that has had a significant increase in credit risk; and
- stage 3 - financial asset in default.

Generally, the Bank applies a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 90 days past due.

Further, the Bank considers a financial asset as in default when (a) as a result of one or more loss events, there is objective evidence that its recoverable value is less than its carrying amount; (b) it is classified as doubtful or loss under prudential reporting; (c) it is in litigation; and/or (d) full repayment of principal and interest is unlikely without foreclosure of collateral, if any. When applicable, the Bank also applies a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless the Bank has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

The Bank then measures the credit loss allowance on a financial instrument at an amount equal to 12-month expected credit losses for items categorized as stage 1 and lifetime credit losses to items categorized as stage 3.

Two modeling approaches were employed to build a consistent framework for the development of all ECL models of the Bank. Both modeling approaches consider past events, current conditions and forecast of economic conditions in assessing impairment.

The complex model approach is used for portfolios with a significant number of historical defaults. This approach was applied to the consumer loan portfolios. These quantitative models are built by applying statistical, economic, financial or mathematical theories, techniques and assumptions to calculate provisions. Where historical data are insufficient to develop statistical models, the simplified ECL approach was employed.

### *Default and Cure*

As a part of a qualitative assessment of whether a customer is in default, the Bank considers a variety of instances that may indicate unlikelihood to pay. The Bank's definition of default is aligned with the non-performing loan criteria as prescribed in BSP Circular No. 941. Defaults refer to loans, investments, receivables, or any financial asset, even without missed contractual payments, that satisfy any of the following conditions (1) impaired under existing accounting standards, (2) classified as doubtful or loss, (3) in litigation, (4) and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are (5) unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement. (6) Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due. (7) Restructured loans shall be considered nonperforming. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained. Defaults are characterized by financial assets that have objective evidence of impairment at the reporting date and as such classified under Stage 3 ECL treatment.

An instrument is considered to be no longer in default, i.e., to have cured, when it no longer meets any of the default criteria above and there is sufficient evidence to support full collection through payments received for at least 6 months. Cured accounts are classified under Stage 1 ECL treatment.

### *Exposure at Default (EAD)*

The Bank defines EAD as the principal and interests that would not be collected assuming the borrower's defaults during a future point in time. The Bank computes for a financial asset's EAD using the expected contractual cash flows during the contractual life of the financial instrument. A financial asset's EAD is defined as the sum of EAD from principal and EAD from interest.

### *Probability of default (PD)*

The Bank uses forward-looking PD estimates that are unbiased and probability-weighted using a range of possible outcomes. The PD for each individual instrument is modelled based on historical data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The Bank segmented its credit exposures based on homogenous risk characteristics and developed a corresponding PD methodology for each portfolio. The PD methodology for each relevant portfolio is determined based on the underlying nature or characteristic of the portfolio, behavior of the accounts and materiality of the segment as compared to the total portfolio. The Bank's PDs are mainly categorized into the following: (a) corporate and commercial loans; (b) small and medium-size enterprise financing; (c) auto and housing loans; and (d) personal and consumption loans.

### *Loss given default (LGD)*

The Bank's LGD model considers certain factors such as the historical cash flow recovery and reasonable and supportable information about future economic conditions, where appropriate. Generally, the model utilizes the Bank's existing loan exposure rating system which is designed to capture these factors as well as the characteristics of collaterals related to an exposure. In cases wherein this does not apply, the Bank looks into the standard characteristics of collaterals (e.g., auto and housing loans) in order to estimate an LGD factor.

### *Economic Overlays*

The Bank's incorporates economic overlays into the measurement of ECL to add a forward-looking risk measure parallel to the expected future macroeconomic atmosphere. A broad range of economic indicators were considered for the economic inputs. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To

address this, quantitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. The Bank's loans and receivables consist of different portfolios, such as corporate and commercial loans and consumer loans, as well as other receivables (e.g., sales contract receivables). In compliance with PFRS 9, the Bank developed ECL parameters and methodologies for each portfolio, using historical data as well as forward-looking inputs and assumptions.

### 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.

Through CARD-MRI's 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):

	2019					Total
	On Demand	Less than 30 days	30 to 90 days	91 to 360 days	More than 360 days	
<b>Financial Assets</b>						
Cash and other cash items	₱175,850	₱–	₱–	₱–	₱–	₱175,850
Due from BSP	375,395	–	–	–	–	375,395
Due from other banks*	430,981	1,477,225	757,456	–	–	2,665,662
Financial assets at FVOCI*	–	–	–	–	906,358	906,358
Loans and receivables*						
Microfinance	220,696	163,783	1,463,640	7,651,103	–	9,499,222
Others	25,315	105,020	494,328	1,594,840	19,854	2,239,357
<b>Total Financial Assets</b>	<b>1,228,237</b>	<b>1,746,028</b>	<b>2,715,424</b>	<b>9,245,943</b>	<b>926,212</b>	<b>15,861,844</b>
<b>Financial Liabilities</b>						
Deposit liabilities						
Demand	206,328	–	–	–	–	206,328
Savings	11,037,873	66,587	35,933	48,931	602,806	11,792,130
Bills payable	–	236	149,391	232,113	165,071	546,811
Other liabilities	558,186	9,566	15,931	67,196	117,584	768,463
<b>Total Financial Liabilities</b>	<b>11,802,387</b>	<b>76,389</b>	<b>201,255</b>	<b>348,240</b>	<b>885,461</b>	<b>13,313,732</b>
<b>Net</b>	<b>(₱10,574,150)</b>	<b>₱1,669,639</b>	<b>₱2,514,169</b>	<b>₱8,897,703</b>	<b>₱40,751</b>	<b>₱2,548,112</b>

\*includes future interest

	2018					Total
	On Demand	Less than 30 days	30 to 90 days	91 to 360 days	More than 360 days	
<b>Financial Assets</b>						
Cash and other cash items	₱135,438	₱–	₱–	₱–	₱–	₱135,438
Due from BSP	323,614	–	–	–	–	323,614
Due from other banks	357,659	744,623	398,167	–	–	1,500,449
AFS investments*	–	–	–	222,450	637,405	859,855
Loans and receivables*						
Microfinance	9,309,182	13,648	25,992	102,936	63,221	9,514,979
Others	1,589,723	2,727	3,578	9,138	3,520	1,608,686
<b>Total Financial Assets</b>	<b>11,715,616</b>	<b>760,998</b>	<b>427,737</b>	<b>334,524</b>	<b>704,146</b>	<b>13,943,021</b>
<b>Financial Liabilities</b>						
Deposit liabilities						
Demand	223,493	–	–	–	–	223,493
Savings	8,581,610	329,435	159,245	367,038	576,779	10,014,107
Bills payable	–	50,388	50,000	183,998	248,940	533,326
Other liabilities	331,206	–	–	–	–	331,206
<b>Total Financial Liabilities</b>	<b>9,136,309</b>	<b>379,823</b>	<b>209,245</b>	<b>551,036</b>	<b>825,719</b>	<b>11,102,132</b>
<b>Net</b>	<b>₱2,579,307</b>	<b>₱381,175</b>	<b>₱218,492</b>	<b>(₱216,512)</b>	<b>(₱121,573)</b>	<b>₱2,840,889</b>

\*includes future interest

### Market Risk

Market risk is the risk of loss to future earnings, fair values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may 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 12.0% to 28.0% per annum with equivalent EIR ranging from 16.0% to 52.0% in 2019 and 2018. The shortest term of loan is one (1) month while the longest term is twelve (12) years.

The Bank's savings deposit liabilities include compulsory and voluntary savings that earn 0.3% to 6.0% per annum in 2019 and 2018. Special savings deposits have interest rates of 2.0% to 4.3% in 2019 and 2018.

The Bank pays fixed interest rates on its bills payables from 4.2% to 6.5% and 5.4% to 6.5% per annum in 2019 and 2018, respectively, and payable within 6 months to 7 years in 2019 and 2018.

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 FVOCI and 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 FVOCI/AFS debt securities:

	Changes in interest rates (in basis points)			
	2019		2018	
	+10.0	-10.0	+10.0	-10.0
Sensitivity of equity	(₱11,370,908)	₱11,248,945	(₱20,139,088)	₱20,951,912

#### *Cash flow interest rate risk*

The exposure to cash flow interest rate risk results primarily from financial instruments which carry floating interest rates that are reset as market rates changes. As at December 31, 2019 and 2018, the Bank has no FVOCI, AFS investments, financial assets at amortized cost, HTM investments, and financial liabilities that have floating interest rates, therefore no exposure to cash flow interest risk.

#### *Foreign currency risk*

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

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

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

The Bank's policy is to maintain foreign currency exposure within existing regulations and within acceptable risk limits. The Bank believes in ensuring its foreign currency exposure is, at all times, within limits presented for a financial institution engaged in the type of business in which the Bank is engaged in. As at December 31, 2019 and 2018, the Bank has no significant foreign currency exposure since its transactions and balances in FCDU are only minimal.

#### Operational Risk Management Policies and Procedures

Operational risk is the probability of risk to capital or earnings, or potential loss arising from fraud, unauthorized activities, errors, omissions, system failures or from external events. This is the broadest risk type encompassing product development and delivery, operational processing, systems development, computing systems, complexity of products and services, and the internal control environment.

Operational risk management is considered a critical element in the Bank's commitment to sound management and corporate governance. Under the Bank's operational risk management framework and operational risk manual, a risk-based approach is used in mapping operational risks along critical/key business processes, addressing any deficiencies/weaknesses through the proactive process of identifying, assessing and limiting impact of risk in every business/operational area.

Bank policies on internal control, information security, and other operational risk aspects have been established. Key risk indicators and risk assessment guidelines have been implemented and disseminated to different sectors of the Bank to provide alerts for operational risk vulnerabilities. The Bank has instituted a risk and control assessment process, as well as an issue escalation procedure to ensure that issues or incidents where lapses in controls occur are captured, evaluated and elevated for correction. The bank has an established a business continuity plan to ensure continued bank operations in the face of potential disruptions to operations as well as fraud management framework for the prevention, detection, investigation and recovery strategies to manage fraud, both internal and external.

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## 6. Cash and Cash Equivalents

The composition of this account follows:

	2019	2018
Cash and other cash items	<b>₱175,850,046</b>	₱135,437,786
Due from BSP	<b>375,395,257</b>	323,613,641
Due from other banks	<b>2,657,500,639</b>	1,500,449,173
	<b>₱3,208,745,942</b>	₱1,959,500,600

Cash includes cash in vault and in automated teller machines.

‘Due from BSP’ account represents the aggregate balance of noninterest-bearing peso deposit account with the BSP which the Bank maintains primarily to meet reserve requirements and to serve as a clearing account for interbank claims (Note 13).

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 consists of:

	2019	2018
Demand deposit	<b>₱345,146,771</b>	₱307,048,088
Savings deposit	<b>85,834,701</b>	1,112,539,849
Time deposit	<b>2,226,519,167</b>	80,861,236
	<b>₱2,657,500,639</b>	₱1,500,449,173

As at December 31, 2019 and 2018, due from other banks include dollar-denominated deposits amounting to \$0.3 million (₱15.6 million) and \$0.3 million (₱16.0 million), respectively.

Peso-denominated deposits pertain to demand, savings, and time deposit accounts that earn interest at annual rates ranging from nil to 4.0% and nil to 7.0% in 2019 and 2018, respectively. Dollar-denominated deposits earn interest at annual rates ranging from 0.1% to 0.3% in 2019 and 2018.

Total interest income earned on deposits from other banks amounted to ₱114.7 million and ₱55.0 million in 2019 and 2018, respectively. Of these amounts, ₱17,163 and ₱17,748 pertain to interest income from USD deposits in 2019 and 2018, respectively.

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## 7. Financial Assets at Fair Value through Other Comprehensive Income

This account consists of:

	2019	2018
Quoted government debt securities	<b>₱901,886,290</b>	₱851,523,493
	<b>₱901,886,290</b>	₱851,523,493

Debt securities at FVOCI consists of government debt securities that earn nominal interest rates ranging from 3.5% to 6.5% in 2019 and 2018. Effective interest rates range from 3.4% to 8.6% in 2019 and 2018.

Interest income on Financial asset at FVOCI investments amounted to ₱43.1 million and ₱37.8 million in 2019 and 2018, respectively. Amortized premium on AFS investments amounted to ₱2.5 million and ₱1.6 million in 2019 and 2018, respectively.

The movements in the net unrealized losses on financial assets at FVOCI/AFS investments of the Bank follow:

	2019	2018
Balance at January 1	(₱47,530,915)	(₱7,640,320)
Fair value changes during the year	84,641,183	(57,002,642)
Income tax effects	(25,392,355)	17,112,047
	<b>59,248,828</b>	<b>(39,890,595)</b>
Balance at December 31	<b>₱11,717,913</b>	<b>(₱47,530,915)</b>

## 8. Financial Assets at Amortized Cost

This account consists of:

	2019	2018
Quoted debt securities	₱581,506,279	₱579,479,455
Unquoted debt securities	163,434,337	124,573,093
	<b>₱744,940,616</b>	<b>₱704,052,548</b>

### Quoted debt securities

Government debt securities have fixed annual interest rates ranging from 3.3% to 5.8% in 2019 and 2.0% to 5.8% in 2018, and EIR ranging from 3.5% to 5.8% in 2019 and 1.9% to 8.6% in 2018.

The terms of these investments range from 3 to 10 years in 2019 and 2018.

### Unquoted debt securities

Unquoted debt securities consist of short-term non-negotiable Micro, Small and Medium Enterprise (MSME) notes issued by Small Business Corporation and long-term certificates of Agrarian Reform (AR) bonds issued by the National Government.

As at December 31, 2019 and 2018, MSME notes amounted to ₱42.2 million in 2019 and ₱42.4 million 2018 with a term of one (1) to five (5) years. These notes bear annual interest rates of 2.0% in 2019 and interest rates ranging from 2.0% to 2.5% in 2018. Income earned from this account amounted to ₱1.4 million in 2019 and ₱3.0 million in 2018.

The AR bonds, which were acquired in 2017, bear annual interest rates based on the 91-day Treasury bill and is subject to repricing. Interest income on investments in AR bonds amounted to ₱8.0 million in 2019 and ₱0.9 million in 2018, and amortized discount amounted to ₱1.1 million in 2019 and ₱1.7 million in 2018.

These instruments are acquired in compliance with the requirements set by Republic Act 9501 and Agri Agra Reform Credit Act of 2000 (Republic Act 10000) that lending institutions or any party otherwise required to make a mandatory allocation of credit resources to MSMEs and Agri Agra, shall be deemed as compliance with the mandated loan portfolio allocation percentage.

Interest income on investment securities at amortized cost follows:

	2019	2018
Quoted debt securities	<b>₱26,457,587</b>	₱23,498,567
Unquoted debt securities	<b>9,359,538</b>	3,923,104
<b>Balance at end of year</b>	<b>₱35,817,125</b>	<b>₱27,421,671</b>

## 9. Loans and Receivables

This account consists of:

	2019	2018
Receivables from borrowers		
Microfinance loans* (Note 14)	<b>₱9,499,221,910</b>	₱8,422,669,734
Regular loans	<b>1,468,661,055</b>	1,273,552,319
Agricultural-agrarian loans	<b>770,696,229</b>	603,466,374
	<b>11,738,579,194</b>	10,299,688,427
Other receivables:		
Accrued interest receivables		
Receivable from borrowers	<b>222,772,556</b>	232,917,044
FVOCI investments	<b>7,199,775</b>	8,332,025
Investments at amortized cost	<b>6,889,471</b>	6,280,249
Cash and cash equivalents	<b>5,315,438</b>	6,943,685
Accounts receivable (Note 22)	<b>7,384,529</b>	3,862,293
	<b>11,988,140,963</b>	10,558,023,723
Less allowance for credit losses	<b>344,925,255</b>	150,731,477
	<b>₱11,643,215,708</b>	<b>₱10,407,292,246</b>

\*Include microfinance loans used to secure bills payable amounting to ₱0.3 billion and ₱0.2 billion as at December 31, 2019 and 2018, respectively.

Regular loans include salary loans granted to the Bank's employees and officers and government and schools employees amounting to ₱20.9 million and ₱26.3 million as at December 31, 2019 and 2018, respectively, and earning fixed annual interest rates ranging from 6.0% to 28.0% in 2019 and 2018 (see Note 22).

Interest income on receivables from borrowers amounted to ₱5.5 billion and ₱4.5 billion in 2019 and 2018, respectively. Receivables from borrowers earn interest with effective interest rates ranging from 33.5% to 57.9% in 2019 and 2018. Nominal interest rates of these receivables range from 12.0% to 28% and 16.0% to 28.0% in 2019 and 2018, respectively.

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

	2019	2018
Balance at beginning of year, as previously reported	<b>₱149,092,757</b>	₱184,246,662
Provision for (Recovery from) credit losses	<b>194,026,366</b>	(35,153,905)
<b>Balance at end of year</b>	<b>₱343,119,123</b>	<b>₱149,092,757</b>

Allowance for credit losses for other risk assets amounted to ₱1.8 million in 2019 and ₱1.6 million in 2018. The Bank also wrote off other receivables amounting to ₱28,548 in 2019 and ₱30,478 in 2018.

### BSP Reporting

In accordance with BSP regulations, the Bank considers a loan as part of portfolio-at-risk (PAR) when an installment payment that is past due for one day. As at December 31, 2019 and 2018, the Bank's PAR amounted to ₱322.7 million and ₱208.1 million, respectively.

#### *Performing and non-performing loans*

According to BSP Circular 941 *Amendments to the Regulations on Past Due and Non-Performing Loans* effective January 1, 2018, loans shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any.

All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.

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 that are payable in lump sum and loans that are 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 (10.00%) of the total receivable balance.

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

Information on the amounts of performing and non-performing loans (NPLs) and receivables (gross of allowance for impairment and credit losses) of the Bank are as follows:

	2019			2018		
	Performing	Non-Performing	Total	Performing	Non-Performing	Total
Loans and receivables						
Microfinance loans	₱9,269,564,746	₱229,657,164	₱9,499,221,910	₱8,219,039,746	₱203,629,718	₱8,422,669,464
Regular loans	1,448,713,175	19,947,880	1,468,661,055	1,256,254,746	17,297,843	1,273,552,589
Agricultural-agrarian loans	765,147,274	5,548,955	770,696,229	599,121,461	4,344,913	603,466,374
	<b>₱11,483,425,195</b>	<b>₱255,153,999</b>	<b>₱11,738,579,194</b>	<b>₱10,074,415,953</b>	<b>₱225,272,474</b>	<b>₱10,299,688,427</b>

As of December 31, 2019 and 2018, secured and unsecured NPLs of the Bank follow:

	2019	2018
Secured	<b>₱253,522,399</b>	₱223,831,951
Unsecured	<b>1,631,600</b>	1,440,523
	<b>₱255,153,999</b>	<b>₱225,272,474</b>

Restructured loans as of December 31, 2019 and 2018 amounted to nil. The Bank's loan portfolio includes non-risk loans as defined under BSP regulations totaling ₱11.44 billion and ₱10.07 billion as of December 31, 2019 and 2018, respectively.

*Secured and unsecured portion of loans*

The following table shows the secured and unsecured portions of receivables from borrowers as at December 31, 2019 and 2018:

	2019		2018	
	Amount	%	Amount	%
Secured portion				
Deposit hold-out (Note 13)	₱11,717,632,843	99.8%	₱10,277,379,366	99.8%
Unsecured portion	20,946,351	0.2%	22,309,061	0.2%
	<b>₱11,738,579,194</b>	<b>100.0%</b>	<b>₱10,299,688,427</b>	<b>100.0%</b>

*Industry concentration of loans*

As at December 31, 2019 and 2018, information on the concentration of gross loans and receivables as to industry follows (amounts in thousands):

	2019		2018	
	Amount	%	Amount	%
Wholesale and retail trade	₱10,157,679	86.5%	₱8,724,874	84.7%
Real estate renting and business activities	1,309,018	11.2%	1,112,661	10.8%
Agriculture, hunting and forestry	177,374	1.5%	285,519	2.8%
Education	56,515	0.5%	104,659	1.0%
(Forward)				
Other community, social and personal service activities	21,154	0.2%	35,236	0.3%
Manufacturing	16,839	0.1%	15,710	0.2%
Government	–	0.0%	13,749	0.1%
Financial institutions	–	0.0%	7,280	0.1%
	<b>₱11,738,579</b>	<b>100%</b>	<b>₱10,299,688</b>	<b>100.0%</b>

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

*Transfers between ECL Staging*

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

	2019			
	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Loss allowance at January 1, 2019	₱65,412,783	₱312,359	₱83,367,615	₱149,092,757
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(74,163)	74,163	–	–
Transfer from Stage 1 to Stage 3	(81,232,350)	–	81,232,350	–
Transfer from Stage 2 to Stage 1	177,010	(177,010)	–	–
Transfer from Stage 2 to Stage 3	–	(83,128)	83,128	–
Transfer from Stage 3 to Stage 1	1,649,284	–	(1,649,284)	–

(Forward)

	2019			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
New financial assets originated or purchased	₱888,037,143	–	–	₱888,037,143
Changes in PDs/LGDs/EADs	(631,923,539)	–	65,799,218	(566,124,321)
Financial assets derecognized during the period	(64,349,061)	(52,221)	(63,485,173)	(127,886,455)
Total movements with P&L impact	112,284,324	(238,196)	81,980,238	194,026,366
<b>Total net P&amp;L charge during the period</b>	<b>177,697,107</b>	<b>74,163</b>	<b>165,347,853</b>	<b>343,119,123</b>
<b>Other movements without P&amp;L impact</b>				
Write-offs and other movements	–	–	–	–
<b>Total movements without P&amp;L impact</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Loss allowance at December 31, 2019</b>	<b>₱177,697,107</b>	<b>₱74,163</b>	<b>₱165,347,853</b>	<b>₱343,119,123</b>

	2018			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance at January 1, 2018, as restated	₱80,836,167	₱386,009	₱103,024,486	₱184,246,662
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 3	(111,685)	–	111,685	–
Transfer from Stage 3 to Stage 1	53,230	–	(53,230)	–
New financial assets originated or purchased	34,626,207	–	60,160,546	94,786,753
Changes in PDs/LGDs/EADs	19,073,924	(73,650)	(52,614,664)	(33,614,390)
Financial assets derecognized during the period	(69,065,060)	–	(27,261,208)	(96,326,268)
Total movements with P&L impact	(15,423,384)	(73,650)	(19,656,871)	(35,153,905)
Total net P&L charge during the period	65,412,783	312,359	83,367,615	149,092,757
Other movements without P&L impact				
Write-offs and other movements	–	–	–	–
<b>Total movements without P&amp;L impact</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Loss allowance at December 31, 2018</b>	<b>₱65,412,783</b>	<b>₱312,359</b>	<b>₱83,367,615</b>	<b>₱149,092,757</b>

*Transfers between gross outstanding loans staging*

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

	2019			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
<b>Gross carrying amount as at January 1, 2019</b>	<b>₱10,320,030,421</b>	<b>₱1,104,386</b>	<b>₱211,470,664</b>	<b>₱10,532,605,471</b>
Transfers:				
Transfer from Stage 1 to Stage 2	(904,320)	904,320	–	–
Transfer from Stage 1 to Stage 3	(206,109,629)	–	206,109,629	–
Transfer from Stage 2 to Stage 1	482,353	(482,353)	–	–
Transfer from Stage 2 to Stage 3	–	(248,853)	248,853	–
Transfer from Stage 3 to Stage 1	1,649,284	–	(1,649,284)	–
New financial assets originated or purchased	11,694,355,655	–	–	11,694,355,655
Collections of principal and interest	(7,198,416,929)	(10,567)	(60,539,823)	(7,258,967,319)
Financial assets derecognized during the period	(2,975,251,976)	(356,055)	(31,034,026)	(3,006,642,057)
Write-offs and other movements	–	–	–	–
<b>Gross carrying amount as at December 31, 2019</b>	<b>₱11,635,834,859</b>	<b>₱910,878</b>	<b>₱324,606,013</b>	<b>₱11,961,351,750</b>

	2018			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amount as at January 1, 2018	₱7,813,909,781	₱836,197	₱160,117,037	₱7,974,863,015
Transfers:				
Transfer from Stage 1 to Stage 3	(10,033,124)	–	10,033,124	–
Transfer from Stage 3 to Stage 1	118,967	–	(118,967)	–
New financial assets originated or purchased	10,200,792,735	–	138,844,451	10,339,637,186
Collections of principal and interest	(138,531,277)	268,189	175,090,003	36,826,915
Financial assets derecognized during the period	(7,546,226,661)	–	(272,494,984)	(7,818,721,645)
Write-offs and other movements	–	–	–	–
<b>Gross carrying amount as at December 31, 2018</b>	<b>₱10,320,030,421</b>	<b>₱1,104,386</b>	<b>₱211,470,664</b>	<b>₱10,532,605,471</b>

While the Bank recognizes through the statements of income the movements in the expected credit losses computed using the models, the Bank also complies with BSP's regulatory requirement to appropriate a portion of its surplus at an amount necessary to bring at least the allowance for credit losses to 1% of all outstanding Stage 1 loan accounts. The amount of surplus reserve for this purpose decreased by ₱2.4 million in 2019 and increased by ₱182.0 million in 2018.

## 10. Investment in Associates

This account consists of:

	2019	2018
<b>Acquisition cost</b>		
Balance at beginning of year, as previously reported	<b>₱108,750,000</b>	₱108,750,000
Additional investments during the year (Note 22)	<b>23,546,581</b>	–
	<b>132,296,581</b>	108,750,000
<b>Accumulated equity in net earnings</b>		
Balance at beginning of year	<b>349,067,814</b>	206,084,967
Share in net income of an associate	<b>151,382,349</b>	142,982,847
	<b>500,450,163</b>	349,067,814
<b>Accumulated equity in other comprehensive income (loss)</b>		
Balance at beginning of year	<b>6,707,174</b>	2,777,611
Share in other comprehensive income of an associate	<b>(4,547,578)</b>	3,929,563
	<b>2,159,596</b>	6,707,174
<b>Dividends</b>		
Balance at beginning of year	<b>(140,650,000)</b>	(70,400,000)
Dividends	<b>(100,800,000)</b>	(70,250,000)
	<b>(241,450,000)</b>	(140,650,000)
Investment in CARD MRI Rizal Bank, Inc.	<b>392,943,242</b>	323,474,988
Investment in MIDAS	<b>513,098</b>	400,000
	<b>₱393,456,340</b>	₱323,874,988

### Investment in CMRBI

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

The following table illustrates the summarized financial information in the statements of financial position, statements of income and statements of comprehensive income and a net asset reconciliation of investment in CMRBI (amounts in millions):

	2019	2018
<i>Statements of Comprehensive Income</i>		
Revenues	<b>₱1,671.3</b>	₱1,243.6
Expenses	<b>1,293.0</b>	886.2
Net income	<b>378.2</b>	357.4
Other comprehensive income (loss)	<b>(11.4)</b>	3.0
Total comprehensive income	<b>366.9</b>	360.4
<i>Statements of Financial Position</i>		
Current assets	<b>4,840.2</b>	3,919.4
Noncurrent assets	<b>340.8</b>	190.2
Current liabilities	<b>(3,447.0)</b>	(2,508.3)
Noncurrent liabilities	<b>(720.4)</b>	(775.4)
Net assets	<b>1,013.6</b>	825.9
Bank's ownership interest in CMRBI	<b>40.0%</b>	40.0%
Bank's share in net assets in CMRBI	<b>405.4</b>	330.4
Notional goodwill, transaction costs and other adjustments	<b>(12.5)</b>	(6.9)
	<b>₱392.9</b>	₱323.5

As at December 31, 2019 and 2018, there were no agreements entered into by the Bank and CMRBI that may restrict dividends and other capital distributions to be paid and the Bank has no share on commitments and contingencies of CMRBI.

In 2019 and 2018, the Bank made additional investments to CMRBI amounting to ₱23.5 million and nil, respectively.

Investment in Microfinance Information Data Sharing, Inc. (MIDAS, Inc.)

Investment in MIDAS represents the Bank's 10.7% ownership for interest in the Corporation. MIDAS is not listed on any public exchange and there are no quoted market prices available for its shares. The primary place of business of MIDAS is at TSKI Corporate Office, National Highway, Brgy. Mali-ao, Pavia, Iloilo.

## 11. Property and Equipment

The composition of and movements in this account follow:

	Land	Building	Furniture, Fixtures and Equipment	Leasehold Improvements	Land Improvements	Transportation Equipment	Construction in Progress	Right-of-use Assets	Total
<b>December 31, 2019</b>									
<b>Cost</b>									
Balance at beginning of year, as previously reported	₱197,662,431	₱330,304,468	₱360,396,371	₱123,552,767	₱6,591,245	₱19,821,189	₱4,762,104	₱-	₱1,043,090,575
Effect of adoption of PFRS 16 (Note 2)	-	-	-	-	-	-	-	180,863,168	180,863,168
Balance at beginning of year, as restated	197,662,431	330,304,468	360,396,371	123,552,767	6,591,245	19,821,189	4,762,104	180,863,168	1,223,953,743
Additions	-	2,584,832	54,092,168	4,646,033	-	11,785,024	30,898,012	117,418,527	221,424,596
Disposals	-	-	(716,657)	-	-	(736,065)	-	-	(1,452,722)
Reclassification (Note 12)	-	13,597,936	-	11,839,109	-	-	(26,075,199)	-	(638,154)
Balance at end of year	197,662,431	346,487,236	413,771,882	140,037,909	6,591,245	30,870,148	9,584,917	298,281,695	1,443,287,463
<b>Accumulated Depreciation and Amortization</b>									
Balance at beginning of year	-	169,117,405	285,313,539	83,817,653	3,304,357	19,820,179	-	-	561,373,133
Effect of adoption of PFRS 16 (Note 2)	-	-	-	-	-	-	-	-	-
Depreciation and amortization	-	169,117,405	285,313,539	83,817,653	3,304,357	19,820,179	-	-	561,373,133
Disposals	-	27,480,221	43,167,564	15,358,582	1,318,249	713,230	-	85,594,717	173,632,563
Reclassification (Note 12)	-	(38,678)	(716,657)	-	-	(736,062)	-	-	(1,452,719)
Balance at end of year	-	196,558,948	327,623,834	98,750,255	4,622,606	19,797,347	-	85,594,717	732,947,707
<b>Net Book Value</b>	<b>₱197,662,431</b>	<b>₱149,928,288</b>	<b>₱86,148,048</b>	<b>₱41,287,654</b>	<b>₱1,968,639</b>	<b>₱11,072,801</b>	<b>₱9,584,917</b>	<b>₱212,686,978</b>	<b>₱710,339,756</b>

	Land	Building	Furniture, Fixtures and Equipment	Leasehold Improvements	Land Improvements	Transportation Equipment	Construction in Progress	Total
<b>December 31, 2018</b>								
<b>Cost</b>								
Balance at beginning of year	₱197,662,431	₱309,195,769	₱331,035,219	₱119,644,051	₱6,179,149	₱22,119,759	₱5,979,503	₱991,815,881
Additions	–	1,266,124	32,644,388	856,860	–	–	23,079,518	57,846,890
Disposals	–	–	(3,141,437)	(169,577)	–	(2,298,570)	–	(5,609,584)
Reclassification (Note 12)	–	19,842,575	(141,799)	3,221,432	412,096	–	(24,296,916)	(962,612)
Balance at end of year	197,662,431	330,304,468	360,396,371	123,552,766	6,591,245	19,821,189	4,762,105	1,043,090,575
Accumulated Depreciation and Amortization								
Balance at beginning of year	–	134,507,732	245,114,536	69,324,634	1,992,977	22,118,718	–	473,058,597
Depreciation and amortization	–	34,609,673	43,282,272	14,662,596	1,311,380	31	–	93,865,952
Reclassification	–	–	(141,799)	–	–	–	–	(141,799)
Disposals	–	–	(2,941,470)	(169,577)	–	(2,298,570)	–	(5,409,617)
Balance at end of year	–	169,117,405	285,313,539	83,817,653	3,304,357	19,820,179	–	561,373,133
Net Book Value	₱197,662,431	₱161,187,063	₱75,082,832	₱39,735,113	₱3,286,888	₱1,010	₱4,762,105	₱481,717,442

Depreciation and amortization presented in the statements of income follow:

	2019	2018
Property and equipment	₱173,632,563	₱93,865,592
Intangible assets (Note 12)	14,722,257	12,779,268
	<b>₱188,354,820</b>	<b>₱106,645,220</b>

Construction in progress represents the cost of materials, labor, and other capitalizable expenditures incurred in connection with leasehold improvements of bank premises under establishment or renovation. As of December 31, 2019, the leasehold improvements under construction pertain to the establishment of a branch and are estimated to be completed in February 2020. As of December 31, 2018, the leasehold improvements under construction pertained to establishment and renovations of various branches and are completed in February and May 2019.

There are no restrictions on the titles of the Bank's property and equipment and the Bank does not have any contractual commitments for the acquisition of property and equipment as of December 31, 2019 and 2018.

## 12. Other Assets

This account consists of:

	2019	2018
<b>Financial assets</b>		
Security deposits	₱37,925,065	₱44,173,614
Subscription to CMRBI shares	50,000,000	-
	<b>87,925,065</b>	44,173,614
<b>Nonfinancial assets</b>		
Stationeries and supplies	69,851,493	74,752,260
Intangible assets	8,587,226	18,752,741
Prepaid expenses	27,020,915	13,436,631
Others	5,089,005	4,525,049
	<b>110,548,639</b>	111,466,681
	<b>₱198,473,704</b>	<b>₱155,640,295</b>

Security deposits pertain to refundable deposits on the Bank's leased office spaces, and staff house premises and leased IT equipment with CLFC. Interest income in 2019 and 2018 amounted to ₱0.8 million and nil, respectively.

Subscription to CMRBI shares pertains to deposit made by the Bank for future stock subscription of the CMRBI's proposed increase of capital stock that were not yet filed with SEC as of end of the reporting period.

Intangible assets include purchased licenses and software. Others pertain to artworks and paintings owned by the Bank.

The movements of intangible assets follow:

	2019	2018
<b>Cost</b>		
Balance at beginning of year	₱39,830,506	₱37,883,395
Additions	4,556,742	1,963,740
Write-offs	–	(16,629)
Balance at end of year	44,387,248	39,830,506
<b>Accumulated Amortization</b>		
Balance at beginning of year	21,077,765	8,315,126
Amortization (Note 11)	14,722,257	12,779,268
Write-offs	–	(16,629)
Balance at end of year	35,800,022	21,077,765
<b>Net Book Value</b>	<b>₱8,587,226</b>	<b>₱18,752,741</b>

### 13. Deposit Liabilities

The Bank's savings deposit liabilities include pledge savings amounting to ₱8.4 billion and ₱6.9 billion as at December 31, 2019 and 2018, respectively. These represent the aggregate compulsory savings of ₱50.0 per week collected from each member and earn an annual interest rate of 2.0% in 2019 and 2018. Under an assignment agreement, the pledge savings balances serve as security for loans granted by the Bank to its members. Pledge savings equivalent to 15.0% of the loan proceeds serves as guarantee fund of the outstanding loan receivable from members.

Savings deposits include regular and special savings deposit. Regular savings deposits include “Kayang-kaya”, “Tagumpay”, “Maagap”, “Matapat” and “Dollar” savings. These savings accounts bear annual fixed interest rates ranging from 0.3% to 6.0% in 2019 and 2018. Special savings deposits include “Tiwala” savings with annual interest rates ranging from 2.0% to 4.3% in 2019 and 2018. Interest expense on deposit liabilities amounted to ₱255.8 million and ₱208.5 million in 2019 and 2018, respectively.

BSP Circular No. 830 requires reserves against deposit liabilities. As at December 31, 2019 and 2018, due from BSP amounting to ₱375.4 million and ₱323.6 million, respectively, were set aside as reserves for deposit liabilities per latest report submitted by the Bank to the BSP. As at December 31, 2019 and 2018, the Bank is in compliance with such regulation.

#### 14. Bills Payable

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

	2019	2018
<b>Face Value</b>		
Balance at beginning of year	<b>₱532,100,000</b>	₱915,260,000
Availments	<b>300,000,000</b>	200,000,000
Principal payments	<b>(283,160,000)</b>	(583,160,000)
Balance at end of year	<b>548,940,000</b>	532,100,000
<b>Unamortized Transaction Costs</b>		
Balance at beginning of year	<b>(2,603,802)</b>	(4,285,232)
Availments	<b>(1,165,773)</b>	(731,507)
Amortization	<b>1,640,924</b>	2,412,937
Balance at end of year	<b>(2,128,651)</b>	(2,603,802)
<b>Carrying Value</b>	<b>₱546,811,349</b>	₱529,496,198

##### Local banks

Bills payable of ₱299.0 million and ₱199.4 million as at December 31, 2019 and 2018, respectively, pertain to promissory notes obtained from various local banks for working capital requirements with a tenor of six (6) months to one (1) year in 2019 and 2018, and annual interest rates of 4.2% and 3.0% to 5.4% in 2019 and 2018, 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.

As at December 31, 2019 and 2018, carrying value of the loan amounted to ₱247.8 million and ₱330.1 million, respectively.

Borrowings from IFC contain the following embedded derivatives:

- 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
- cross currency swap which allows the parties to exchange interest payments and principals denominated in different currencies (in USD and Philippine Pesos).

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

### *Debt covenants*

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

#### a. Negative covenants

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

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

#### b. Financial covenants

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

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

- single currency foreign exchange risk ratio of not more than 10.0%;
- interest rate risk ratio of not less than -10.0% and not more than 10.0%;
- aggregate interest rate risk ratio of not less than -20.0% and not more than 20.0%;

The period of compliance with the above covenants commenced on March 31, 2016. As at December 31, 2019 and 2018, the Bank is in compliance with the above covenants.

Receivable from borrowers amounting to ₱0.3 billion and ₱0.2 billion secure the above borrowings as at December 31, 2019 and 2018, respectively (Note 9).

The Bank has undrawn credit line amounting to ₱1.0 billion and ₱1.6 billion in 2019 and 2018, respectively.

Interest expense recognized in the statements of income amounted to ₱51.5 million and ₱30.6 million in 2019 and 2018, respectively. Unpaid interest as at December 31, 2019 and 2018 amounted to ₱1.5 million and ₱1.2 million, respectively, is presented under 'Accrued expense' (Note 15).

## 15. Other Liabilities

This account consists of:

	2019	2018
<b>Financial liabilities</b>		
Finance lease liability	<b>₱208,766,138</b>	₱–
Accrued expenses	<b>124,049,186</b>	159,563,465
Accrued interest on deposit liabilities (Note 22)	<b>90,364,953</b>	57,619,575
Dividends payable (Note 17)	<b>63,370,446</b>	66,818,789
Accounts payable (Note 22)	<b>39,911,489</b>	44,777,445
Accrued interest on bills payable (Note 14)	<b>1,477,657</b>	1,225,732
Refundable deposits	<b>1,205,768</b>	1,200,818
	<b>529,145,637</b>	331,205,824
<b>Nonfinancial liabilities</b>		
Deposit for future stock subscription (Notes 17 and 24)	<b>239,318,420</b>	–
Accrued taxes	<b>73,090,164</b>	63,559,649
Accrued vacation leaves	<b>71,931,240</b>	26,967,522
Withholding taxes payable	<b>15,559,539</b>	21,557,938
	<b>399,899,363</b>	112,085,109
	<b>₱929,045,000</b>	₱443,290,933

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

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

## 16. Maturity Analysis of Assets and Liabilities

The following table presents the Bank's assets and liabilities as at December 31, 2019 and 2018 analyzed according to when they are expected to be recovered or settled within one year and beyond one year from respective reporting date (in thousands):

	2019			2018		
	Within one year	Beyond one year	Total	Within one year	Beyond one year	Total
<b>Financial Assets</b>						
Cash and other cash items	₱175,850	₱–	₱175,850	₱135,438	₱–	₱135,438
Due from BSP	375,395	–	375,395	323,614	–	323,614
Due from other banks	2,657,501	–	2,657,501	1,500,449	–	1,500,449
Financial assets at FVOCI	–	901,886	901,886	–	851,523	851,523
Loans and receivables, net	11,628,312	14,904	11,643,216	10,353,799	53,493	10,407,292
Investment securities at amortized costs	–	744,941	744,941	–	704,053	704,053
Security deposits	–	37,925	37,925	–	48,637	48,637
<b>Nonfinancial Assets</b>						
Investments in associates	–	393,456	393,456	–	323,875	323,875
Property and equipment, net	–	710,340	710,340	–	481,717	481,717
Retirement asset	–	212,485	212,485	–	248,783	248,783
Deferred tax assets	–	56,422	56,422	–	1,840	1,840
Other assets	–	160,548	160,548	83,226	23,778	107,004
<b>Total Assets</b>	<b>₱14,837,058</b>	<b>₱3,232,907</b>	<b>₱18,069,965</b>	<b>₱12,396,526</b>	<b>₱2,737,699</b>	<b>₱15,134,225</b>

	2019			2018		
	Within one year	Beyond one year	Total	Within one year	Beyond one year	Total
<b>Financial liabilities</b>						
Deposit liabilities	₱11,397,649	₱600,809	₱11,998,458	₱9,874,142	₱363,457	₱10,237,599
Bills payable, net	381,592	165,219	546,811	283,160	246,336	529,496
Other liabilities:						
Accrued expenses	123,744	305	124,049	157,650	1,913	159,563
Accrued interest	91,843	–	91,843	58,846	–	58,846
Dividends payable	63,370	–	63,370	66,819	–	66,819
Accounts payable	39,911	–	39,911	44,777	–	44,777
Finance lease liability	91,182	117,584	208,766	–	–	–
Refundable deposits	–	1,206	1,206	–	1,201	1,201
<b>Nonfinancial liabilities</b>						
Deposit for future stock subscription	239,318	–	239,318	–	–	–
Income tax payable	312,270	–	312,270	230,641	–	230,641
Other liabilities:						
Accrued vacation leaves	13,994	57,938	71,932	3,065	23,902	26,967
Accrued taxes	73,090	–	73,090	63,560	–	63,560
Withholding taxes payable	15,560	–	15,560	21,558	–	21,558
<b>Total Liabilities</b>	<b>₱12,843,523</b>	<b>₱943,061</b>	<b>₱13,786,584</b>	<b>₱10,804,218</b>	<b>₱636,809</b>	<b>₱11,441,027</b>

## 17. Equity

### Capital Stock

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

	2019		2018	
	Shares	Amount	Shares	Amount
<b>Preferred stock - ₱200 par value, 5,000,000 authorized shares</b>				
Issued and outstanding				
Beginning of year	5,000,000	₱1,000,000,000	3,408,819	₱681,763,800
Application of deposit for future stock subscription to issued shares	–	–	1,590,732	318,146,400
Issuance of shares of stocks from settlement of subscriptions receivables	–	–	449	89,800
Preferred stock at the end of the year	5,000,000	1,000,000,000	5,000,000	1,000,000,000
Subscribed	–	–	–	–
Subscription receivable	–	–	–	–
	<b>5,000,000</b>	<b>₱1,000,000,000</b>	<b>5,000,000</b>	<b>₱1,000,000,000</b>
<b>Common stock - ₱100 par value, 10,000,000 authorized shares</b>				
Issued and outstanding				
Beginning of year	10,000,000	₱1,000,000,000	9,999,926	₱999,992,600
Issuance of shares of stocks from settlement of subscriptions receivables	–	–	74	7,400
Stock dividends	–	–	–	–
Common stock at the end of the year	10,000,000	1,000,000,000	10,000,000	1,000,000,000
Subscribed	–	–	–	–
	<b>10,000,000</b>	<b>₱1,000,000,000</b>	<b>10,000,000</b>	<b>₱1,000,000,000</b>

### Deposit for Future Stock Subscription

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

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

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

The application for approval of the proposed increase is not yet filed with the SEC as of December 31, 2019, the DFS of ₱239.3 million was classified under 'Other liabilities' as of December 31, 2019 (see Note 15). The DFS was paid in cash by its stockholders and related parties.

As of December 31, 2018, the Bank collected subscriptions receivables amounting to ₱89,800 and ₱7,400 from common and preferred stocks, respectively.

Preferred has the following features: (a) 8.0% cumulative dividends, (b) non-participating, and (c) non-redeemable. As at December 31, 2019 and 2018, dividends amounted to ₱240.0 million and ₱260.0 million, respectively.

#### Dividend Declaration

##### *2019 Cash Dividends*

On March 16, 2019, the BOD declared cash dividends of 10.0% and ₱20.0 per share to its preferred and common stockholders, respectively, to stockholders of record as at February 28, 2019. Cash dividends declared amounting to ₱300.0 million were paid starting April 2, 2019 to preferred and common stockholders.

On July 20, 2019, the BOD declared and approved another cash dividend of 8.0% and ₱20.0 per share to its preferred and common stockholders, respectively to stockholder of record as at June 30, 2019. Cash dividends declared amounting to ₱280.0 million were paid starting September 26, 2019 to preferred and common stockholders.

On November 16, 2019, the BOD declared and approved another cash dividend of 6.0% and ₱15.0 per share to its preferred and common stockholders, respectively, to its stockholders of record as at October 31, 2019. Cash dividends declared amounting to ₱210.0 million were paid starting December 20, 2019 to preferred and common stockholders.

##### *2018 Cash Dividends*

On March 17, 2018, the BOD declared cash dividends of 12.0% and ₱15.0 per share to its preferred and common stockholders, respectively, to stockholders of record as at February 28, 2018. Cash dividends declared amounting to ₱232.5 million were paid starting April 2, 2018 to preferred and common stockholders of record as at February 28, 2018.

On September 15, 2018, the BOD declared and approved another cash dividend of 8.0% and ₱15.0 per share to its preferred and common stockholders, respectively to stockholder of record as at July 31, 2018. Cash dividends declared amounting to ₱230.0 million were paid starting September 26, 2018 to preferred and common stockholders.

On December 14, 2018, the BOD declared and approved another cash dividend of 6.0% and ₱12.0 per share to its preferred and common stockholders, respectively, to its stockholders of record as at November 30, 2018. Cash dividends declared amounting to ₱180.0 million were paid starting December 20, 2018 to preferred and common stockholders.

#### Capital Management

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

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

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

### Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's unimpaired capital (regulatory capital) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRS in some aspects. The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BSP guidelines. As at December 31, 2019 and 2018, 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, 2019 and 2018, as reported to the BSP, is shown in the table below (amounts in millions):

	<b>2019</b>	2018
Tier 1 capital	<b>₱3,102.6</b>	₱2,324.8
Tier 2 capital	<b>844.0</b>	963.2
Total qualifying capital	<b>₱3,946.6</b>	₱3,288.0
Risk weighted assets	<b>₱19,681.4</b>	₱11,698.8
Tier 1 capital ratio	<b>15.8%</b>	19.9%
Tier 2 capital ratio	<b>4.3%</b>	8.2%
Total CAR	<b>20.1%</b>	28.1%

As at December 31, 2019 and 2018, the Bank's CAR and capital 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.

#### Minimum Liquidity Ratio (MLR)

The Minimum Liquidity Ratio is expressed as a percentage of a covered institution's eligible stock of liquid assets to its total qualifying liabilities. The stock of liquid assets is required to be unencumbered and readily liquefiable, while the qualifying liabilities include both on-balance sheet and off-balance sheet commitments.

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

The Bank's MLR as at December 31, 2019 and 2018, as reported to the BSP is shown in the table below (amount in millions):

	<b>2019</b>	2018
Stock of liquid assets	<b>4,692.2</b>	3,359.2
Qualifying liabilities	<b>8,136.6</b>	11,413.1
MLR	<b>57.7%</b>	29.4%

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

#### Financial Performance

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

	<b>2019</b>	2018
Return on average equity	<b>34.0%</b>	38.8%
Return on average assets	<b>8.2%</b>	9.5%
Net interest margin	<b>36.6%</b>	34.6%

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.

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## 18. Miscellaneous Income and Expenses

Miscellaneous income consists of:

	2019	2018
Rental income	<b>₱5,807,378</b>	₱5,285,190
Deposit-related fees and other charges	<b>4,886,953</b>	1,077,536
Commission income	<b>1,111,522</b>	700,808
Recoveries of written-off account	<b>822,995</b>	1,098,650
Gain on disposal of property and equipment	<b>147,211</b>	436,158
Others (Note 22)	<b>2,952,486</b>	2,795,745
	<b>₱15,728,545</b>	₱11,394,087

Others include service charges on remittances and insurance claims for transportation equipment.

Miscellaneous expense consists of the following:

	2019	2018
Other donations and charitable expenses (Note 22)	<b>67,996,362</b>	₱73,574,500
Penalties and other service charges	<b>65,498,197</b>	17,495
Medical and other related expenses	<b>14,430,243</b>	11,364,446
Advertising and promotions	<b>2,060,953</b>	1,387,265
Representation and entertainment (Note 21)	<b>1,749,138</b>	1,618,745
Others	<b>20,851,581</b>	18,177,276
	<b>₱172,586,474</b>	₱106,139,727

Penalties and other service charges include the Bank's settlement of BIR tax assessments for the taxable year 2016 amounting to ₱60.3 million and payment of penalties to the BSP for the non-compliance to the Agri-Agra Law amounting to ₱5.2 million.

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

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## 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), CMRBI, CARD, Inc. and Mga Likha ni Inay Inc. (MLNI), maintain a funded and formal noncontributory defined benefit retirement plan - the CARD MRI Multi-Employer Retirement Plan (MERP) - covering all of their regular employees and CARD Group Employees' Retirement Plan (Hybrid Plan) applicable to employees hired on or after July 1, 2016. MERP and Hybrid Plan comply with the requirements of Republic Act No. 7641 (Retirement Pay Law).

MERP is valued using the projected unit cost method and is financed solely by the Bank and its related parties. MERP provides lump sum benefits equivalent to up to 120% of final salary for every year of credited service, a fraction of at least six (6) months being considered as one whole year, upon retirement, death, total and permanent disability, or voluntary separation after completion of at least one year of service with the participating companies.

Hybrid Plan provides a retirement benefit equal to 100.00% of the member's employer accumulated value (the Bank's contributions of 8.0% plan salary to Fund A plus credited earnings) and 100.00% of the Member's Employee accumulated value (member's own contributions up to 10.0% of plan salary to Fund B plus credited earnings), if any. Provided that in no case shall 100.00% of the Employee Accumulated Value in Fund A be less than 100.00% of plan salary for every year of credited service.

The latest actuarial valuation report covers reporting period as of December 31, 2019 and 2018.

Changes in net retirement asset in 2019 and 2018 are as follows:

	2019													
	Net benefit cost in statements of income*					Remeasurements in other comprehensive income								
	January 1	Current service cost	Net interest	Subtotal	Transfer to the plan	Benefits paid	Return on plan assets (excluding amount included in net interest)	Experience adjustments	Actuarial changes arising from demographic assumptions	Actuarial changes arising from financial assumptions	Effect of asset ceiling	Subtotal	Contribution by employer	December 31
Fair value of plan assets	₱644,948,891	₱-	₱49,834,519	₱49,834,519	(₱764,466)	(₱12,316,766)	(₱24,410,438)	₱-	₱-	₱-	₱-	(₱24,410,438)	₱17,586,545	₱674,878,285
Present value of defined benefit obligation	(268,360,084)	(30,000,474)	(20,663,726)	(50,664,200)	764,466	12,316,766	-	(13,863,059)	(3,626,612)	(100,386,179)	-	(117,875,850)	-	(423,818,902)
Effect of asset ceiling	(127,805,400)	-	(9,841,016)	(9,841,016)	-	-	-	-	-	-	99,071,627	99,071,627	-	(38,574,789)
Net retirement asset	₱248,783,407	(₱30,000,474)	₱19,329,777	(₱10,670,697)	₱-	₱-	(₱24,410,438)	(₱13,863,059)	(₱3,626,612)	(₱100,386,179)	₱99,071,627	(₱43,214,661)	₱17,586,545	₱212,484,594

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

	2018													
	Net benefit cost in statements of income*					Remeasurements in other comprehensive income								
	January 1	Current service cost	Net interest	Subtotal	Transfer to the plan	Benefits paid	Return on plan assets (excluding amount included in net interest)	Experience adjustments	Actuarial changes arising from demographic assumptions	Actuarial changes arising from financial assumptions	Effect of asset ceiling	Subtotal	Contribution by employer	December 31
Fair value of plan assets	₱605,680,263	₱-	₱35,213,917	₱35,213,917	₱67,577	(₱5,309,854)	(₱5,171,144)	₱-	₱-	₱-	₱-	(₱5,171,144)	₱14,468,132	₱644,948,891
Present value of defined benefit obligation	(272,207,538)	(31,600,818)	(15,706,375)	(47,307,193)	(67,577)	5,309,854	-	(40,690,729)	5,250,594	81,352,505	-	45,912,370	-	(268,360,084)
Effect of asset ceiling	(81,318,073)	-	(4,692,053)	(4,692,053)	-	-	-	-	-	-	(41,795,274)	(41,795,274)	-	(127,805,400)
Net retirement asset	₱252,154,652	(₱31,600,818)	₱14,815,489	(₱16,785,329)	₱-	₱-	(₱5,171,144)	(₱40,690,729)	₱5,250,594	₱81,352,505	(₱41,795,274)	(₱1,054,048)	₱14,468,132	₱248,783,407

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

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

	2019	2018
Cash and other cash items	<b>₱295,484,512</b>	₱286,486,297
Government securities	<b>298,403,369</b>	308,672,539
Mutual funds	<b>3,377,197</b>	–
Other bonds	<b>10,143,383</b>	14,188,876
Loans and receivables	<b>55,599,449</b>	–
Other assets	<b>11,870,375</b>	35,601,179
<b>Fair value of plan assets</b>	<b>₱674,878,285</b>	<b>₱644,948,891</b>

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

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

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

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

	2019	2018
Discount rates		
January 1	<b>7.7%</b>	5.8%
December 31	<b>5.5%</b>	7.7%
Future salary increases	<b>5.0%</b>	5.0%

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:

	2019		2018	
	+100	-100	+100	-100
Discount rates	<b>(₱51,494,380)</b>	<b>₱62,484,130</b>	(₱31,560,611)	₱38,249,858
Future salary increases	<b>62,185,356</b>	<b>(52,186,285)</b>	38,926,752	(32,578,138)

As at December 31, 2019, the average duration of defined benefit obligations is 13.4 years.

Expected fund contribution in 2020 amounts to ₱5,500,000.

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

	2019	2018
Less than 1 year	<b>₱21,082,639</b>	₱20,110,923
More than 1 year to 5 years	<b>109,319,038</b>	79,968,613
More than 5 years to 10 years	<b>202,785,619</b>	146,887,244
More than 10 years to 15 years	<b>318,545,803</b>	246,089,792
More than 15 years to 20 years	<b>491,874,798</b>	433,588,541
More than 20 years to 25 years	<b>663,806,223</b>	657,518,253
More than 25 years	<b>1,670,020,187</b>	2,127,646,584

## 20. Leases

### *Bank as a lessee*

#### *Office spaces and staff house*

The Bank leases the premises occupied by some of its branches in which lease payments are subjected to escalation clauses at 5.0% to 10.0% starting either on the second or third year of lease. The lease contracts are for the periods ranging from one (1) to ten (10) years and are renewable upon mutual agreement between the Bank and the lessors.

#### *Transportation and IT equipment*

The Bank leases transportation and IT equipment from CLFC. The lease contracts have a term of eighteen (18) months to twenty-four (24) months and eighteen months in 2019 and 2018, respectively.

The following are the amounts recognized in the statement of income:

	2019
Depreciation expense of right-of-use assets included in property and equipment	<b>₱85,594,717</b>
Interest expense on lease liabilities	<b>12,883,049</b>
Expenses relating to short-term leases and leases of low-value assets (included in general and administrative expenses)	<b>11,692,517</b>
<b>Total amount recognized in statement of income</b>	<b>₱110,170,283</b>

As of December 31, 2019, the carrying amounts of 'Lease liabilities' are as follows:

	2019
As at January 1, 2019, as previously reported	<b>₱-</b>
Effect of adoption of PFRS 16 (see Note 2)	<b>176,490,128</b>
At January 1, 2019, as restated	<b>176,490,128</b>
Additions	<b>113,710,246</b>
Interest expense	<b>12,883,049</b>
Payments	<b>(94,317,285)</b>
<b>As at December 31, 2019</b>	<b>₱208,766,138</b>

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

	2019
1 year	₱102,903,706
more than 1 years to 2 years	72,303,097
more than 2 years to 3 years	32,446,194
more than 3 years to 4 years	11,985,836
more than 4 to 5 years	3,811,878
more than 5 years	9,035,476

## 21. Income Taxes

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

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

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

An optional standard deduction (OSD) equivalent to 40.0% of gross income may be claimed as an alternative deduction in computing for the RCIT. For the 2019 and 2018 RCIT computation, the Bank elected to claim itemized expense deductions instead of the OSD.

Current tax regulations also provide for the ceiling on the amount of entertainment, amusement and recreation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense is limited to the actual EAR paid or incurred but not to exceed 1.0% of the Bank’s net revenue. The regulations also provide for MCIT of 2.0% on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Bank’s income tax liability and taxable income, respectively, over a three-year period from the year of inception.

Provision for income tax consists of:

	2019	2018
Current:		
RCIT	₱552,825,677	₱432,941,614
Final tax	37,577,853	22,067,008
	<b>590,403,530</b>	455,008,622
Deferred	<b>(68,322,148)</b>	12,859,990
	<b>₱522,081,382</b>	₱467,868,612

Components of net deferred tax assets are as follows:

	2019	2018
<i>Deferred tax asset</i>		
Allowance for credit and impairment losses	<b>₱103,477,545</b>	₱45,219,443
Finance lease liability	<b>62,629,841</b>	–
Unrealized loss on financial assets at FVOCI	–	20,386,470
Accrued rent and vacation leave	<b>21,718,421</b>	9,197,329
Unamortized past service cost	<b>1,160,528</b>	1,745,295
	<b>188,986,335</b>	76,548,537
<i>Deferred tax liability</i>		
Retirement asset	<b>(63,745,378)</b>	(74,635,021)
Right-of-use assets	<b>(63,806,094)</b>	–
Unrealized gain on financial assets at FVOCI	<b>(5,005,886)</b>	–
Unrealized foreign exchange gain	<b>(6,496)</b>	(73,313)
	<b>(132,563,854)</b>	(74,708,334)
	<b>₱56,422,481</b>	₱1,840,203

The income tax effect arising from retirement asset recognized in 2019 and 2018 in other comprehensive income amounted to a provision of ₱13.0 million and ₱0.3 million, respectively.

The income tax effect arising from unrealized losses on financial assets at FVOCI investments recognized in statements of other comprehensive income amounted to a benefit of ₱25.4 million and ₱17.1 million in 2019 and 2018, respectively.

As at December 31, 2019 and 2018, the Bank has no unrecognized deferred tax assets.

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

	2019	2018
Statutory income tax	<b>₱563,737,562</b>	₱512,962,109
Income tax effects of:		
Nontaxable income	<b>(45,419,852)</b>	(42,894,854)
Interest income subject to final tax	<b>(19,639,529)</b>	(36,071,594)
Nondeductible interest expense and other expenses	<b>23,403,201</b>	33,872,951
Provision for income tax	<b>₱522,081,382</b>	₱467,868,612

## 22. Related Party Transactions

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

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

### Transactions with Retirement Plans

Under PFRS, certain post-employment benefit plans are considered as related parties. CARD-MRI's MERP is a stand-alone entity assigned in facilitating the contributions to retirement starting 2015. The plan assets are mostly invested in time deposits and special savings of related party banks and government bonds (Note 19). As of December 31, 2019 and 2018, the retirement funds do not hold or trade the Bank's shares of stock.

### Remunerations of Key Management Personnel

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

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

	2019	2018
Short-term employee benefits	<b>₱24.3</b>	₱32.4
Post-employment benefits	<b>13.0</b>	12.7
	<b>₱37.3</b>	₱45.1

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

### Other related party transactions

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

### *Deposit liabilities, accounts receivable, accounts payable and miscellaneous income*

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

	December 31, 2019		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
<b>Key Management Personnel</b>			
Deposit liabilities		<b>₱54,745,916</b>	These are demand and savings accounts with annual interest rates ranging from 1.5% to 6.0%.
Deposits	<b>₱116,273,072</b>		
Withdrawals	<b>108,244,898</b>		
Dividends paid	<b>64,478,755</b>		Relates to common and preference shares of the Bank held by key management personnel
<b>Shareholders</b>			
Deposit liabilities		<b>397,722,211</b>	These are demand and savings accounts maintained by shareholders with the Bank with annual interest rates ranging from nil to 4.3%.
Deposits	<b>7,381,012,307</b>		
Withdrawals	<b>7,740,393,266</b>		
Accounts receivable		<b>391,117</b>	This amount represents the shareholders' share in expenses still payable to the Bank.
Share in expenses	<b>2,899,408</b>		
Collections	<b>2,899,408</b>		
Accounts payable		<b>3,601,905</b>	This amount represents the Bank's share in expenses still payable to its shareholders.
Share in expenses	<b>41,937,288</b>		
Remittances	<b>39,065,151</b>		
Dividends paid	<b>728,969,888</b>		Pertains to dividends on common and preference shares of the Bank held by its shareholders
Dividends payable		<b>63,370,446</b>	

December 31, 2019			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Rent expense	8,188,217		Certain establishments are being owned by shareholders leased to the Bank. The lease contracts have a three-year term with no escalation clause and five to six-year term with escalation clause of 10% every after 2 years.
<b>Associates</b>			
Additional investments	23,500,000		Pertains to additional investments of the Bank in RBI
	46,581		Pertains to additional investments of the Bank in MIDAS
Dividend income	100,800,000		Pertains to income received by the Bank from RBI as an associate
December 31, 2018			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
<b>Key Management Personnel</b>			
Deposit liabilities		₱46,717,742	These are demand and savings accounts with annual interest rates ranging from 1.5% to 6.0%.
Deposits	₱94,594,552		
Withdrawals	85,218,654		
Dividends paid	44,604,308		Relates to common and preference shares of the Bank held by key management personnel
<b>Shareholders</b>			
Deposit liabilities		757,103,170	These are demand and savings accounts maintained by shareholders with the Bank with annual interest rates ranging from nil to 4.3%.
Deposits	6,305,997,222		
Withdrawals	5,548,894,053		
Accounts receivable		391,117	This amount represents the shareholders' share in expenses still payable to the Bank.
Share in expenses	2,119,613		
Collections	1,728,497		
Accounts payable		729,768	This amount represents the Bank's share in expenses still payable to its shareholders.
Share in expenses	33,020,633		
Remittances	32,290,864		
Dividends paid	642,484,988		Pertains to dividends on common and preference shares of the Bank held by its shareholders
Dividends payable		66,818,789	Pertains to unpaid dividends on common and preference shares of the Bank held by its shareholders
Rent	9,306,763		Certain establishments are being owned by shareholders leased to the Bank. The lease contracts have a three-year term with no escalation clause and five to six-year term with escalation clause of 10% every after 2 years.
<b>Associates</b>			
Additional investments	–		Pertains to additional investments of the Bank in RBI
Dividend income	70,250,000		Pertains to income received by the Bank from RBI as an associate

Transitioned units from CARD, Inc. to the Bank were 31 and 33 in 2019 and 2018, respectively. The BOD passed a resolution for the transition of the units from CARD, Inc. after receipt of approval from the BSP to establish additional microfinance-oriented branches on June 13, 2019 with 3 branches to be opened within one (1) year from date of approval.

Below is the percentage of total exposures to related parties as against capital:

Category	2019		2018	
	Net exposure	Ratio	Net exposure	Ratio
Key management personnel	₱54,745,916	1.3%	₱46,717,742	1.3%
Shareholders	397,722,211	9.3%	757,103,170	20.5%

### 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, 2019 and 2018, 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, 2019 and 2018, DOSRI accounts under the existing regulations are shown in the table below (as reported to BSP):

	2019	2018
	<b>DOSRI Loans</b>	DOSRI Loans
Total outstanding DOSRI loans	<b>₱781,357</b>	₱852,953
Percent of DOSRI/Related Party loans to total loan portfolio	<b>0.0%</b>	0.0%
Percent of unsecured DOSRI/Related Party loans to total loan portfolio	<b>0.0%</b>	0.0%
Percent of past due DOSRI/Related Party loans to total loan portfolio	<b>0.0%</b>	0.0%
Percent of non-performing DOSRI/Related Party loans to total loan portfolio	<b>0.0%</b>	0.0%

As of December 31, 2019 and 2018, there were no outstanding loans to related parties.

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

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

## 23. Notes to Statements of Cash Flows

The following is the summary of noncash activities in 2019 and 2018:

	2019	2018
<b>Noncash investing activity:</b>		
Reclassification from AFS investments to investment in an associate	P–	P400,000
Additions to property and equipment through lease contracts (Note 11)	<b>212,686,978</b>	–
	<b>P212,686,978</b>	P400,000

The following table shows the reconciliation analysis of liabilities arising from financing activities for the year ended December 31, 2019 and 2018, respectively:

	2019				
	Bills payable (Note 14)	Lease liabilities (Notes 15 and 20)	Deposit for future stock subscription (Notes 15 and 17)	Dividends payable (Notes 15 and 17)	Total liabilities from financing activities
<b>Balances as at January 1, 2019, as reported</b>	<b>P529,496,198</b>	<b>P–</b>	<b>P–</b>	<b>P66,818,789</b>	<b>P596,314,987</b>
Adoption of PFRS 16	–	176,490,128	–	–	176,490,128
<b>Balances as of January 1, 2019, as restated</b>	<b>529,496,198</b>	<b>176,490,128</b>	<b>–</b>	<b>66,818,789</b>	<b>772,805,115</b>
Cash flows	15,674,227	(94,317,285)	239,318,420	(793,448,343)	(632,772,981)
Non-cash items					
Dividend declaration	–	–	–	790,000,000	790,000,000
New lease contracts entered during the year	–	113,710,246	–	–	113,710,246
Amortization of discount of bills payables	P1,640,924	–	–	–	1,640,924
Amortization on interest expenses of lease liabilities	–	12,883,049	–	–	12,883,049
<b>Balances as of December 31, 2019</b>	<b>P546,811,349</b>	<b>P208,766,138</b>	<b>P239,318,420</b>	<b>P63,370,446</b>	<b>P1,058,266,353</b>

	2018				
	Bills payable (Note 14)	Lease liabilities (Notes 15 and 20)	Deposit for future stock subscription (Note 17)	Dividends payable (Notes 15 and 17)	Total liabilities from financing activities
Balances as at January 1, 2018, as reported	P910,974,769	P–	P–	P50,454,716	P961,429,485
Cash flows	(383,891,507)	–	318,243,600	(626,120,915)	(691,768,822)
Non-cash items					
Dividend declaration	–	–	–	642,484,988	642,484,988
Amortization of discount of bills payables	2,412,936	–	–	–	2,412,936
Balances as of December 31, 2018	P529,496,198	P318,243,600	P66,818,789	P914,558,587	

## 24. Events After the Reporting Date

### Deposit for Future Stock Subscription

On March 16, 2019, the Bank's Stockholders approved the Amendment on the Article Seventh of the Bank's Articles of Incorporation, increasing its authorized capital stock from P2,000,000,000 to P3,500,000,000, composed of P1,000,000,000 in common stocks and P500,000,000 in preferred stocks. The Bank have received the DFS amounting to P239.3 million in 2019 (see Note 17). The application for the increase in capital stock was filed by the Bank with the BSP on August 13, 2019

and was approved on March 10, 2020. As of report date, the application for the increase in capital stock is yet to be filed by the Bank with the SEC.

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

#### COVID-19 Pandemic

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

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

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## **25. Approval of the Issuance of the Financial Statements**

The accompanying financial statements of the Bank were approved and authorized for issue by the Bank's BOD on April 18, 2020.

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## **26. 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, 2019, follow:

Gross receipt tax (GRT)	₱289,535,238
Business permits and licenses	12,365,544
Documentary stamp (DST)	2,398,270
Real property tax	1,891,241
Others	1,617,671
	<hr/>
	₱307,807,964

GRT in 2019 consists of taxes on:

Interest income on loans	₱276,185,035
Other income	13,557,903
	₱289,742,938

DST in 2019 consists of taxes on special savings account, loans, and capital increase.

Withholding taxes in 2019 are categorized into:

Paid:	
Expanded withholding tax	₱22,246,689
Withholding taxes on compensation and benefits	7,720,093
Final withholding tax on interest expense and dividends declared	88,406,086
	118,372,868
Accrued:	
Expanded withholding tax	4,055,732
Withholding taxes on compensation and benefits	2,170,720
Final withholding tax on interest expense	8,667,339
Documentary stamp tax	665,748
	15,559,539
	₱133,932,407

#### Tax Assessment and Cases

On October 11, 2019, the Bureau of Internal Revenue (BIR) has rendered a letter of authority to examine the books of accounts and other accounting records for all internal revenue taxes including documentary stamp taxes and other taxes for the taxable period January 1, 2017 to December 31, 2017. The data request letter sent on October 18, 2019 requires the Bank to reproduce all listed master and transaction files in electronic form within 5 days pursuant to Sec. 4 of Revenue Regulations (RR) No. 16-2006. The Bank submitted the requested data files on January 21, 2020. Due to the implementation of the Enhanced Community Quarantine (ECQ) in Luzon, the BIR has yet to follow through the status of the inspection of the Bank's books. The BIR has not rendered any assessment following the inspection of the Bank's accounting books and records as of April 18, 2020.

On February 6, 2020, the BIR has rendered a letter of authority to examine the books of accounts and other accounting records of the Bank for the taxable period January 1, 2018 to December 31, 2018. The Bank acknowledged receipt of the LOA on February 12, 2020 but is yet to submit the required documents as of April 18, 2020 due to the implementation of the ECQ in Luzon. The event has also precluded the BIR to formally start its examination.

**CARD BANK, INC. (A MICROFINANCE-ORIENTED RURAL BANK)**  
**INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY SCHEDULES**  
**DECEMBER 31, 2019**

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Content	Schedule
Schedule of Financial Soundness Indicators	I
Reconciliation of Retained Earnings Available for Dividend Declaration	II

## SCHEDULE I

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

#### **SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS**

**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019 AND 2018**

#### *Liquidity ratios*

	2019	2018
Current assets	<b>₱14,837,057,534</b>	₱12,547,257,550
Current liabilities	<b>12,843,523,450</b>	10,804,217,000
Current ratio	<b>115.5%</b>	116.1%

	2019	2018
Quick assets*	<b>₱3,208,745,942</b>	₱1,953,422,463
Current liabilities	<b>12,843,523,450</b>	10,804,217,000
Acid-test ratio	<b>25.0%</b>	18.1%

	2019	2018
Liquid assets*	<b>₱3,208,745,942</b>	₱1,953,422,463
Total deposits	<b>11,998,457,638</b>	10,237,599,146
Ratio of liquid assets to total deposits	<b>26.7%</b>	19.1%

#### *Solvency ratio*

	2019	2018
Net income	<b>₱1,357,043,824</b>	₱1,357,043,824
Non-cash expenses	<b>237,929,175</b>	(55,725,869)
Total liabilities	<b>13,786,584,328</b>	11,441,027,020
Solvency ratio	<b>11.6%</b>	11.4%

#### *Debt-to-equity ratio*

	2019	2018
Total liabilities	<b>₱13,786,584,328</b>	₱11,441,027,020
Total equity	<b>4,283,381,103</b>	3,693,198,201
Ratio of debt to equity	<b>321.9%</b>	309.8%

#### *Assets-to-equity ratio*

	2019	2018
Total assets	<b>₱18,069,965,432</b>	₱15,134,225,221
Total equity	<b>4,283,381,103</b>	3,693,198,201
Ratio of total assets to equity	<b>421.9%</b>	409.8%

*Interest rate coverage ratio*

	2019	2018
Income before income taxes and interest expense	<b>₱2,199,355,376</b>	₱1,948,990,485
Interest expense	<b>320,230,170</b>	239,116,787
Interest coverage ratio	<b>686.8%</b>	815.1%

*Profitability ratios*

	2019	2018
Net income	<b>₱1,357,043,824</b>	₱1,242,005,087
Average total equity	<b>3,988,289,653</b>	3,227,837,930
Return on average equity	<b>34.0%</b>	38.8%
Net income	<b>₱1,357,043,824</b>	₱1,242,005,086
Average total assets	<b>16,602,095,327</b>	13,126,057,686
Return on average assets	<b>8.2%</b>	9.5%
Net financial margin	<b>₱5,372,608,417</b>	₱4,366,825,494
Average interest earning assets**	<b>14,699,310,190</b>	12,012,526,524
Net interest margin on average earning assets	<b>36.6%</b>	36.4%

\*Consist of cash and other cash items, due from BSP and other banks.

\*\*Consist of due from other banks, AFS and HTM investments, and loans and receivables

## SCHEDULE II

### **CARD BANK, INC. (A MICROFINANCE-ORIENTED RURAL BANK)** **RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION** **FOR THE YEAR ENDED DECEMBER 31, 2019** **(In Thousands)**

Unappropriated Retained Earnings, as at December 31, 2018		₱1,492,552
Add: Net income actually earned/realized during the year		
Net income during the period closed to retained earnings		1,357,044
Less: Non-actual/unrealized income		
Equity in net income of associate	(151,382)	
Provision for deferred taxes	(68,322)	(219,704)
Sub-total		1,137,340
Less:		
Dividend declarations for the year	(790,000)	
Reversals of appropriations	2,365	(787,635)
Total retained earnings available for dividend declaration as at December 31, 2019		₱1,842,257

# CREDITS

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*Bukas, para sa lahat.*



We Are In The Business of Poverty Eradication.

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