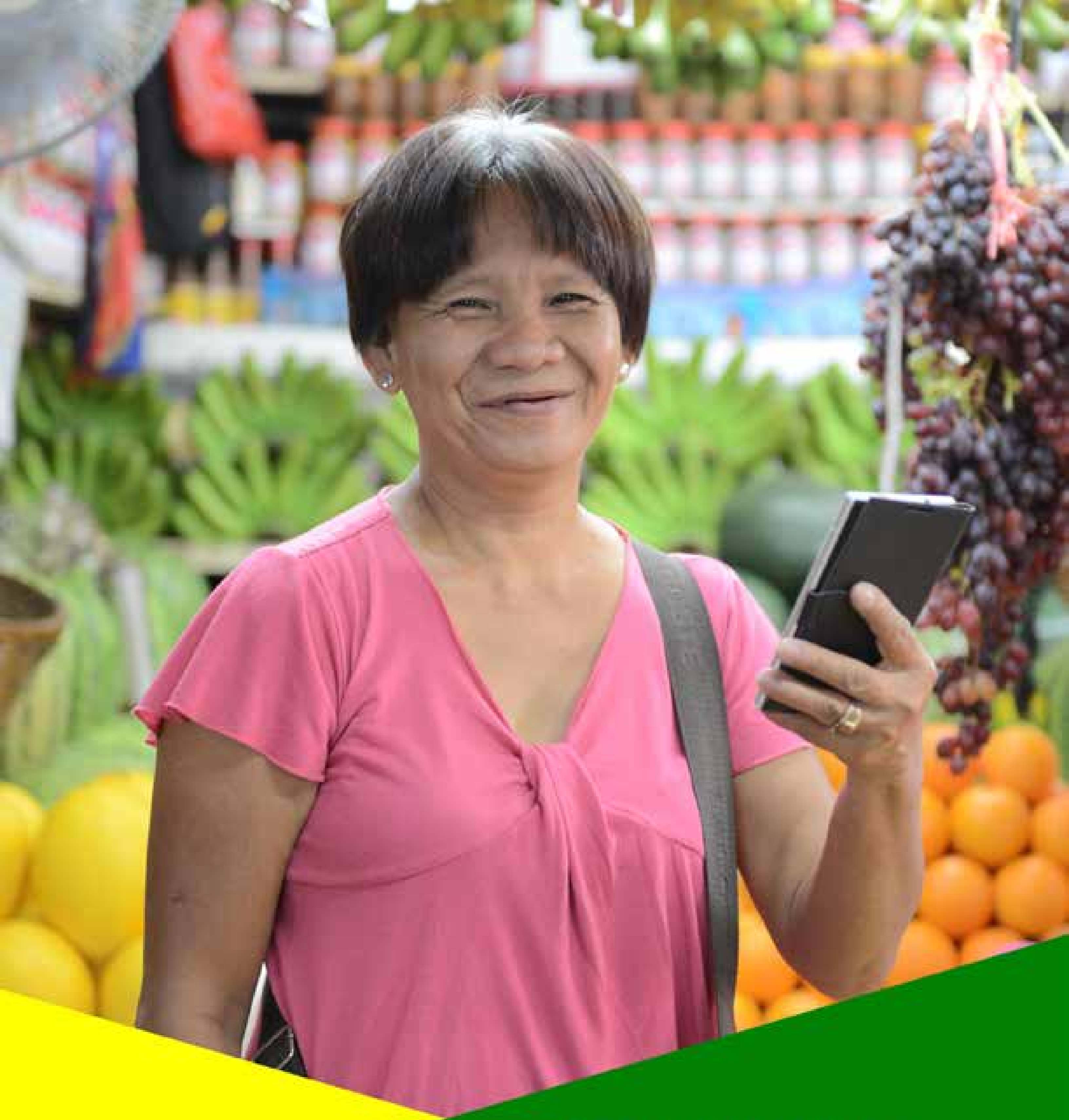
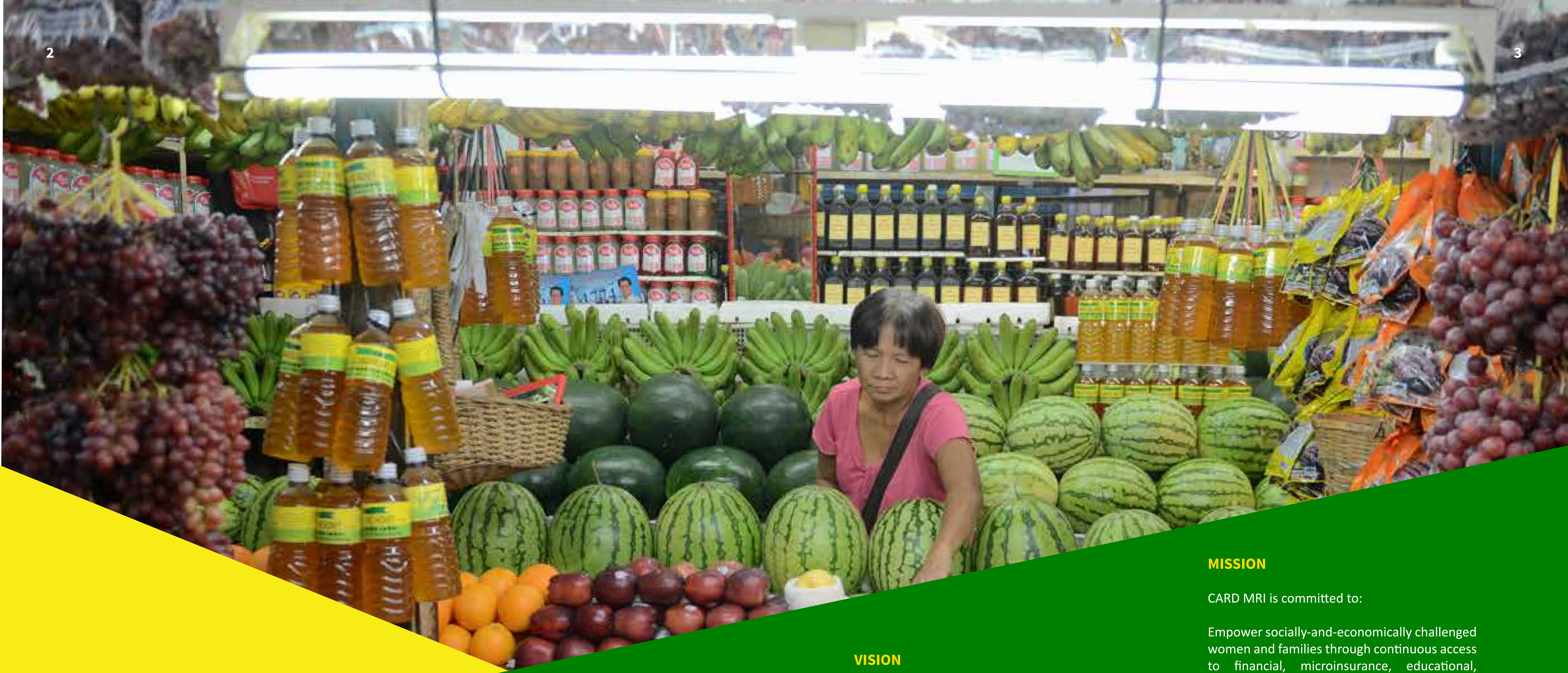


BREAKING BARRIERS

CARD BANK, INC.
ANNUAL REPORT 2014



ABOUT THE COVER

When CARD was just a budding institution, 89 women from San Pablo City in Laguna believed in our purpose. One of them is Remedios Pojas, who started as one of the first center chiefs of CARD. From a simple woman, she grew into an entrepreneur and a leader.

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.

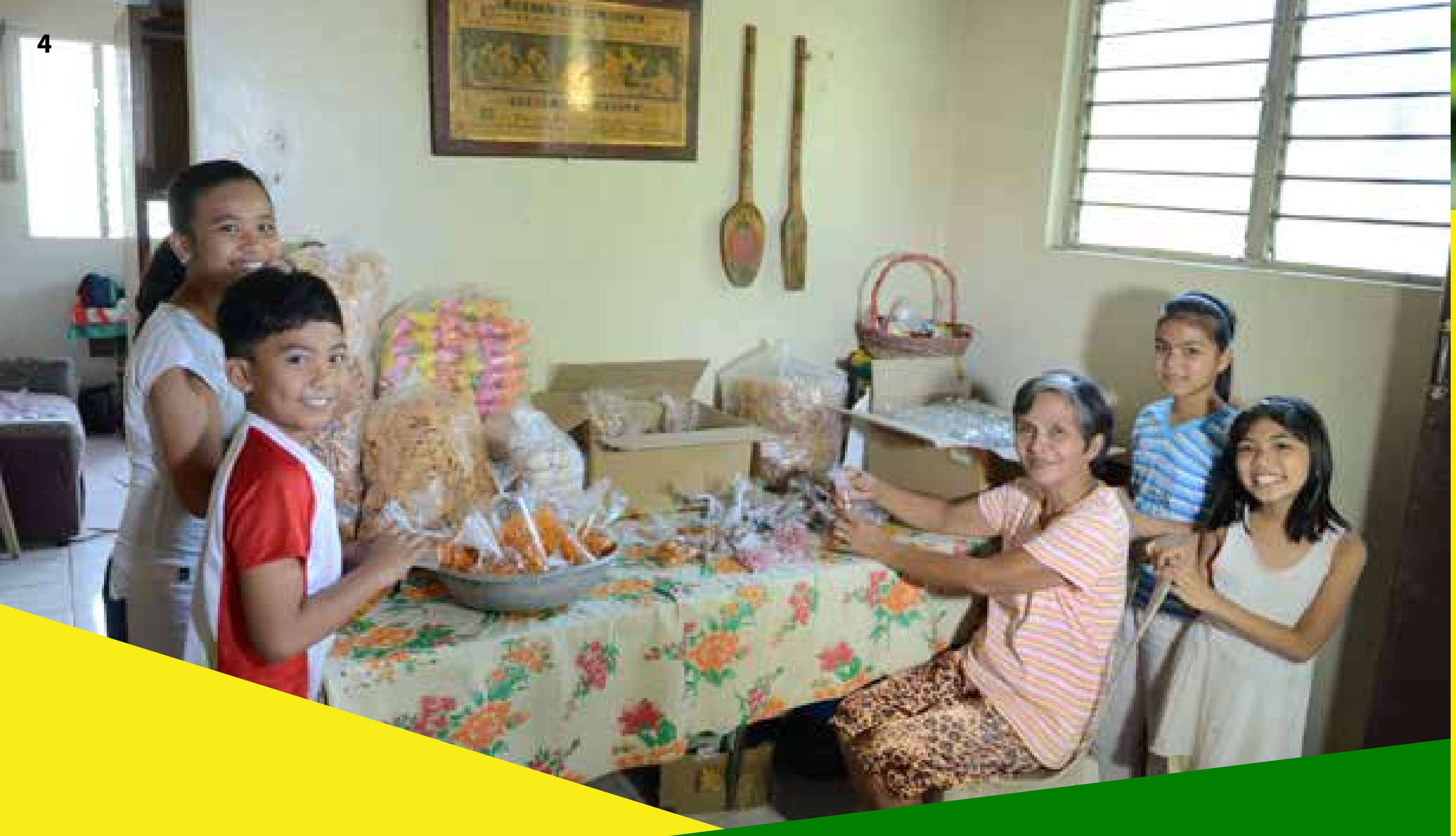
MISSION

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.



PASSING IT FORWARD

It takes a great amount of courage to trust a new institution. These women, who were brave enough to entrust us with their families' financial needs in 1986, stepped out of their comfort zones and discovered limitless opportunities with us, because they simply believed in our goals.

Bibiana Gesmundo, a mother of four had a hard time establishing the schooling of her children due to their financial status especially when her husband died and left her all the responsibility of supporting their family.

"CARD Bank, Inc. is a great part of what my family has become today. I was 42 years old when I became a member of CARD. Back then, my four children were in grade school and high school. With our financial status, we could not have made it through. My husband's small income and our small business of selling candies are not enough to support our family with all the expenses. But when I joined CARD, everything gradually changed. Being a member of CARD gave me hope for the future of my family. Despite all the challenges I went through during the start of my membership, I never gave up. Being a member of CARD gave me enough capital to continue our small business of repacking and selling candies, especially during the time that I became a widow. And with this alone, I was able to send my children to school. Now, my children have degrees in Accountancy, Electronics, AB in English, and Education. It is a great relief that I held on to the hope that CARD gave me way back in 1989. It helped our family win over poverty and enjoy the life we have today.

It is no surprise that CARD Bank was again awarded by the Bangko Sentral ng Pilipinas for actively pursuing its goal for financial inclusion in 2014. Being the awardee for three consecutive years, it became a Hall of Fame Awardee for being a Financial Inclusion Champion.

Being a part of an institution who is recognized for such a noble cause has made me truly proud."

On the other hand, Nemia Endrinal's problem was not only her status in life but also her lack of self-confidence.

"I am a member of Bigkis 1 (STIP 1) since the late 1980's. During that time, I was a vendor in Sta. Cruz Putol. When I decided to be a member of CARD, I was very shy and I lacked the confidence to face different kinds of people. This was the first obstacle I encountered. It was very challenging to be a member of CARD back then especially that we are the first batch of members. It will greatly test your determination and train you to be a quality member. For the likes of me who is an introvert, I had a hard time answering the oral exams given by CARD. But since CARD has a lot to offer, not just capital wise, but also for my well-being, I continued and finally passed all the requirements. This achievement gradually developed me to become a confident person. Even though there was a time in my life that I almost gave up due to the strict policy of the institution, I held on to what CARD has done for me and continued on."

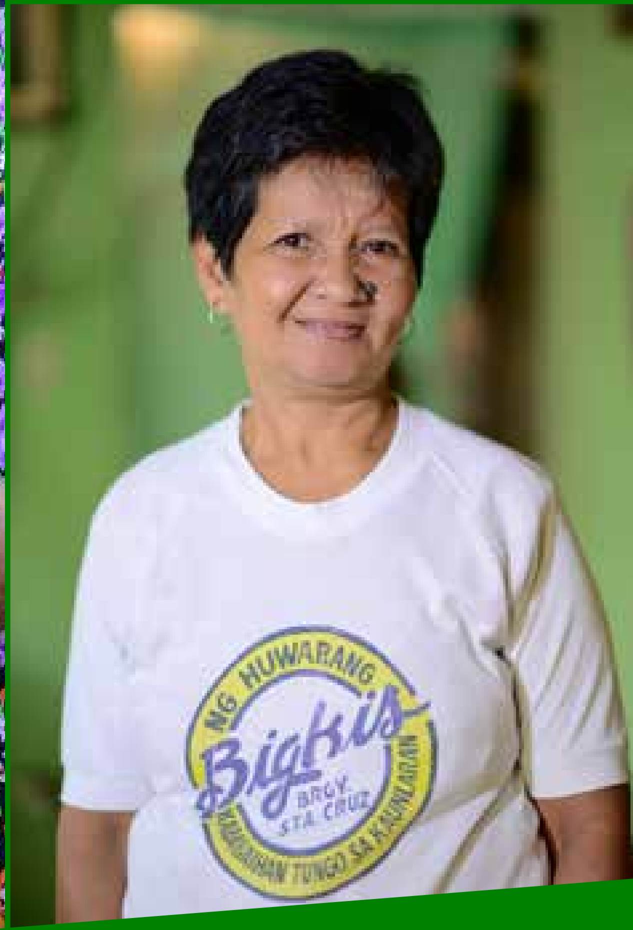
Nanay Lucita Ramos Silva will never keep the secret of her success to herself, that's why she shared it to her family members.

"It was 1989 when I joined CARD. Back then, my family lived in Calauan, Laguna, but eventually moved to Sta. Cruz Putol, here in San Pablo City due to our business of planting fruits and vegetables. When I became a member of CARD in 1989, a family friend from CARD urged me to form a group here in our place. Since CARD has a lot to offer, I was convinced to do so. I urged my friends here in our barangay to join CARD. True to its goal, it helped us in changing our lives for the better. Because of CARD, my family was able to build a house of our own. Also, I was able to support one of my children when she wanted to work abroad.

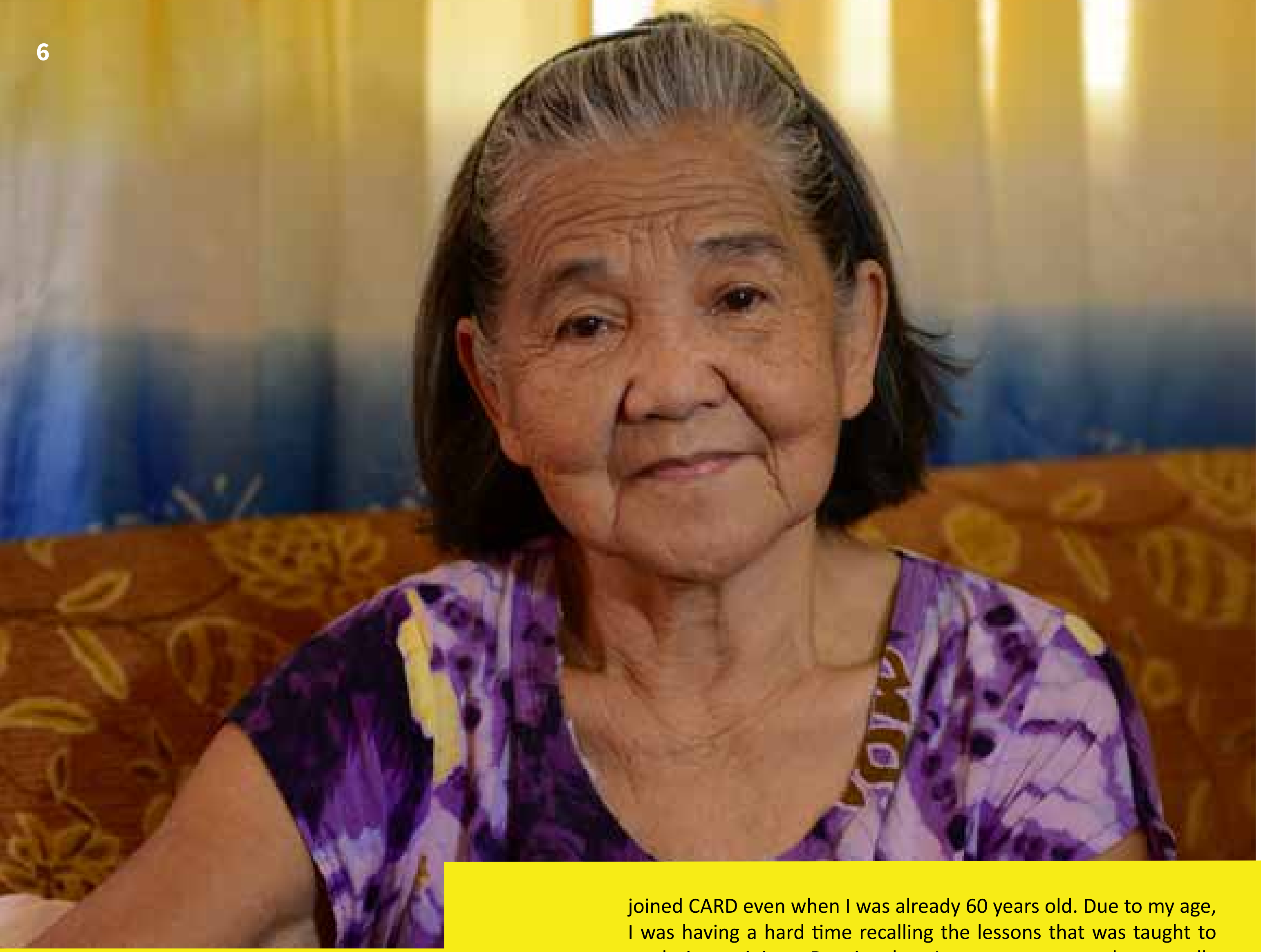
I know that with CARD, my family has a stable future. Because of this, I encouraged my daughters and sisters-in-law to join. I believe that with them joining, it will also give them the same assurance that I have."

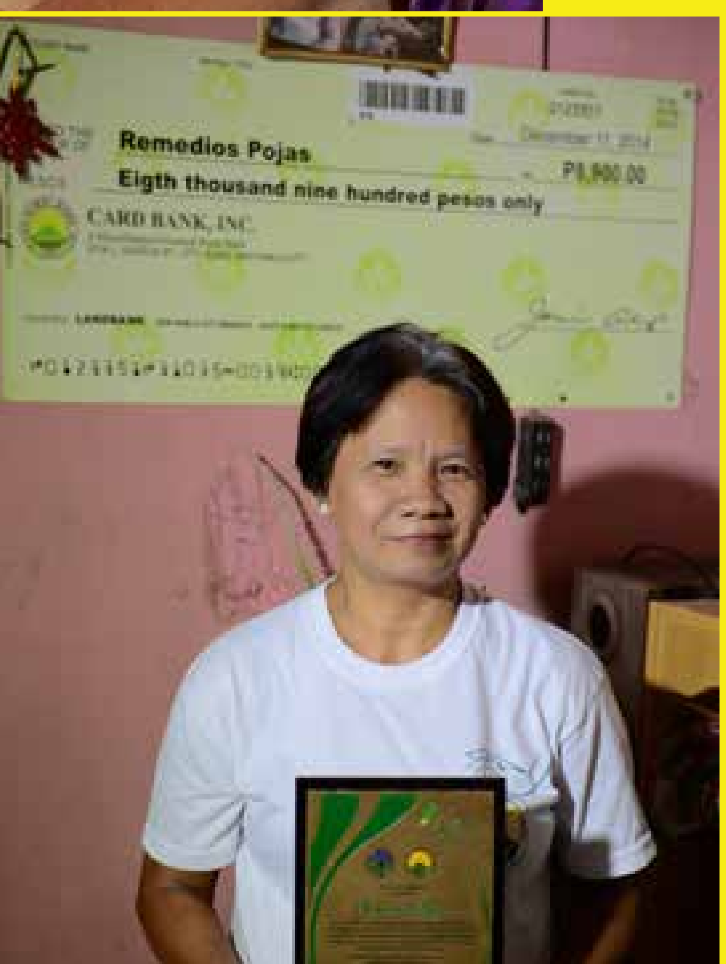
Felicitas Ortega proves that to be successful, age doesn't matter.

"I was also a vendor in the school of Sta. Cruz Putol where Nemia and Leonila resides. Along with them I



Lucita Silva stands in the middle of her garden, reminiscing how her green thumb resulted to a business in growing vegetables and fruits. Meanwhile, Nemia Endrinal proudly shows their center's very first uniform in their Bigkis Center in Sta. Cruz Putol in San Pablo, Laguna.





joined CARD even when I was already 60 years old. Due to my age, I was having a hard time recalling the lessons that was taught to us during trainings. Despite that, I never gave up and eventually became a member of CARD. Through CARD, my husband and I were able to save for a house. Our family was also able to establish our piggery business. One of my children is also a member of CARD now. It helped us not only in providing capital for our business, but it also taught us how to improve our business for the better. Indeed, CARD Bank is the bank for your family.

I feel at ease that CARD Bank is here to stay. In the future, when my grandchildren are old enough, I know that they will continue receiving the same kind, or even better, of service I receive from the microfinance-oriented rural bank. CARD Bank is protective of its territoties, and by territories it means the families they have touched and changed throughout the years. This shows when they started conducting financial literacy activities for our little ones. They even came up with a product specially designed for kids called Maagap Savings. I believe that by doing this, CARD Bank ensures that the future generation will hold the same culture and values they have instilled in us, their very first clients."

CARD Bank is not only professional but also personal. That's why Leonila Bautista never felt alone again, because with CARD Bank, you will always have a family.

"In 1989, I joined CARD along with Feli and Nemia. I was alone in life back then. What I only had was a small store in Sta. Cruz Putol near the school, which is still operating until now. It was very hard

for me to pursue my small business since I only live alone, but thanks to CARD I was able to get through. CARD has been a great part of my life since then. It helped me establish my business and it also gave me friends who will always be there to help me as I face challenges in life.

Since I became a member of CARD, I never felt alone again because CARD became my family. As I grow older, CARD gave me the assurance for my future. Despite my weak knees, I always look forward to attend center meetings, because this had become the source of my joy. I am very thankful that CARD is a great part of my life. I cherish CARD as the family I never had. "

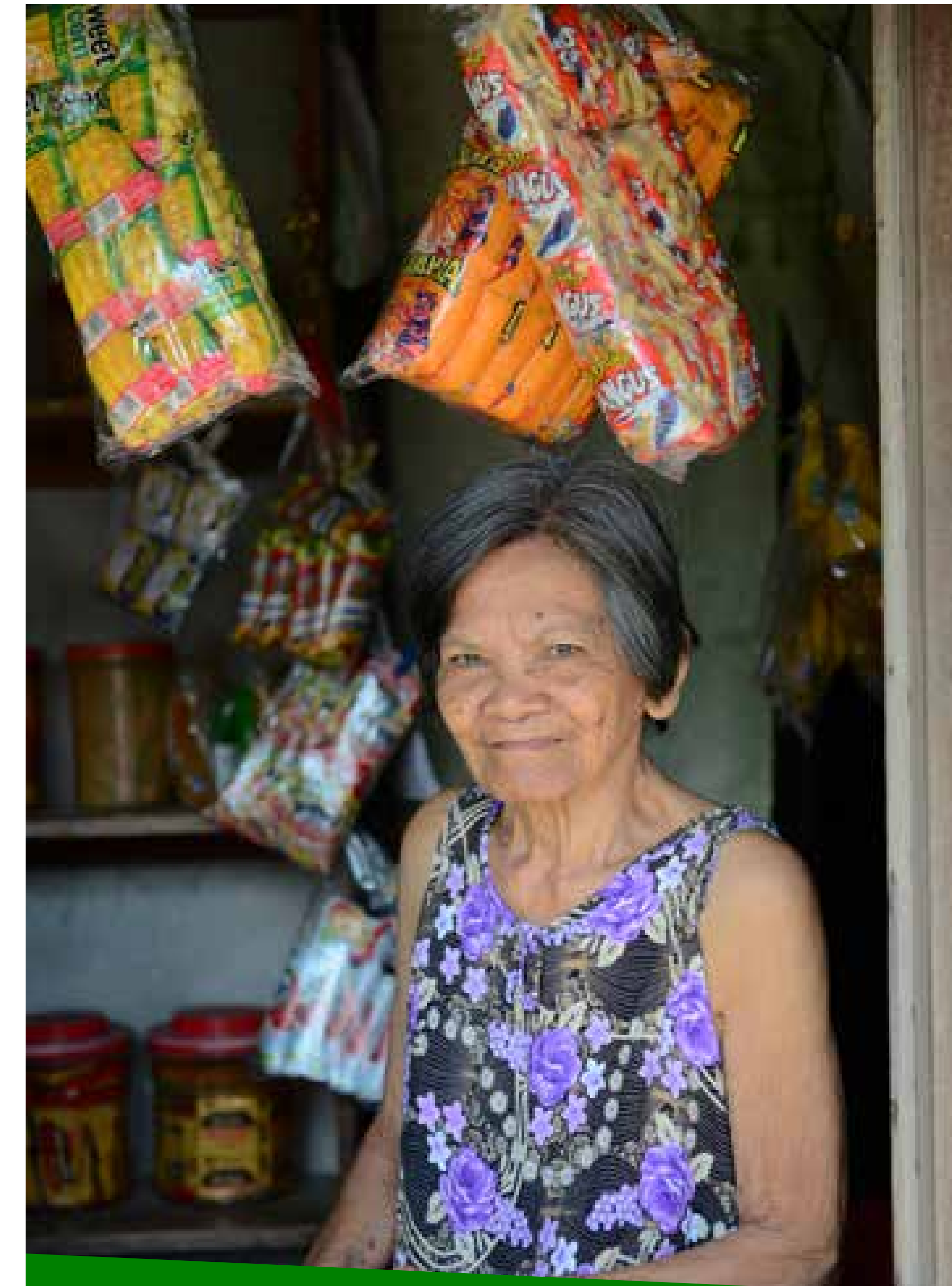
The success of the family does not only depend on the head of the home. Remedios Pojas proves that a strong woman shares the spotlight with her man.

"I was 23 years old when I joined CARD Bank. I became one of the first center chiefs of CARD, one of the first board members to represent the members of CARD, and now, I am also a stockholder. Because of CARD, many of my dreams became a reality. My children were able to finish school and we have our own house and lot now. Because of all the trainings I attended, I was greatly developed as a leader. CARD made me become the strong woman I am today. Now I am able to help my husband in supporting our family.

Now, 25 years into my membership, CARD continues to innovate new products to assist its members. Even in my old age, I recognize the mobility and convenience that technology has to offer to the new generation. Mobile phones have made it easier for people to connect and communicate.

From what I heard, CARD Bank, through its partnership with CARD MRI Information Technology (CMIT), has pilot-tested konek2CARD. It is a project in which clients can gain access to pay, save, and transact with CARD Bank through their phones.

I understand how this new technology may bring reluctance to some of the members. I must admit, at first, many of us were also reluctant about joining CARD. But we chose to listen, so we learned. I believe that konek2CARD will strengthen the bond the bank and its clients have since we are kept connected anytime, anywhere."



Felicitas Ortigas (upper left) is happy that at the ripe age of 60, she still joined CARD in 1989. On the other hand, Remedios Pojas displays the certificate she received when the 89K were recognized in December 2014, stating how she never expected that their small act could create such a huge impact for the institution. Looking outside the window of her small store, Leonila Bautista (upper right) recalls how her business continues to strive throughout the years and with the help of CARD.

The stories above are just five of the 89 pioneering members of CARD, who we fondly call 89K. Some of them already passed away, while some have already migrated in another country. But as we move forward to serving one million clients this year, we will keep these 89 women in our hearts and minds: the very first women who gave their faith to us and continued to become testimonies of our success as a microfinance-oriented rural bank.

HONORING THE 89K

On December 11, 2014, the 89K or 89 Kababaihan, who are center members since 1988 were invited during the Year-end Business Planning at CARD-MRI Development Institute, Inc. (CMDI) in Bay, Laguna. A program that celebrates the unwavering effort and contribution of the 89K was held.

Dr. Jaime Aristotle B. Alip, Managing Director of CARD MRI, highlighted that the 89 kababaihan are the seed that served as the strong foundation of CARD MRI. The support and cooperation they have showed were nothing less than an embodiment of passion, dedication and perseverance that will surely set an excellent model for other members and CARD employees as well.

In the inspirational message, Dolores M. Torres, CEO & President of CARD Bank, Inc., hailed the 89 kababaihan, not only for their loyalty but most of all for the value of discipline they have proven over 26 years of being a member. Their discipline of paying loans and attending weekly meetings serves as an inspiration to the institution to move forward. Torres also thanked the 89 kababaihan for their great contribution to CARD MRI.

The night was reminiscent of the institution's humble beginnings. Our unending gratitude and appreciation to the 89K goes beyond our simple gifts of plaques, checks, groceries from Mga Likha ni Inay and other freebies.

PRESIDENT'S REPORT

"Our institution is aiming to see its expansion through tapping its full potential without compromising its cause, which is to help those who are socioeconomically challenged in elevating themselves from poverty through the programs our institution provides. But in reaching this goal, it is given that many hindrances will block the way. This year, I am proud to say that we had broken the barriers that should have hindered us from fulfilling the goals that we had set from the beginning."

Dolores M. Torres
President and CEO
CARD Bank, Inc.

1,412,381 TOTAL CLIENTS SERVED

1,383,482 CLIENTS INCLUDING SAVERS

524,836 ACTIVE CLIENTS WITH LOANS

98.91% REPAYMENT RATE

119.36% OSS*

116.16% FSS**

PhP 3,519,900,427.00 SAVINGS BALANCE

PhP 12,400,472,180.40 AMOUNT OF LOANS DISBURSED

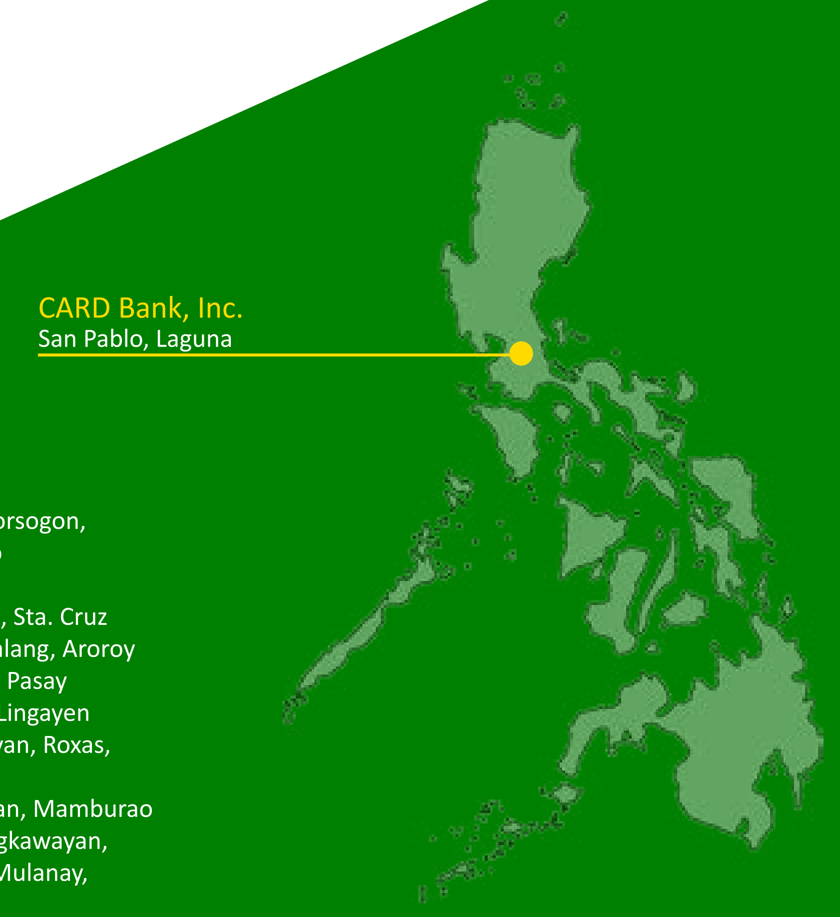
*Operating Self Sufficiency/Revenue Cost Ratio
**Financial Self Sufficiency

Local
BancNet
Microventures, Inc. (Hapinoy)
Bank of the Philippine Islands
Land Bank of the Philippines
Security Bank
TellU Pay, Philippines
PCFC
BDO
SB Corp.
DBP
Union Bank

International
Grameen Foundation, USA
Women's World Banking

Together with these institutions and organizations that share the same mission as ours, we provide our clients with the best quality of service.

In 2014, we provided our clients with financial products and services that best suited their needs. The following are our financial update as of December 2014.



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

VISAYAS
Bohol, Tacloban, Culasi, San Jose Antique, Iloilo, Miag-ao, Roxas Capiz, Passi, Estancia,

MINDANAO
Davao, Buhangin, Matina

1 HEAD OFFICE
57 BRANCHES
373 MICRO BANKING OFFICES

2,396
Total number of staff

We ensure that our presence are always felt so that more socioeconomically challenged families have access to community development programs.

MANAGEMENT COMMITTEE

Dolores M. Torres
President and CEO

Lorenza dT. Bañez
Excecutive Vice President

Lourdes B. Dijan
Senior Vice President for Finance

Marivic M. Austria
Senior Vice President for Risk and Audit

Lyneth L. Derequito
Chief Compliance Officer

Ronnie D. Fallega
Chief Information Officer

Marissa M. De Mesa
First Vice President for Operation

Glenda C. Magpantay
Assistant Vice President for Operation

Herminigilda P. Manuba
Assistant Vice President for Operation

Gaudencio M. Mendoza
Assistant Vice President for Operation

BOARD OF DIRECTORS

Dr. Jaime Aristotle B. Alip
Chairman

Dolores M. Torres
President/CEO

Lorenza dT. Bañez
Corporate Treasurer

Ma. Luisa P. Cadaing
Member

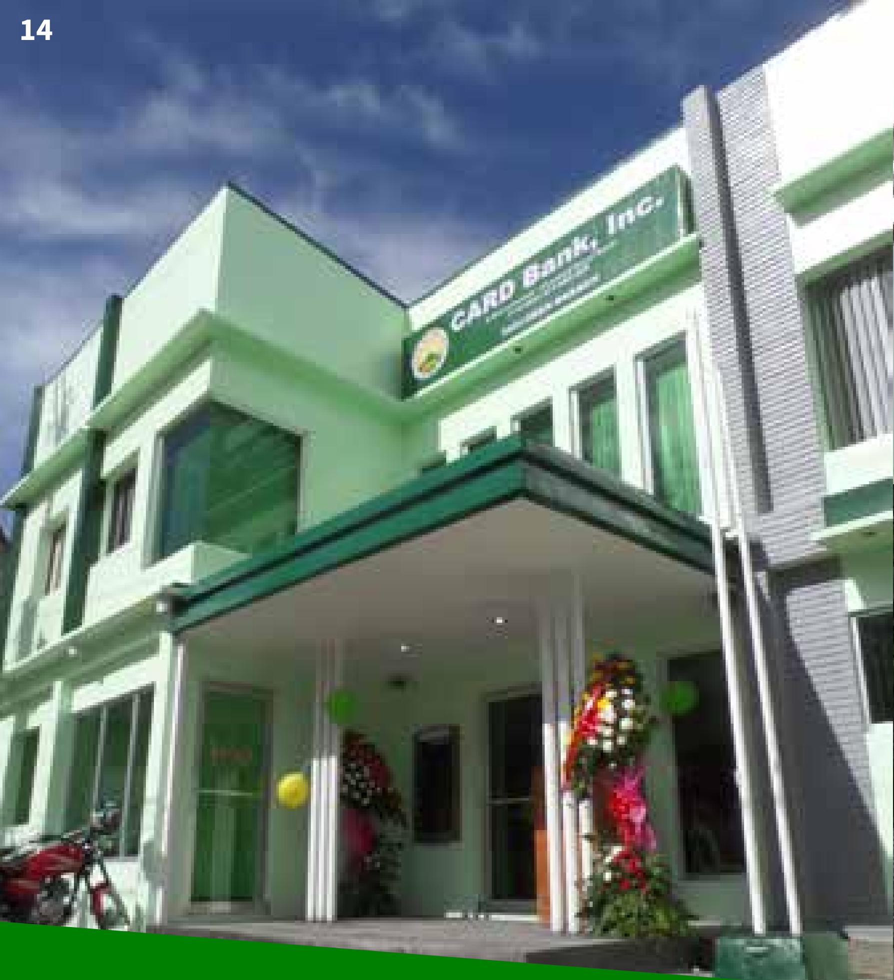
Dr. Gilberto M. Llanto
Independent Member

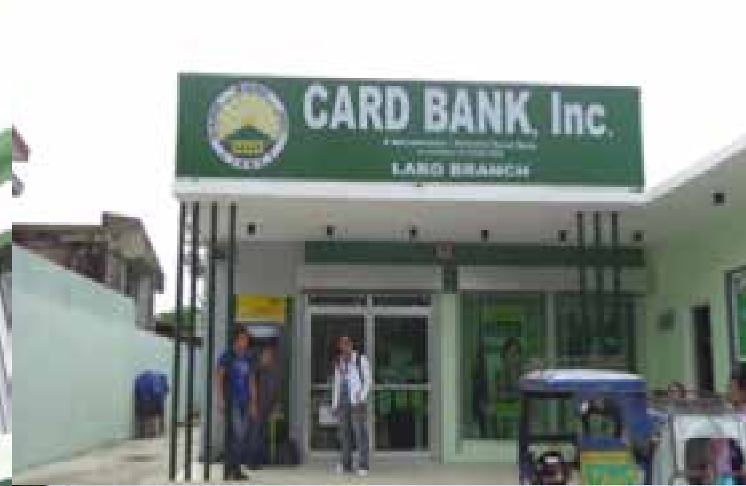
Annabille D. Cereno
Member

Ms. Malvarosa P. Perote
Independent Member

Atty. Edgardo R. Marilim
Legal Counsel

Mr. Aristeo A. Dequito
Corporate Secretary



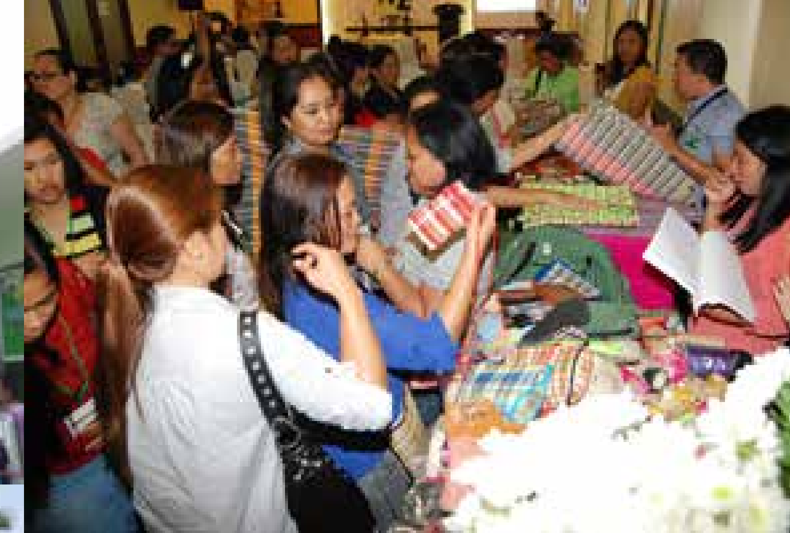


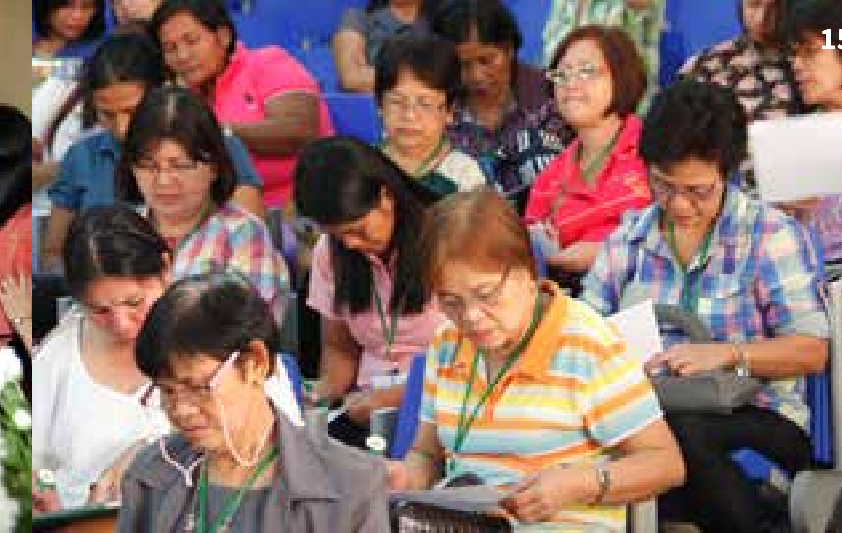
BANK OPENINGS AND TRANSFERS

This year, the products and services of CARD Bank, Inc. were made even more accessible to more families as we opened new bank branches in Labo, Lingayen and Tagbilaran. At the same time, we also transferred our branches in Tacloban, Makati, Mulanay, and Iloilo to better cater to the needs of the families residing in these areas.

CARD BANK CELEBRATES ITS 17TH ANNIVERSARY

This year marks the 17th year of providing community development services to the socioeconomically challenged families in the Philippines. We aim to continuously provide these services from one generation to another. As early as now, we inculcate the important of savings in the minds of our clients' children.



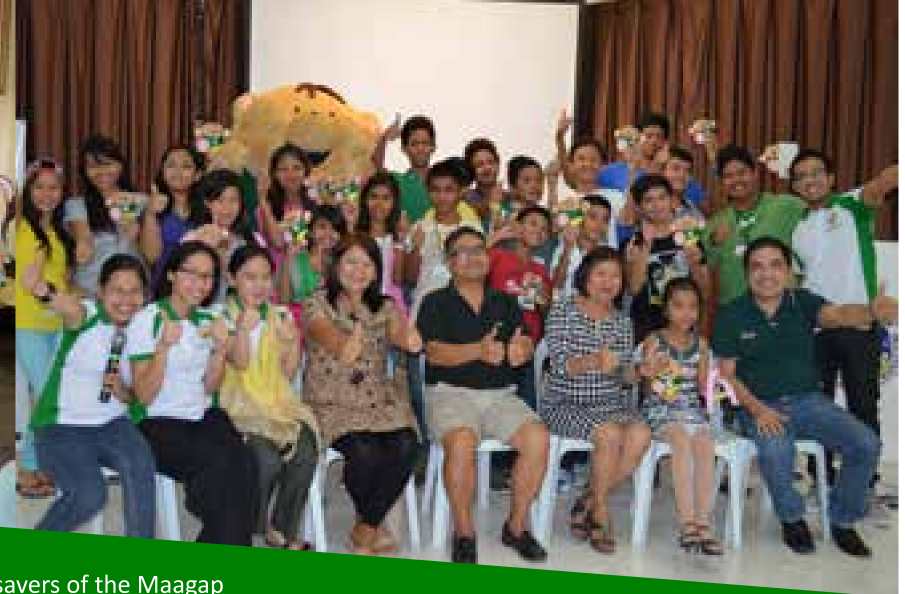


MICROENTREPINAY 2014

The annual conference for microentrepreneurs was held this year in Laguna, Bicol, and Iloilo with the theme "The value of ME (Microentrepinays)".

CARDEE'S AMAZING RACE

Maagap Savers were taught the value of savings in a fun way through Cardee's Amazing Race.



CARDEESKWELA

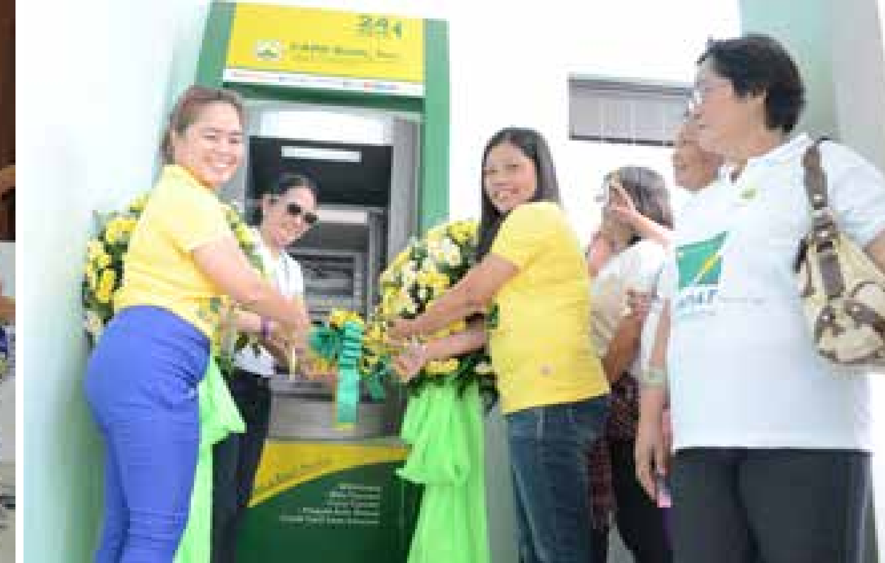
Cardee taught children of CARD employees as well as top savers of the Maagap Saver's Club on how to be financial savvy at a young age.

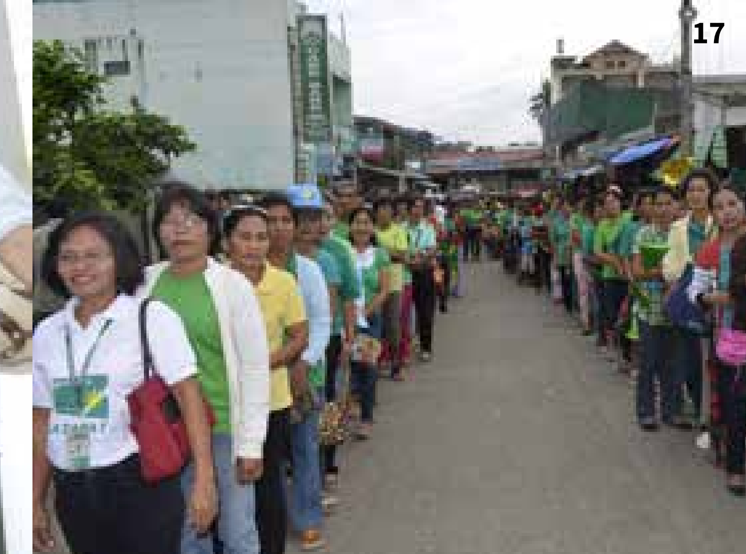
CRM STRATEGIC WORKSHOP

CARD Bank conducted a strategic workshop to formulate a plan of action regarding Customer Relationship Management (CRM). Through this workshop, CRM objectives were identified in the context of supporting CARD Bank's overall business strategy in achieving three million clients.

konek2CARD CARAVAN

CARD Bank's financial services is made available to you 24/7 through konek2CARD. This year, a series of caravans were held to introduce the new service to its clients and potential agents.





MATAPAT GRAND LAUNCH

CARD Bank's ATM service was launched in Makati, Iloilo, Passi, Pili, San Jose, and Tagbilaran.

SAVINGS CARAVAN

We recognize the needs of the survivors of Typhoon Yolanda for rehabilitation. We conducted a savings caravan in 2014 to assist these survivors in building their lives once again.

FINANCIAL STATEMENTS

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

	December 31	
	2014	2013
ASSETS		
Cash and other cash items	**₱65,451,150**	₱46,793,184
Due from Bangko Sentral ng Pilipinas (Notes 6 and 13)	**124,989,147**	73,783,424
Due from other banks (Note 6)	**587,745,810**	515,817,666
Available-for-sale investments (Note 7)	**139,523,981**	–
Loans and receivables (Notes 8 and 22)	**4,308,142,574**	3,645,076,091
Investment in an associate (Note 9)	**42,164,989**	12,278,368
Held-to-maturity investments (Note 10)	**258,865,664**	322,318,389
Property and equipment (Note 11)	**420,163,724**	295,237,778
Deferred tax assets (Note 21)	**42,462,832**	118,671,804
Other assets (Note 12)	**170,688,859**	61,642,319
	₱6,160,198,730	₱5,091,619,023
LIABILITIES AND EQUITY		
Liabilities		
Deposit liabilities (Notes 13 and 22)		
Demand	**₱107,458,554**	₱103,688,850
Savings	**3,412,441,873**	3,066,680,759
	3,519,900,427	3,170,369,609
Bills payable (Note 14)	**881,954,896**	423,432,686
Income tax payable	**61,983,762**	70,704,357
Other liabilities (Notes 15 and 22)	**266,546,634**	438,011,388
	4,730,385,719	4,102,518,040
Equity		
Capital stock (Note 17)		
Preferred stock	**496,938,400**	420,929,800
Common stock	**470,438,900**	361,443,500
	967,377,300	782,373,300
Surplus (Note 17)	**441,202,779**	398,895,728
Remeasurement gains (losses) on retirement liabilities (Note 19)	**18,869,940**	(189,972,221)
Share in the associate's other comprehensive income (loss) (Note 9)	**1,568,984**	(2,195,824)
Net unrealized gains on available-for-sale investments (Note 7)	**794,008**	–
	1,429,813,011	989,100,983
	₱6,160,198,730	₱5,091,619,023

See accompanying Notes to Financial Statements.

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

	Years Ended December 31	
	2014	2013
INTEREST INCOME ON		
Loans and receivables (Note 8)	**₱1,934,786,150**	₱1,600,356,558
Investment securities (Notes 7, 8 and 10)	**17,332,021**	16,688,152
Due from other banks (Note 6)	**6,676,433**	7,128,815
	1,958,794,604	1,624,173,525
INTEREST EXPENSE ON		
Deposit liabilities (Notes 13 and 22)	**84,291,799**	74,277,480
Bills payable (Note 14)	**25,932,667**	9,188,163
	110,224,466	83,465,643
NET INTEREST INCOME	**1,848,570,138**	1,540,707,882
Miscellaneous (Note 18)	**14,556,648**	38,217,320
TOTAL OPERATING INCOME	**1,863,126,786**	1,578,925,202
OPERATING EXPENSES		
Compensation and benefits (Notes 19 and 22)	**623,545,744**	545,279,875
Transportation and travel	**124,932,531**	93,618,266
Taxes and licenses	**108,660,526**	92,912,974
Members training and development (Note 22)	**100,512,897**	58,605,417
Stationery and office supplies	**56,640,742**	45,791,048
Occupancy (Note 22)	**56,324,882**	43,395,072
Depreciation and amortization (Notes 11 and 12)	**52,882,082**	49,228,873
Provision for credit and impairment losses (Note 8)	**38,525,203**	37,570,646
Security, messengerial and janitorial	**37,248,041**	33,554,228
Employee trainings (Note 22)	**36,759,687**	21,768,804
Information technology	**35,831,252**	29,852,595
Postage, telephone and cable	**22,443,485**	17,304,856
Power, light and water	**19,587,898**	17,151,728
Insurance	**17,477,523**	14,226,177
Management and other professional fees	**13,172,918**	9,727,855
Seminars and meetings	**9,136,471**	8,806,206
Repairs and maintenance	**8,488,638**	8,311,405
Program monitoring and evaluation	**6,645,533**	4,636,511
Miscellaneous (Note 18)	**44,861,375**	42,343,171
	1,413,677,428	1,174,085,707
INCOME BEFORE SHARE IN NET INCOME OF AN ASSOCIATE	**449,449,358**	404,839,495
SHARE IN NET INCOME OF THE ASSOCIATE (Note 9)	**13,121,813**	3,724,192
INCOME BEFORE TAX	**462,571,171**	408,563,687
PROVISION FOR INCOME TAX (Note 21)	**140,381,636**	122,515,826
NET INCOME	**₱322,189,535**	₱286,047,861

See accompanying Notes to Financial Statements.

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

	Years Ended December 31	
	2014	2013
NET INCOME	**₱322,189,535**	₱286,047,861
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that may not be classified to the statement of income:		
Remeasurement gain (loss) on retirement liabilities (Note 19)	**298,345,944**	(2,902,952)
Income tax effect	**(89,503,783)**	870,886
	208,842,161	(2,032,066)
Items that may be reclassified to the statement of income:		
Unrealized gains (losses) on available-for-sale investment (Note 7)	**1,134,297**	146,708
Income tax effect	**(340,289)**	–
	794,008	146,708
Share in associate's other comprehensive gain (loss) (Note 9)	**3,764,808**	(2,195,824)
	4,558,816	(2,049,116)
TOTAL COMPREHENSIVE INCOME	**₱535,590,512**	₱281,966,679

See accompanying Notes to Financial Statements.

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

	Preferred Stock (Note 17)	Common Stock (Note 17)	Deposit for Future Stock Subscription (Note 17)	Surplus (Note 17)	Remeasurement Gain (Loss) on Retirement Liabilities (Note 19)	Share in an Associate's Other Comprehensive Gain (Loss) (Note 9)	Net Unrealized Gain on Available-for-sale Investments (Note 7)	Total
Balance at January 1, 2014	**₱420,929,800**	**₱361,443,500**	**₱–**	**₱398,895,728**	**(₱189,972,221)**	**(₱2,195,824)**	**₱–**	**₱989,100,983**
Total comprehensive income	–	–	–	**322,189,535**	**208,842,161**	**3,764,808**	**794,008**	**535,590,512**
Collection of subscription receivable	**1,063,200**	**22,371,048**	–	–	–	–	–	**6,722,500**
Issuance of new shares	**74,945,400**	–	–	–	–	–	–	**75,938,200**
Stock dividends (Note 17)	–	**86,624,352**	–	**(86,624,352)**	–	–	–	**(1,852)**
Cash dividends	–	–	–	**(193,258,132)**	–	–	–	**(177,537,332)**
Balance at December 31, 2014	**₱496,938,400**	**₱470,438,900**	**₱–**	**₱441,202,779**	**₱18,869,940**	**₱1,568,984**	**₱794,008**	**₱1,429,813,011**
Balance at January 1, 2013	₱249,927,200	₱213,061,100	₱63,117,425	₱353,465,347	(₱187,940,155)	₱–	(₱146,708)	₱691,484,209
Total comprehensive income	–	–	–	286,047,861	(2,032,066)	(2,195,824)	146,708	281,966,679
Collection of subscription receivable	116,433,600	30,990,775	–	–	–	–	–	123,953,775
Transfers and movements of deposits for future stock subscription	45,719,600	17,394,025	(63,117,425)	–	–	–	–	(3,800)
Stock dividends	8,849,400	99,997,600	–	(112,817,106)	–	–	–	(3,970,106)
Cash dividends	–	–	–	(127,800,374)	–	–	–	(104,329,774)
Balance at December 31, 2013	₱420,929,800	₱361,443,500	₱–	₱398,895,728	(₱189,972,221)	(₱2,195,824)	₱–	₱989,100,983

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

	Years Ended December 31	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱462,571,171**	₱408,563,687
Adjustments for:		
Retirement expense (Note 19)	**79,774,489**	76,030,500
Depreciation and amortization (Notes 11 and 12)	**52,882,082**	49,228,873
Provision for credit and impairment losses (Notes 8 and 12)	**38,525,203**	37,570,646
Amortization of premium on held-to-maturity securities (Note 10)	**5,535,382**	3,613,794
Amortization of premium or discount on bills payable (Note 14)	**4,362,279**	235,209
Net unrealized loss on foreign exchange transactions	**104,500**	346,831
Gain on disposal of property and equipment (Note 18)	**(683,562)**	(964,765)
Share in net income of an associate (Note 9)	**(13,121,813)**	(3,724,192)
Operating income before changes in operating assets and liabilities:	**629,949,731**	570,900,583
Increase in the amounts of:		
Loans and receivables	**(701,174,811)**	(720,149,843)
Other assets	**(15,372,980)**	(12,392,248)
Increase in the amounts of:		
Deposit liabilities	**349,530,818**	718,421,703
Other liabilities	**29,516,294**	23,378,244
Net cash generated from operations	**292,449,052**	580,158,439
Income taxes paid	**(162,737,330)**	(109,711,820)
Contribution to retirement fund (Note 19)	**(75,867,516)**	(106,992,558)
Net cash provided by operating activities	**53,844,206**	363,454,061
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property and equipment (Note 11)	**(176,982,436)**	(89,082,624)
Available-for-sale investments	**(138,389,684)**	–
Held-to-maturity investments (Note 10)	**(48,233,415)**	(40,677,597)
Software costs (Note 12)	**(981,000)**	(998,976)
Advances to an associate (Note 12)	**(20,000,000)**	(13,000,000)
Proceeds from:		
Maturity of held-to-maturity investments	**106,150,758**	27,695,669
Disposal of property and equipment	**1,348,582**	964,766
Redemption of available-for-sale investments	**–**	15,000,000
Net cash used in investing activities	**(277,087,195)**	(100,098,762)

(Forward)

	Years Ended December 31	
	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES		
Availment of bills payable	**₱1,179,159,932**	₱423,197,477
Settlement of bills payable	**(725,000,000)**	(535,266,562)
Proceeds from (Note 17):		
Issuance of preferred stock	**74,945,400**	–
Collection of subscriptions receivable on common stock	**22,371,048**	8,493,075
Collection of subscriptions receivable on preferred stock	**1,063,200**	115,460,700
Transfers and movements of deposits for future stock subscription (Note 24)	**–**	(3,800)
Dividends paid (Note 17)	**(187,400,258)**	(106,164,853)
Net cash provided by (used in) financing activities	**365,139,322**	(94,283,963)
EFFECTS OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS	**(104,500)**	(346,831)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**141,791,833**	168,724,505
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and other cash items	**46,793,184**	30,509,853
Due from Bangko Sentral ng Pilipinas	**73,783,424**	56,867,923
Due from other banks	**515,817,666**	380,291,993
	636,394,274	467,669,769
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and other cash items	**65,451,150**	46,793,184
Due from Bangko Sentral ng Pilipinas	**124,989,147**	73,783,424
Due from other banks	**587,745,810**	515,817,666
	₱778,186,107	₱636,394,274

OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS

	Years Ended December 31	
	2014	2013
Interest received	**₱1,958,997,501**	**₱1,651,640,448**
Interest paid	**97,878,284**	**81,423,357**
Dividend received	**–**	**607,826**

See accompanying Notes to Financial Statements.

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

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

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

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

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

As at December 31, 2014 and 2013, the Bank is 29.6% owned by CARD, Inc.

The Bank's executive office is located at 20 M. L. Quezon Street, City Subdivision, San Pablo City, Laguna. The head office is located at No. 58 P. Burgos, corner M. Paulino Street, San Pablo City. As at December 31, 2014 and 2013, the Bank has 59 and 54 branches, respectively.

2. Summary of Significant Accounting Policies

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

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

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

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

Changes in Accounting Policies and Disclosures
The Bank applied, for the first time, the following new and revised accounting standards. Unless otherwise indicated, these new and revised accounting standards have no impact on the financial position or performance of the Bank. Except for these standards and amended PFRS which were adopted as at January 1, 2014, the accounting policies adopted are consistent with those of the previous financial year.

- Investment Entities (Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and Philippine Accounting Standard (PAS) 27, *Separate Financial Statements*)
- PAS 32*, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
- PAS 36*, Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)
- PAS 39*, Financial Instruments: Recognition and Measurement -Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
- Philippine Interpretation International Financial Reporting Interpretation Committee (IFRIC) 21*, Levies*

Annual Improvements to PFRSs (2011 - 2012 cycle)
- PFRS 13, *Fair Value Measurement*

Annual Improvements to PFRSs (2011 - 2013 cycle)
- PFRS 1, *First Time Adoption of PFRS*

Summary of Significant Accounting Policies

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

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

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

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

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

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

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

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

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

Foreign Currency Transactions
For financial reporting purposes, foreign currency-denominated monetary assets and monetary liabilities are translated into their equivalents in Philippine peso based on the BSP closing rate at the end of the year.

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

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks that are convertible to known amounts of cash with original maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value. Cash and cash equivalents are presented at amortized cost in the statement of financial position.

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

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

As at December 31, 2014 and 2013, the Bank has no financial instruments at FVPL.

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

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

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

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

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

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

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

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

HTM investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Bank's management has the positive intention and ability to hold to maturity. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income. Gains and losses are recognized in OCI when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of income under 'Provision for credit and impairment losses'.

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

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

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

After initial measurement, financial liabilities not qualified as and not designated as FVPL, 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 an integral part of the EIR.

Classification of Financial Instruments between Debt and Equity

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

a. deliver cash or another financial asset to another entity; or
b. exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Bank; or
c. satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

Derecognition of Financial Assets and Liabilities

Financial assets

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

a. the 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
b. the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred the control over the asset.

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

Financial liabilities

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

Impairment of Financial Assets

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

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

Financial asset carried at amortized cost

For 'Loans and receivables', 'Due from BSP', 'Due from other banks', and 'HTM investments', the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

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

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

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

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

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

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

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

AFS investments
For AFS investments, the Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

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

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

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

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

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

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

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

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

The EUL of the property and equipment follows:

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

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

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

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

Software costs
Costs related to software purchased by the Bank for use in operations are recognized as software costs under 'Other assets' in the balance sheet. Capitalized computer software costs are amortized on a straight-line basis over five (5) to ten (10) years.

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

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

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

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

Other intangibles
Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired. Any impairment loss or direct write-off is recorded under 'Provision for credit and impairment losses' in the statement of income.

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

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

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

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

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

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

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

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

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

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

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

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

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

Defined benefit costs comprise the following:

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

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

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to the statement of income in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<u>Deposit for Future Stock Subscription</u>
Deposit for future stock subscription (DFFS) represents payments made on subscription of shares which cannot be directly credited to 'Preferred stock' or 'Common stock' pending registration with the SEC of the amendment to the Articles of Incorporation increasing capital stock. The paid-up subscription can be classified under equity if the nature of the transaction gives rise to a contractual obligation of the Bank to deliver a fixed number of its own shares to the subscriber in exchange of the subscription amount. In addition, deposit for future stock subscription shall be classified under equity if all of the following elements are present as at reporting date:

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

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

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

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

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

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

<u>Future Changes in Accounting Policies</u>
Standards and Interpretations issued but not yet effective as of December 31, 2014 are listed below. The listing of the standards and interpretations issued are those that the Bank reasonably expects to be applicable at a future date. The Bank expects to adopt these standards and interpretations as they become effective.

Standards issued but not yet effective

PFRS 9, *Financial Instruments - Classification and Measurement* (2010 version)
PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

PFRS 9 (2010 version) is effective for annual periods beginning on or after January 1, 2015. This mandatory adoption date was moved to January 1, 2018 when the final version of PFRS 9 was adopted by the Philippine Financial Reporting Standards Council (FRSC). Such adoption, however, is still for approval by the Board of Accountancy (BOA).

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

The following new standards and amendments issued by the IASB were already adopted by the FRSC but are still for approval by BOA:

Effective January 1, 2015

PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments)
PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. It is not expected that this amendment would be relevant to the Bank since the Bank has no defined benefit plans with contributions from employees or third parties.

Annual Improvements to PFRSs (2010-2012 cycle)
The following Annual Improvements to PFRSs (2010-2012 cycle) are not expected to have material impact on the Bank:

PFRS 2, *Share-based Payment - Definition of Vesting*
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

This amendment does not apply to the Bank as it has no share-based payments.

PFRS 3*, Business Combinations - Accounting for Contingent Consideration in a Business Combination*
The amendment is applied prospectively for business combinations for which the acquisition date is on or after the adoption date. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39 (or PFRS 9, if early adopted). The Bank shall consider this amendment for future business combinations.

PFRS 8*, Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (i.e., sales and gross margins) used to assess whether the segments are 'similar'; and
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The amendments will have no impact on the Bank's financial statements.

PAS 16, *Property, Plant and Equipment, and* PAS 38*, Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*
The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount.

In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

PAS 24, *Related Party Disclosures - Key Management Personnel*
The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual Improvements to PFRSs (2011-2013 cycle)
The Annual Improvements to PFRSs (2011-2013 cycle), which include the following, are not expected to have a material impact on the Bank:

PFRS 3*, Business Combinations - Scope Exceptions for Joint Arrangements*
The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:

- Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

PFRS 13*, Fair Value Measurement - Portfolio Exception*
The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39 or PFRS 9, as applicable.

PAS 40*, Investment Property*
The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is a purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

Effective January 1, 2016

PAS 16, *Property, Plant and Equipment,* and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)
The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively, with early adoption permitted. These amendments are not expected to have any impact to the Bank since it has not used a revenue-based method to depreciate its non-current assets.

PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants* (Amendments)
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20*, Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments

are retrospectively applied, with early adoption permitted. These amendments are not expected to have any impact to the Bank's future financial statements.

PAS 27, *Separate Financial Statements - Equity Method in Separate Financial* Statements (Amendments)
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. Early adoption of the amendment is permitted. It is not expected that this amendment would be relevant to the Bank.

PFRS 10, *Consolidated Financial Statements* and PAS 28*, Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. It is not expected that this amendment would be relevant to the Bank.

PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (Amendments)
The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively applied with early adoption permitted. These amendments are not expected to have any impact to the Bank.

PFRS 14*, Regulatory Deferral Accounts*
PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. Since the Bank is an existing PFRS preparer, this standard would not apply.

Annual Improvements to PFRSs (2012-2014 cycle)
The Annual Improvements to PFRSs (2012-2014 cycle), which include the following, are not expected to have a material impact on the Bank:

PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*
The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*
PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statement*
This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

PAS 19*, Employee Benefits - regional market issue regarding discount rate*
This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

PAS 34, *Interim Financial Reporting - disclosure of information 'elsewhere in the interim financial report*
The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (i.e. in the management commentary or risk report).

Effective January 1, 2018

PFRS 9, *Financial Instruments - Hedge Accounting and Amendments* to PFRS 9, PFRS 7 and PAS 39 (2013 version)
PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not

separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

PFRS 9, *Financial Instruments* (2014 or final version)
In July 2014, the final version of PFRS 9, *Financial Instruments*, was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

Early application of previous versions of PFRS 9 is permitted if the date of initial application is before January 1, 2015. The Bank is currently assessing the impact of adopting this standard.

The following new standard issued by the IASB has not yet been adopted by the FRSC:

IFRS 15, *Revenue from Contracts with Customers*
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Bank is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

3. Significant Accounting Judgments and Estimates

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

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

<u>Judgments</u>

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

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

Bank as lessee
The Bank has entered into leases on premises, transportation and information technology (IT) equipment it uses for its operations. The Bank has determined that all significant risks and rewards of ownership of the properties it leases on operating lease are not transferable to the Bank.

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

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

<u>Estimates</u>

(a) *Credit losses on loans and receivables*
The Bank reviews its loans and receivables to assess impairment annually. In determining whether an impairment loss should be recorded in the statement of income, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of customers or national or local economic conditions that correlate with defaults on the loans and receivables. Past-due accounts for more than 90 days, and loans wherein the borrower requested moratorium but no subsequent collection is made after the moratorium period ends as at yearend, fall under specific loan loss. As at December 31, 2014 and 2013, the carrying values of loans and receivables and related allowance for credit losses are disclosed in Note 8.

In addition to specific allowance against individually significant loans and receivables, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted.

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

As of December 31, 2014, no impairment losses were recognized on AFS debt investments which comprised of fixed treasury notes issued by the Philippine Government. The carrying value of AFS debt investment is disclosed in Note 7.

(c) *Recognition of deferred tax assets*
Deferred tax assets are recognized for all unused tax losses and temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax asset that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning. The recognized and unrecognized deferred tax assets are disclosed on Note 21.

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

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

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

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

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

- deteriorating or poor financial condition;
- recurring net losses; and
- significant changes on the technological, market, economic, or legal environment which had an adverse effect on the associate during the period or in the near future, in which the associate operates.

The Bank also assesses impairment on non-financial assets whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

The factors that the Bank considers important which could trigger an impairment review include the following:

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

The Bank recognizes an impairment loss whenever the carrying amounts exceed their recoverable amounts. In 2014, ₱0.4 million of intangible assets were written off considering that the expected future economic benefit attributable to the asset is no longer probable (Note 12).

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

4. Fair Value Measurement

The Bank uses a hierarchy for determining and disclosing the fair value of its assets and liabilities (see accounting policy on Fair Value Measurement in Note 2).

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

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

Quoted securities under AFS and HTM investments are generally based on quoted market prices, which is within the bid-ask price.

Fair values of noncurrent deposit liabilities are estimated using the discounted cash flow methodology using the Bank's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued, if any.

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, 2014 and 2013 (in thousands):

	2014				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets with recurring fair value measurements					
AFS investments	**₱139,524**	**₱139,524**	**₱–**	**₱–**	**₱139,524**
Assets and liabilities for which fair values are disclosed:					
Financial assets					
HTM investments	**258,866**	**263,496**	**–**	**–**	**263,496**
Loans and receivables					
Receivable from customers	**4,397,484**	**–**	**–**	**4,433,007**	**4,433,007**
Unquoted debt instruments classified as loans	**37,000**	**–**	**–**	**36,966**	**36,966**
Financial liability					
Deposit liabilities					
Savings	**144,148**	**–**	**–**	**139,152**	**139,152**

	2013				
	Carrying Value	Level 1	Level 2	Level 3	Total
Assets and liabilities for which fair values are disclosed:					
Financial assets					
HTM investments	₱322,318	₱332,433	₱–	₱–	₱332,433
Loans and receivables					
Receivable from customers	3,701,874	–	–	3,645,973	3,645,973
Unquoted debt instruments classified as loans	20,000	–	–	18,538	18,538
Financial liability					
Deposit liabilities					
Savings	145,010	–	–	135,678	135,678

There were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements in 2014 and 2013.

5. Financial Risk Management Objectives and Policies

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

- Credit risk
- Market risk
- Liquidity risk

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

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

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

Management of credit risk

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

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

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

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

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

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

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

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

The ROC closely monitors the 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 maximum credit exposure of the Bank's financial instruments is equal to their carrying value except for receivables from customers. Aggregate fair value of collaterals held against receivable from customers amounted to ₱1.1 billion and ₱0.9 billion in 2014 and 2013, respectively. The financial effect of these collaterals amounted to ₱2.8 billion and ₱1.0 billion in 2014 and 2013, respectively.

Credit enhancement on receivable from customers pertains to deposit hold-out from pledge savings equivalent to 15.0% of the original amount of the loan to the member and real estate mortgage as at December 31, 2014 and 2013 (Note 13).

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

As at December 31, 2014 and 2013, the Bank has no financial instruments with rights to offset in accordance with PAS 32. There are also no financial instruments that are subject to an enforceable master netting arrangements or similar agreements which require disclosure in the financial statements in accordance with amendments on PFRS 7.

Additionally, the tables below show the distribution of maximum credit exposure by industry sector of the Bank as at December 31, 2014 and 2013 (in thousands):

	2014			
	Loans and Receivables*	**AFS Investments**	**HTM Investments**	**Total**
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	**₱2,667,877**	**₱–**	**₱–**	**₱2,667,877**
Agriculture, hunting and forestry	**872,332**	–	–	**872,332**
Financial institutions	**677,303**	–	–	**677,303**
Real estate, renting and business activities	**340,893**	–	–	**340,893**
Fishing	**211,977**	–	–	**211,977**
Other community, social and personal service activities	**144,770**	–	–	**144,770**
Education	**120,310**	–	–	**120,310**
Government	**124,989**	**139,524**	**258,866**	**523,379**
Manufacturing	**36,805**	–	–	**36,805**
Health and social work	**2,635**	–	–	**2,635**
	5,199,891	**139,524**	**258,866**	**5,598,281**
Less allowance for credit losses	**179,014**	–	–	**179,014**
Total	**₱5,020,877**	**₱139,524**	**₱258,866**	**₱5,419,267**

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

	2013			
	Loans and Receivables*	AFS Investment	HTM Investments	Total
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	₱2,322,557	₱–	₱–	₱2,322,557
Agriculture, hunting and forestry	689,658	–	–	689,658
Financial institutions	569,067	–	–	569,067
Real estate, renting and business activities	235,927	–	–	235,927
Fishing	206,200	–	–	206,200
Other community, social and personal service activities	147,268	–	–	147,268
Education	108,142	–	–	108,142
Government	73,783	–	322,318	396,101
Manufacturing	28,339	–	–	28,339
Health and social work	4,128	–	–	4,128
	4,385,069	–	322,318	4,707,387
Less allowance for credit losses	150,392	–	–	150,392
Total	₱4,234,677	₱–	₱322,318	₱4,556,995

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

Credit quality per class of financial assets

The table below shows the credit quality per class of financial assets (gross of allowance for credit and impairment losses and unearned interest income) as at December 31, 2014 and 2013:

2014

	Neither past due nor impaired				
	High grade	**Standard grade**	**Past due but not impaired**	**Impaired**	**Total**
Due from BSP	**₱124,989,147**	**₱–**	**₱–**	**₱–**	**₱124,989,147**
Due from other banks	**585,984,915**	**1,760,895**	–	–	**587,745,810**
Available-for-sale investments	**139,523,981**	–	–	–	**139,523,981**
Receivable from customers					
Microfinance loans	–	**3,782,149,789**	**14,972,671**	**111,675,284**	**3,908,797,744**
Other loans	–	**478,076,323**	**2,637,354**	**8,044,784**	**488,758,461**
Other receivables:					
Accrued interest receivable	–	**21,381,212**	–	–	**21,381,212**
Accounts receivable	–	**31,291,030**	–	–	**31,291,030**
Unquoted debt securities classified as loans	–	**37,000,000**	–	–	**37,000,000**
HTM investments	**258,865,664**	–	–	–	**258,865,664**
Security deposits	–	**13,094,110**	–	–	**13,094,110**
	₱1,109,363,707	**₱4,364,753,359**	**₱17,610,025**	**₱119,720,068**	**₱5,611,447,159**

2013

	Neither past due nor impaired				
	High grade	Standard grade	Past due but not impaired	Impaired	Total
Due from BSP	₱73,783,424	₱–	₱–	₱–	₱73,783,424
Due from other banks	512,888,360	2,929,306	–	–	515,817,666
Receivable from customers					
Microfinance loans	–	3,198,749,385	12,063,175	89,668,236	3,300,480,796
Other loans	–	393,430,284	1,479,024	6,510,430	401,419,738
Other receivables:					
Accrued interest receivable	–	45,592,563	–	–	45,592,563
Accounts receivable	–	27,810,876	–	190,439	28,001,315
Unquoted debt securities classified as loans	–	20,000,000	–	–	20,000,000
HTM investments	322,318,389	–	–	–	322,318,389
Security deposits	–	8,578,700	–	–	8,578,700
	₱908,990,173	₱3,697,091,114	₱13,542,199	₱96,369,105	₱4,715,992,591

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, 2014 and 2013, the Bank's receivables that are past due for more than 90 days are considered impaired.

Aging analysis of past due but not impaired loans and receivables

The following table shows the total aggregate amount of loans and receivables that are contractually past due but not considered as impaired per delinquency bucket as at December 31, 2014 and 2013 (in thousands):

2014

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

2013

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

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, 2014 and 2013, the Bank's outstanding restructured receivables tagged as impaired account amounted to ₱0.4 million and ₱0.5 million, respectively (Note 8).

<u>Market Risk</u>

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 16.0% to 28.0% per annum with equivalent EIR ranging from 32.0% to 58.8% in 2014 and 2013. The shortest term of loan is one month while the longest term is fifteen years and twenty years.

The Bank's savings deposit liabilities include compulsory and voluntary savings that earn 1.0% and 2.0% per annum in 2014 and 2013, respectively. Special savings deposits have interest rates of 2.0% to 6.0% and 2.5% to 6.0% in 2014 and 2013, respectively.

The Bank pays fixed interest rates to its creditors from 4.3% to 5.0% in 2014 and payable within one year and from 4.3% to 9.0% in 2013 per annum, payable within one year to three years.

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

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

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

	Changes in interest rates (in basis points)	
	December 31, 2014	
	+100	**-100**
Sensitivity of Equity	**(4,796,962)**	**4,995,783**

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

As of December 31, 2014, the Bank has no AFS investments and loans and receivables that have floating interest rates, therefore no analysis is presented.

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

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

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

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

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

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

	2014					
	On demand	**Due within 1 month**	**1 to 3 months**	**3 to 12 months**	**Beyond 1 year**	**Total**
Financial Assets						
Cash and other cash items	**₱65,451**	**₱–**	**₱–**	**₱–**	**₱–**	**₱65,451**
Due from BSP	**124,989**	**–**	**–**	**–**	**–**	**124,989**
Due from other banks	**331,774**	**256,145**	**–**	**–**	**–**	**587,919**
Available-for-sale investment	**–**	**112**	**1,581**	**4,159**	**158,343**	**164,195**
Loans and receivables	**275,984**	**310,438**	**1,918,738**	**1,962,998**	**56,391**	**4,524,549**
Held-to-maturity investments	**–**	**1,494**	**3,579**	**39,235**	**203,887**	**248,195**
Total Financial Assets	**798,198**	**568,189**	**1,923,898**	**2,006,392**	**418,621**	**5,715,298**
Financial Liabilities						
Deposit liabilities	**1,374,510**	**527,190**	**493,757**	**1,027,382**	**169,785**	**3,592,624**
Bills payable	**–**	**37,898**	**249,773**	**559,626**	**–**	**847,297**
Other liabilities	**82,809**	**47,324**	**28,454**	**56,855**	**–**	**215,442**
Total Financial Liabilities	**1,457,319**	**612,412**	**771,984**	**1,643,863**	**169,785**	**4,655,363**
Net	**(₱659,121)**	**(₱44,223)**	**₱1,151,914**	**₱362,529**	**₱248,836**	**₱1,059,935**

	2013					
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	Total
Financial Assets						
Cash and other cash items	₱46,793	₱–	₱–	₱–	₱–	₱46,793
Due from BSP	73,783	–	–	–	–	73,783
Due from other banks	173,763	342,422	–	–	–	516,185
Loans and receivables	283,679	248,715	1,666,475	2,051,283	27,474	4,277,626
HTM investments	–	65,908	4,011	52,523	232,843	355,285
Total Financial Assets	578,018	657,045	1,670,486	2,103,806	260,317	5,269,672
Financial Liabilities						
Deposit liabilities	230,850	256,571	1,064,405	1,475,534	145,010	3,172,370
Bills payable	–	–	212,500	212,500	–	425,000
Other liabilities	33,895	15,179	51,168	31,547	64,146	195,935
Total Financial Liabilities	264,745	271,750	1,328,073	1,719,581	209,156	3,793,305
Net	₱313,273	₱385,295	₱342,413	₱384,225	₱51,161	₱1,476,367

6. Due from BSP and Other Banks

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

Due from other banks represent funds deposited with domestic banks which are used by the Bank as part of its operating funds. Due from other banks totaled ₱587.8 million and ₱515.8 million in 2014 and 2013, respectively.

As at December 31, 2014 and 2013, due from other banks include dollar-denominated deposits amounting to US$155.5 thousand (₱7.0 million) and US$115.4 thousand (₱2.2 million), respectively.

Peso-denominated deposits earn interest at annual rates ranging from 0.5% to 1.0% in 2014 and 2013.

Total interest income earned from deposits from other banks amounted to ₱6.7 million and ₱7.1 million in 2014 and 2013, respectively. Of these amounts, ₱11.5 thousand and ₱4.0 thousand pertains to interest income from dollar deposits in 2014 and 2013, respectively.

7. **Available-for-Sale Investments**

This account consists of investments in quoted government securities with maturity period of five years and bear interests of 3.9% to 4.8% in 2014.

Interest income from AFS investments amounted to ₱3.0 million in 2014.

The movements in the Net Unrealized Gain (Loss) on AFS investments of the Bank follow:

	2014	2013
Balance at January 1	**₱–**	₱209,583
Fair value changes during the year	**1,134,297**	–
Income tax effect	**(340,289)**	(62,875)
	794,008	146,708
Amounts realized in profit or loss	**–**	146,708
Balance at December 31	**₱794,008**	₱–

8. **Loans and Receivables**

This account consists of:

	2014	2013
Receivable from customers		
Microfinance loans	**₱3,908,797,744**	₱3,300,480,796
Regular loans	**298,366,134**	249,591,433
Agricultural-Agrarian loans	**189,973,855**	151,344,267
Restructured loans	**418,472**	484,038
	4,397,556,205	3,701,900,534
Less unearned interest income	**72,255**	26,280
	4,397,483,950	3,701,874,254
Other receivables:		
Unquoted debt securities classified as loans (UDSCL)	**37,000,000**	20,000,000
Accounts receivable	**31,291,030**	28,001,315
Accrued interest receivable	**21,381,212**	45,592,563
	4,487,156,192	3,795,468,132
Less allowance for credit losses	**179,013,618**	150,392,041
	₱4,308,142,574	₱3,645,076,091

Interest income on loans and receivables amounted to ₱1.9 billion and ₱1.6 billion in 2014 and 2013, respectively.

BSP Reporting

In accordance with BSP regulations, the Bank considers as part of portfolio-at-risk (PAR) an installment payment that is past due for one day. As at December 31, 2014 and 2013, the Bank's PAR amounted to ₱137.3 million and ₱109.7 million, respectively.

As at December 31, 2014 and 2013, nonperforming loans (NPLs) reported to the BSP amounted to ₱17.6 million and ₱10.4 million, respectively

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

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

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

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

The following table shows the secured and unsecured portions of receivable from customers as at December 31, 2014 and 2013:

	2014	2013
Secured portion		
Deposit hold-out (Note 13)	**₱1,001,749,223**	₱825,124,275
Shares of stocks (Note 13)	**112,993,445**	141,358,248
Deed of assignment	**4,605,171**	4,567,202
Real estate mortgage	**2,046,844**	3,000,000
Unsecured portion	**3,276,161,522**	2,727,850,809
Total	**₱4,397,556,205**	₱3,701,900,534

The Bank's loans amounting to ₱1.2 billion and ₱454.9 million are used to secure bills payable in 2014 and 2013, respectively (see Note 14).

As at December 31, 2014 and 2013, information on the concentration of gross loans and receivables as to industry follows (in thousands):

	2014		2013	
	Amount	**%**	Amount	%
Wholesale and retail trade	**₱2,667,876**	**59.5%**	₱2,322,557	61.2%
Agriculture, hunting and forestry	**872,333**	**19.4%**	689,658	18.2%
Real estate renting and business activities	**340,893**	**7.6%**	235,927	6.2%
Fishing	**211,977**	**4.7%**	206,200	5.4%
Other community, social and personal service activities	**144,770**	**3.2%**	147,268	3.9%
Education	**120,310**	**2.7%**	108,142	2.8%
Financial institutions	**89,557**	**2.0%**	53,249	1.4%
Manufacturing	**36,805**	**0.8%**	28,339	0.7%
Health and social work	**2,635**	**0.1%**	4,128	0.2%
	₱4,487,156	**100.0%**	₱3,795,468	100.0%

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

	2014	2013
Balance at beginning of year	**₱150,201,602**	₱119,956,935
Provision for credit losses	**37,387,080**	37,570,646
Accounts written-off	**(9,486,751)**	(7,325,979)
Balance at end of year	**₱178,101,931**	₱150,201,602
Individual impairment	**₱119,720,068**	₱96,178,666
Collective impairment	**58,381,863**	54,022,936
Total allowance for credit losses	**₱178,101,931**	₱150,201,602
Gross amounts of loans individually determined to be impaired, before deducting any individually assessed impairment losses	**₱119,720,068**	₱96,178,666

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

	2014	2013
Balance at beginning of year	**₱190,439**	₱–
Provision for credit losses	**721,248**	190,439
Balance at end of year	**₱911,687**	₱190,439

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

Unquoted debt instruments
As at December 31, 2014, unquoted debt securities consist of non-negotiable Micro, Small and Medium Enterprise Notes issued by Small Business Corporation amounting to ₱37.0 million, bearing annual interest of 1.7%. Of this amount, ₱20.0 million pertains to note received in settlement of the redeemable preference shares classified as UDSCL in 2013. Income earned from this account amounted to ₱0.5 million and ₱0.7 million in 2014 and 2013, respectively.

9. Investment in an Associate

This account consists of:

	2014	2013
Acquisition cost	**₱10,750,000**	₱10,750,000
Additional investment during the year	**13,000,000**	–
Accumulated equity in net earnings		
Beginning balance	**3,724,192**	–
Share in net income of the associate for the year	**13,121,813**	3,724,192
	40,596,005	14,474,192
Accumulated equity in other comprehensive income		
Beginning balance	**(2,195,824)**	–
Share in other comprehensive income of the associate for the year	**3,764,808**	(2,195,824)
Balance at the end of the year	**₱42,164,989**	₱12,278,368

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

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

	2014	2013
Current assets	**₱583,775,319**	₱214,051,827
Noncurrent assets	**46,135,528**	33,807,348
Current liabilities	**(543,395,210)**	(224,085,647)
Noncurrent liabilities	**(3,631,126)**	(15,605,570)
Equity	**82,884,511**	8,167,958
Proportion of the Bank's ownership	**40.0%**	40.0%
Proportionate share in associate's equity	**33,153,804**	3,267,183
Goodwill	**9,011,185**	9,011,185
Carrying amount of the investment	**₱42,164,989**	₱12,278,368

Summarized statement of income and statement of comprehensive income of RRB:

	2014	2013
Revenue	**₱148,153,637**	₱43,051,530
Net income	**32,804,533**	9,310,481
Other comprehensive income (loss)	**9,412,020**	(5,489,560)
Total comprehensive income	**₱42,216,553**	₱3,820,921

RRB had no contingent liabilities or capital commitments as at December 31, 2014 and 2013.

10. Held-to-Maturity Investments

This account represents investments in quoted government securities bearing annual interest rates ranging from 4.1% to 9.1% in 2014 and 5.0% to 9.1% in 2013.

The rollforward analysis of this account follows:

	2014	2013
Face Value		
Balance at beginning of year	**₱313,499,039**	₱304,194,708
Acquisitions	**45,982,000**	37,000,000
Maturities	**(106,150,758)**	(27,695,669)
Balance at end of year	**253,330,281**	313,499,039
Net premium		
Balance at beginning of year	**8,819,350**	8,755,547
Acquisitions	**2,251,415**	3,677,597
Amortization	**(5,535,382)**	(3,613,794)
Balance at end of year	**5,535,383**	8,819,350
Carrying value	**₱258,865,664**	₱322,318,389

Interest income earned from held-to-maturity investments amounted to ₱13.0 million and ₱16.7 million in 2014 and 2013, respectively.

11. Property and Equipment

The composition of and movements in this account follow:

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

In 2014, the Bank reclassified a building amounting to ₱1.9 million built on leased land in Matina branch.

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

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

	2014	2013
Property and equipment	**₱51,391,470**	₱48,668,873
Other intangibles (Note 12)	**1,490,612**	560,000
	₱52,882,082	₱49,228,873

Cost of fully depreciated assets still in use as at December 31, 2014 and 2013 amounted to ₱61.9 million and ₱55.8 million, respectively.

12. Other Assets

Other assets consist of:

	2014	2013
Retirement asset (Note 19)	**₱87,600,047**	₱–
Stationeries and supplies	**40,515,769**	30,413,975
Advances to an associate/other investment	**20,000,000**	13,000,000
Security deposit	**13,094,110**	8,578,700
Prepaid expenses	**1,833,155**	2,462,794
Software costs	**1,049,364**	1,975,850
Others	**6,596,414**	5,211,000
	₱170,688,859	₱61,642,319

Advances to an associate as at December 31, 2014 and 2013 represent additional deposits as subscription for future increase in authorized capital stock of RRB amounting ₱7.0 million and ₱13.0 million, respectively. The increase in the authorized capital stock of RRB has not yet been approved by the SEC as of year-end.

Software costs pertain to software purchased by the Bank, one is the Stock Administration System used to manage the transactions of the Bank with stockholders and the other, the Maagap Card Inventory Module used to monitor the issuance, claiming and expiration of the Bank's Maagap CARD.

The movements of other intangibles follow:

	2014	2013
Cost		
Balance at beginning of year	**₱3,798,976**	₱2,800,000
Additions	**981,000**	998,976
Write-off	**(416,874)**	–
Balance at end of year	**4,363,102**	3,798,976
Accumulated Amortization		
Balance at beginning of year	**1,823,126**	1,263,126
Amortization	**1,490,612**	560,000
Balance at end of year	**3,313,738**	1,823,126
Net Book Value	**₱1,049,364**	₱1,975,850

13. Deposit Liabilities

The Bank's savings deposit liabilities include pledge savings amounting to ₱2.3 billion and ₱2.0 billion as at December 31, 2014 and 2013, respectively. These represent the aggregate compulsory savings of ₱50.0 per week collected from each member in 2014 and 2013. Under an assignment agreement, the pledge savings balances serve as security for loans granted by the Bank to its members. The pledge savings earn annual interest of 2.0%. Pledge savings equivalent to 15.0% of the original loan amount serves as guarantee fund of the outstanding loan receivable (Note 8). This guarantee fund shall also include paid-up shares with the Bank.

Savings deposits include regular and special savings deposit. Regular savings deposits include "Kayang kaya", "Tagumpay", "Maagap" and "Matapat" savings. These savings accounts earn annual interest rate ranging from 1.0% to 6.0% and 1.5% to 6.0% in 2014 and 2013, respectively. Special savings deposits include "Tiwala" savings. This account earns annual interest ranging from 2.0% to 4.3% both in 2014 and 2013. Interest expense on deposit liabilities amounted to ₱84.3 million and ₱74.3 million in 2014 and 2013, respectively.

Under existing BSP regulations, deposit liabilities of the rural banks are subject to liquidity reserves equivalent to 0.0% and statutory reserves equivalent to 4.0% for demand and 2.0% for savings. In March 2014, BSP issued Circular 830 effective April 11, 2014 which increased the reserve requirements to 5.0% for demand and 3.0% for savings, with cash in vault no longer eligible as reserve.

As of December 31, 2014 and 2013, available reserves pertain to Due from BSP of ₱125.0 million and ₱73.8 million for 2014 and 2013, respectively (Note 6).

As at December 31, 2014 and 2013, the Bank is compliant with the applicable reserve requirements.

14. Bills Payable

Bills payable represents borrowings from financing institutions, which are subject to certain terms and conditions, bearing annual interest rates ranging from 4.3% to 5.0% in 2014 and from 4.3% to 9.0% in 2013. Maturity period for outstanding bills payable ranges from six months to one year in 2014 and in 2013.

The amendments to PFRS 7 require the Bank to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding table.

December 31, 2014						
				Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting) [a]	Gross amounts offset in accordance with the offsetting criteria [b]	Net amount presented in statements of financial position [a-b] [c]	Financial instruments [d]	Fair value of financial collateral [e]	Net exposure [c-d]
Financial liabilities						
Bills payable	**₱881,954,896**	**₱–**	**₱881,954,896**	**₱1,185,000,000**	**₱–**	**₱–**

December 31, 2013						
				Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Financial instruments	Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]	[e]	
Financial liabilities						
Bills payable	₱423,432,686	₱–	₱423,432,686	₱454,900,000	₱–	₱–

The amounts disclosed in column (d) include those rights to set-off amounts that are only enforceable and exercisable in the event of default, insolvency or bankruptcy. This includes amounts related to financial collateral both received and pledged, whether cash or non-cash collateral, excluding the extent of over-collateralization.

Interest expense on bills payable amounted to ₱25.9 million and ₱9.2 million in 2014 and 2013, respectively.

Unearned interest and discount on bills payable amounted to ₱3.0 million and ₱1.6 million in 2014 and 2013, respectively

The Bank has available funds from its loan facilities amounting to ₱215.0 million and ₱885.0 million in 2014 and 2013, respectively.

Borrowings are secured by receivables from customers.

15. Other Liabilities

This account consists of the following:

	2014	2013
Financial liabilities		
Accrued expenses	**₱165,040,307**	₱119,364,076
Accounts payable	**47,315,395**	72,617,185
Accrued interest on deposit liabilities	**25,075,135**	15,283,671
Accrued interest on bills payable	**3,795,049**	1,240,330
Dividends payable (Note 17)	**10,097,266**	4,237,809
	251,323,152	212,743,071
Nonfinancial liabilities		
Accrued taxes	**7,805,158**	11,002,693
Withholding taxes payable	**7,418,324**	7,426,700
Retirement liability (Note 19)	**–**	206,838,924
	15,223,482	225,268,317
	₱266,546,634	₱438,011,388

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

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

16. Maturity Analysis of Assets and Liabilities

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

	2014			2013		
	Within one year	**Beyond one year**	**Total**	Within one year	Beyond one year	Total
Financial Assets						
Cash and other cash items	**₱65,451**	**₱–**	**₱65,451**	₱46,793	₱–	₱46,793
Due from BSP	**124,989**	**–**	**124,989**	73,783	–	73,783
Due from other banks	**587,746**	**–**	**587,746**	515,818	–	515,818
AFS investment	**–**	**139,524**	**139,524**	–	–	–
Loans and receivables	**4,467,326**	**19,902**	**4,487,228**	3,769,898	25,596	3,795,494
HTM investments	**55,577**	**203,289**	**258,866**	106,426	215,892	322,318
Security deposits	**–**	**13,094**	**13,094**	–	8,590	8,590
Nonfinancial Assets						
Investment in an associate	**–**	**42,165**	**42,165**	–	12,278	12,278
Property and equipment	**–**	**656,977**	**656,977**	–	488,482	488,482
Deferred tax asset	**–**	**42,463**	**42,463**	–	118,672	118,672
Intangibles	**–**	**9,563**	**9,563**	–	8,999	8,999
Retirement asset	**–**	**87,600**	**87,600**	–	–	–
Other assets	**40,522**	**23,223**	**63,745**	307	45,571	45,878
Total Assets	**5,341,611**	**1,237,800**	**6,579,411**	₱4,513,025	₱924,080	5,437,105
Less: Allowance for credit and impairment losses			**(179,014)**			(150,392)
Unearned interest			**(72)**			(26)
Accumulated depreciation and amortization			**(240,127)**			(195,068)
			₱6,160,198			₱5,091,619

	2014			2013		
	Within one year	**Beyond one year**	**Total**	Within one year	Beyond one year	Total
Financial liabilities						
Deposit liabilities	**₱3,375,762**	**₱144,138**	**₱3,519,900**	₱3,025,360	₱145,010	₱3,170,370
Bills payable	**881,955**	**–**	**881,955**	423,432	–	423,432
Other liabilities:						
Accrued expenses	**96,524**	**68,516**	**165,040**	55,218	64,146	119,364
Accounts payable	**47,315**	**–**	**47,315**	72,617	–	72,617
Accrued interest	**9,226**	**19,645**	**28,871**	5,395	11,129	16,524
Dividends payable	**10,097**	**–**	**10,097**	4,238	–	4,238
Nonfinancial liabilities						
Income tax payable	**61,984**	**–**	**61,984**	70,704	–	70,704
Other liabilities:						
Retirement liability	**–**	**–**	**–**	–	206,839	206,839
Accrued taxes	**7,805**	**–**	**7,805**	11,003	–	11,003
Withholding taxes payable	**7,419**	**–**	**7,419**	7,427	–	7,427
Total Liabilities	**₱4,498,087**	**₱232,299**	**₱4,730,386**	₱3,675,394	₱427,124	₱4,102,518

17. **Equity**

Capital Stock
As at December 31, 2014 and 2013, the Bank's capital stock consists of:

	2014		2013	
	Shares	**Amount**	Shares	Amount
Preferred stock - ₱200 par value, 2,500,000 authorized shares				
Issued and outstanding	**2,481,263**	**₱496,252,600**	2,104,170	₱420,834,000
Subscribed	**4,964**	**992,800**	2,366	473,200
Subscription receivable	**–**	**(307,000)**	–	(377,400)
	2,486,277	**₱496,938,400**	2,106,536	₱420,929,800
Common stock - ₱100 par value, 5,000,000 authorized shares				
Issued and outstanding	**3,205,465**	**₱320,546,500**	2,013,194	₱201,319,400
Subscribed	**1,794,535**	**179,453,500**	2,111,782	211,178,200
Subscription receivable	**–**	**(29,561,100)**	–	(51,054,100)
	5,000,000	**₱470,438,900**	4,124,976	₱361,443,500

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

In 2014, the Bank issued 0.4 million preferred shares at par amounting to a total of ₱74.9 million. Of this amount, ₱1.0 million represents preferred shares subscribed in 2013 and issued in 2014. In addition, the Bank received proceeds from subscriptions of common shares amounting to ₱22.4 million.

In 2013, the Bank's collections from subscriptions receivable on preferred and common shares amounted to ₱115.5 million and ₱8.5 million, respectively.

Dividend Declaration
On March 15, 2014, the BOD declared cash dividends of 8.0% and ₱19.0 per share to its preferred and common stockholders, respectively, and ₱21.0 per share stock dividends to its common stockholders. These were approved by the BSP on May 7, 2014. The cash dividends amounting to ₱112.8 million were paid on May 8, 2014 to preferred and common stockholders of record as at February 28, 2014. Stock dividends amounted to ₱86.6 million. Of this amount, ₱1,852 represented cash payments to fractional shareholders.

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

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

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

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.

In relation to the plan of the Bank to open more branches in 2015, the Bank planned to increase its capitalization from ₱1.0 billion to ₱2.0 billion, by increasing its authorized preferred and common stock by ₱0.5 billion each. The Bank has yet to apply for the increase in authorized capital stock as of the date of auditor's report.

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

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

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

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

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments. As of December 31, 2014 and 2013, the Bank was in compliance with the risk-based capital adequacy ratio (CAR).

Under BSP Circular No. 360, effective July 1, 2003, the CAR is to be inclusive of a market risk charge. As at December 31, 2014 and 2013, the Bank's CAR is in compliance with the regulatory requirement. The CAR of the Bank as at December 31, 2014 and 2013, as reported to the BSP, is shown in the table below (amounts in millions):

	2014	2013
Tier 1 capital	**₱780.6**	₱692.2
Tier 2 capital	**516.7**	445.3
Gross qualifying capital	**1,279.3**	1,137.5
Less required deductions	**–**	–
Total qualifying capital	**₱1,279.3**	₱1,137.5
Risk weighted assets	**₱4,865.1**	₱4,590.9
Tier 1 capital ratio	**16.0%**	15.1%
Total CAR	**26.3%**	24.8%

On October 9, 2014, the BSP issued BSP Circular No. 854 which amends the provisions of the Manual of Regulations for Banks (MORB) on the minimum capitalization of banks and on the prerequisites for the grant of authority to establish a branch. Under the circular, for a rural bank with head office located outside the National Capital Region, the required minimum capitalization shall be ₱80.0 million (a) upon establishment of a new bank, (b) upon conversion of an existing bank from a lower to a higher category and vice versa, (c) upon relocation of its head office in an area of higher classification and (d) when the majority of a rural bank's total assets and/or majority of its total liabilities are accounted for by branches located in areas of higher classification in the MORB's branching guidelines.

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

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

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

The Monetary Board recently approved 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, to replace BSP Circular No. 280 dated March 29, 2001, as amended, which is primarily based on Basel 1.

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

Financial Performance

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

	2014	2013
Return on average equity	**38.2%**	48.6%
Return on average assets	**8.2%**	8.8%
Net interest margin	**18.9%**	37.8%

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

18. Miscellaneous Income and Expenses

Miscellaneous income consists of:

	2014	2013
Loan fees and other charges	**₱5,037,999**	₱5,416,971
Recoveries of written-off account	**4,956,559**	4,173,990
Commission income	**687,269**	736,836
Gain on disposal of property and equipment	**683,562**	964,765
Grants and donations	**–**	25,495,980
Others (Note 20)	**3,191,259**	1,428,778
	₱14,556,648	₱38,217,320

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

Miscellaneous expense consists of the following:

	2014	2013
Calamity assistance	**₱21,750,365**	₱20,228,829
Scholarship allowance	**8,771,522**	13,892,447
Representation and entertainment	**6,353,192**	2,026,586
Advertising and promotions	**2,745,492**	2,148,765
Penalties and other service charges	**2,433,426**	1,704,418
Medical and other related expenses	**1,424,753**	1,355,533
Other donations and charitable expenses	**551,944**	74,674
Others	**830,681**	911,919
	₱44,861,375	₱42,343,171

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

19. **Retirement Benefits**

The Bank, CARD MRI Development Institute, Inc. (CMDI), CARD Mutual Benefit Association (MBA), Inc., CARD SME Bank, Inc. (formerly Rural Bank of Sto. Tomas, Inc.), CARD MRI Insurance Agency (CAMIA), Inc., CARD Business Development Service Foundation (BDSF), Inc., CARD MRI Information Technology, Inc. (CMIT), CARD Employees Multi-Purpose Cooperative (CEMPC), Responsible Investments for Solidarity and Empowerment Incorporated (RISE), BotiCARD Inc., CARD Leasing and Finance Co. (CLFC), RRBI, and CARD, Inc. maintain a funded and formal noncontributory defined benefit retirement plan - the CARD MRI Multi-Employer Retirement Plan (MERP) - covering all of their regular employees. MERP has a projected unit cost format and is financed solely by the Bank and its related parties. MERP complies with the requirement of Republic Act No. 7641 (Retirement Law). MERP provides lump sum benefits equivalent to 120.0% of final salary for every year of credited service, a fraction of at least six (6) months being considered as one whole year upon retirement, death, total and permanent disability, or early retirement after completion of at least one year of service with the participating companies.

Changes in net retirement liability in 2014 and 2013 are as follows:

2014

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

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

2013

		Net benefit cost in statement of income*					Remeasurements in other comprehensive income					
	January 1, 2013	Current service cost	Net interest	Subtotal	Transfer to the Plan	Benefits paid	Return on plan assets (excluding amount included in net interest)	Experience adjustments	Actuarial changes arising from changes in financial assumptions	Subtotal	Contribution by employer	December 31, 2013
Present value of defined benefit obligation	₱422,754,500	₱64,674,129	₱26,210,779	₱90,884,908	(₱2,724,181)	(₱806,864)	₱–	₱8,395,222	(₱22,635,216)	(₱14,239,994)	₱–	₱495,868,369
Fair value of plan assets	(187,856,470)	–	(14,854,408)	(14,854,408)	₱2,724,181	806,864	17,142,946	–	–	17,142,946	(106,992,558)	(289,029,445)
Net retirement liability (asset)	₱234,898,030	₱64,674,129	₱11,356,371	₱76,030,500	₱–	₱–	₱17,142,946	₱8,395,222	(₱22,635,216)	₱2,902,952	(₱106,992,558)	₱206,838,924

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

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

	2014	2013
Cash and other cash items	**₱144,920,894**	₱156,682,862
AFS investments:		
Debt securities - Government bonds	**169,079,599**	105,322,330
Equity securities	–	1,820,886
Loans and receivables	**40,861,205**	17,862,020
Mutual funds	**3,482,054**	3,988,606
Other assets	**10,252,065**	3,352,741
Fair value of plan assets	**₱368,595,817**	₱289,029,445

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

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

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

The cost of defined retirement plan as well as the present value of the defined benefit obligation is determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension for the defined benefit plans are shown below:

	2014	2013
Discount rates		
January 1	**6.4%**	6.2%
December 31	**4.5%**	6.4%
Future salary increases	**7.0%**	12.0%

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

	2014		2013	
	Increase (Decrease) in basis points	**Increase (Decrease) in present value of obligation**	Increase (Decrease) in basis points	Increase (Decrease) in present value of obligation
Discount rates	**+100 bps**	**(₱56,405,812)**	+250 bps	(₱223,272,407)
	-100 bps	**73,397,677**	-100 bps	141,203,544
Future salary increases	**+100 bps**	**67,635,996**	+250 bps	286,371,340
	-100 bps	**(53,736,392)**	-100 bps	(100,181,313)

The Bank plans to contribute ₱75.9 million to the defined benefit retirement plan in 2015.

The average duration of the defined benefit obligation at the end of the reporting period is 27.4 years.

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

	2014	2013
Less than 1 year	**₱5,026,050**	₱–
More than 1 year to 5 years	**6,040,832**	5,443,200
More than 5 years to 10 years	**5,372,871**	15,603,908
More than 10 years to 15 years	**21,770,477**	28,146,549
More than 15 years to 20 years	**125,233,966**	254,836,675
More than 20 years to 25 years	**720,760,832**	1,978,657,492
More than 25 years	**7,113,701,098**	25,181,481,388

20. Leases

As Lessee

Office spaces
The Bank leases the premises occupied by some of its branches in which lease payments are subjected to escalation clauses at 3.0% to 10.0% starting either on the 2nd or 3rd year of lease. The lease contracts are for the periods ranging from one to five years and are renewable upon mutual agreement between the Bank and the lessors.

Rent expense amounted to ₱47.3 million and ₱43.4 million in 2014 and 2013, respectively.

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

	2014	2013
Within one year	**₱5,070,321**	₱6,676,666
Beyond one year but not beyond five years	**6,149,311**	12,208,920
	₱11,219,632	₱18,885,586

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

Lease for transportation equipment was recorded under 'Operating lease' in 2014 and 'Transportation and travel' in 2013 amounted to ₱5.7 million and ₱1.3 million, respectively. Lease for IT equipment booked under 'Operating Lease' amounted to ₱3.3 million in 2014 and ₱0.7 million in 2013 under 'IT expense'.

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

	2014	2013
Within one year	**₱1,497,700**	₱1,135,200
Beyond one year but not beyond five years	–	–
	₱1,497,700	₱1,135,200

21. Income Taxes

Income taxes include corporate income tax, as discussed below, and final taxes paid at the rate of 20.0%, which is a final withholding tax on gross interest income from government securities and other deposit substitutes.

Current tax regulations provide that RCIT rate shall be 30.0%. It further states that nondeductible interest expense shall likewise be reduced to 33.0% of interest income subjected to final tax. The computation of the taxable income of the Bank already affected issued Revenue Regulations (RR) 4-2011 prescribing the proper allocation of costs and expenses amongst income earnings of banks and other financial institutions for income tax reporting purposes.

Starting July 1, 2008, the optional standard deduction equivalent to 40.0% of gross income may be claimed as an alternative deduction in computing for the RCIT.

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

	2014	2013
Current:		
RCIT	**₱148,581,476**	₱121,206,616
Final tax	**5,435,260**	5,596,006
	154,016,736	126,802,622
Deferred	**(13,635,100)**	(4,286,796)
	₱140,381,636	₱122,515,826

Components of net deferred tax assets are as follows:

	2014	2013
Deferred tax asset		
Allowance for credit and impairment losses	**₱53,704,085**	₱45,060,480
Accrued rent and vacation leave	**11,763,867**	8,478,864
Unamortized past service cost	**3,583,833**	2,976,734
Unrealized foreign exchange loss	**31,350**	104,049
Retirement liabilities	**–**	62,051,677
	69,083,135	118,671,804
Deferred tax liability		
Retirement asset	**(26,280,014)**	–
Unrealized gain on AFS investments	**(340,289)**	–
	(26,620,303)	–
	₱42,462,832	₱118,671,804

The income tax effect arising from retirement asset/liabilities recognized 2014 and 2013 in other comprehensive income amounted to ₱89.5 million and ₱0.9 million, respectively.

The income tax effect arising from unrealized gain on AFS investment recognized in statement of other comprehensive income amounted to ₱0.3 million and ₱0.1 in 2014 and 2013, respectively.

Unrecognized DTA on allowance for credit losses on other receivables amounted to nil and ₱57,132 in 2014 and 2013, respectively.

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

	2014	2013
Statutory income tax	**₱140,014,989**	₱122,569,106
Income tax effects of:		
Nondeductible interest expense and other expenses	**7,371,237**	2,944,799
Interest income subject to final tax	**(1,767,277)**	(1,549,084)
Nontaxable income	**(5,180,181)**	(1,448,995)
Movements in unrecognized deferred tax asset	**(57,132)**	–
Provision for income tax	**₱140,381,636**	₱122,515,826

22. Related Party Transactions

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

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

Transactions with retirement plans
Under PFRS, certain post-employment benefit plans are considered as related parties. CARD MRI's MERP is managed by the CARD Employee Multipurpose Cooperative (EMPC). The plan assets are invested in time deposits and special savings accounts and government bonds (see Note 19). As at December 31, 2014 and 2013, the retirement funds do not hold or trade the Bank's shares.

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

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

	2014	2013
Short-term employee benefits	**₱15.4**	₱13.3
Post employment benefits	**5.8**	6.4
	₱21.2	₱19.7

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

Other related party transactions

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

Loans receivables

As at December 31, 2014 and 2013, the Bank has no loan outstanding that was granted to related parties.

Deposit liabilities, accounts receivable and accounts payable

Deposit liabilities, accounts receivable and accounts payable held by the Bank for key management personnel, shareholder and other related parties as at December 31, 2014 and 2013 follow:

	December 31, 2014		
Category	**Amount/Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Key Management Personnel			
Deposit liabilities		**₱21,015,074**	These are checking and savings accounts with annual interest rates ranging from 1.5% to 4.5%.
Deposits	**₱198,207,657**		
Withdrawals	**(191,071,798)**		
Accounts receivable		**4,709,740**	These are salary loan granted to employees under fringe benefit program approved by BSP payable in either five or ten years.
Disburses of salary loan	**5,240,000**		
Collections	**(530,260)**		
Associate			
Accounts receivable		**₱–**	This amount represents the associate's share in expenses still payable to the Bank.
Share in expense	**₱28,352**		
Collections	**(28,352)**		
Accounts Payable		**–**	This amount represents the Bank's share in expenses still payable to the associate.
Share in expenses	**23,089**		
Remittance	**(23,089)**		
Shareholder			
Deposit liabilities		**₱205,705,667**	These are savings, checking, and time deposits maintained by shareholders to the Bank with annual interest rates ranging from 1.5% to 4.3%.
Deposits	**₱4,113,371,485**		
Withdrawals	**(4,203,401,156)**		
Accounts receivable		**389,077**	This amount represents the shareholders' share in expenses still payable to the Bank.
Share in expenses	**18,656,369**		
Collections	**(18,267,292)**		
Accounts Payable		**6,306,362**	This amount represents the Bank's share in expenses still payable to its shareholders.
Share in Expenses	**889,861,631**		
Remittances	**(896,167,992)**		
Other Related Parties			
Deposit liabilities		**₱93,831,849**	These are checking, savings, and time deposit accounts with annual interest rates ranging from 1.5% to 4.3%.
Deposits	**₱652,888,991**		
Withdrawals	**(609,759,856)**		
Accounts receivable		**648,447**	This amount represents other related parties' share in expenses still payable to the Bank.
Share in expenses	**2,842,909**		
Collections	**(2,194,462)**		

(Forward)

	December 31, 2014		
Category	**Amount/Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Accounts Payable		**₱2,030,169**	This amount represents the Bank's share in expenses still payable to its other related parties.
Share in Expenses	**₱14,180,618**		
Remittances	**(16,116,151)**		
Retirement Plan			
Deposit liabilities		**152,478,323**	These are checking, savings, and time deposit accounts with annual interest rates ranging from 1.5% to 4.3%.
Deposits	**325,810,048**		
Withdrawals	**(338,749,434)**		

	December 31, 2013		
Category	Amount/Volume	Outstanding Balance	Nature, Terms and Conditions
Key Management Personnel			
Deposit liabilities		₱13,879,215	These are savings accounts with annual interest rates ranging from 2.0% to 4.5%.
Deposits	₱156,688,194		
Withdrawals	(147,034,568)		
Accounts receivable		2,479,720	These are salary loan granted to employees under fringe benefit program approved by BSP payable in either five or ten years.
Disburses of salary loan	2,926,398		
Collections	(446,678)		
Associate			
Accounts receivable		₱–	These are benefits of transferred employees to RRB.
Share in expenses	₱63,289		
Collections	(63,289)		
Accounts payable		266,040	These are stockholders' giveaways and share in benefits of transferred CARD Bank employees to RRB.
Collections	266,040		
Remittances	–		
Shareholders			
Deposit liabilities		₱295,735,338	These are savings, checking, and time deposits maintained by shareholders to the Bank with annual interest rates ranging from 1.5% to 4.3%.
Deposits	₱2,095,079,843		
Withdrawals	(1,997,493,622)		
Accounts receivable		81,135	This amount represents the shareholders' share in expenses still payable to the Bank.
Share in expenses	5,375,014		
Collections	(5,439,055)		
Accounts Payable		18,694,979	This amount represents the Bank's share in expenses still payable to its shareholders.
Share in Expenses	820,557,192		
Remittances	(803,038,737)		
Other Related Parties			
Deposit liabilities		₱29,876,106	These are checking, savings, and time deposit accounts with annual interest rates ranging from 1.5% to 4.3%.
Deposits	₱511,706,315		
Withdrawals	-519,501,952		
Accounts receivable		16,898	This amount represents other related parties' share in expenses still payable to the Bank.
Share in expenses	559,544		
Collections	-546,844		
Accounts Payable		2,115,129	This amount represents the Bank's share in expenses still payable to its other related parties.
Share in Expenses	4,912,223		
Remittances	-4,406,423		
Retirement Plan			
Deposit liabilities		₱165,417,709	Savings accounts with annual interest rates ranging from 1.5% to 6.0%.
Deposits	₱535,548,148		
Withdrawals	(493,267,807)		

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

	2014	2013	Nature, Terms and Conditions
Statement of Financial Position			
Key management personnel			
Dividends paid	**₱32,488,723**	₱61,008,956	Relates to common and preference shares of the Bank held by key management personnel
Associate			
Deposit for future stock subscription	**20,000,000**	13,000,000	Pertains to other investments of the Bank in RRBI
Shareholders			
Subscription receivable	**–**	4,179,600	
Dividends paid	**70,132,602**	48,693,626	Pertains to dividends on common and preference shares of the Bank held buy its shareholders
Statement of Comprehensive Income			
Key management personnel			
Interest expense	**280,912**	351,770	Pertains to interest on savings accounts with annual rates ranging from 2.0% to 4.5%
Associate			
Equity in net earnings	**17,267,270**	3,724,192	
Share in other comprehensive loss	**3,764,808**	(2,195,824)	Pertains to the Bank's share in income and other comprehensive income of RRB
Shareholders			
Occupancy expense	**9,020,420**	4,329,020	Certain establishments and transportation and IT equipment are being by shareholders leased to the Bank. The lease contracts have a three-year term with no escalation clause
Interest expense	**–**	4,074,171	Pertains to interest on savings accounts with annual rates ranging from 1.5% to 4.3%
Other related parties			
Rent Income	**480,215**	17,850	An establishment owned by the Bank is being leased to CARD BDSF and BotiCARD. The lease contract has a one-year term with no escalation clause.
Interest expense	**1,835,422**	1,313,628	Pertains to interest on savings accounts with annual rates ranging from 1.5% to 4.3%
Seminars and Training	**29,320,790**	25,972,004	The Bank engaged CMDI for training and development of its members and employees (shown as part of 'Employee trainings' and 'Members training and development' in the statement of comprehensive income)
Information Technology	**962,898**	28,504,812	Pertains to the CMIT's rendered services in relation to system maintenance agreement and upgrade of the Bank's core banking system (CBS)
Retirement Plan			
Contributions	**75,867,516**	17,850	Pertains to the funded and formal noncontributory defined benefit retirement plan of the Bank that is handled by CARD MERP (see Note 19)
Interest expense	**5,255,524**	1,313,628	

Transitioned branches from CARD, Inc. to the Bank were 6 and 15 in 2014 and 2013, respectively. The BOD passed a resolution for the transition of the branches from CARD, Inc. after receipt of approval from the BSP to establish additional microfinance-oriented branches on May 13, 2014 with 21 branches to be opened within 3 years from date of approval.

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

In the aggregate, loans to DOSRI generally should not exceed total equity or 15.0% of total loan portfolio, whichever is lower. As at December 31, 2013 and 2012, the Bank is in compliance with the regulatory requirements.

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

As at December 31, 2014 and 2013, DOSRI accounts under the existing regulations are shown in the table below (as reported to BSP):

	2014	2013
Total outstanding DOSRI accounts	**₱68,450**	₱–
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**0.0%**	0.0%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	**0.0%**	0.0%
Percent of DOSRI accounts to total loans	**0.0%**	0.0%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**0.0%**	0.0%
Percent of past due DOSRI accounts to total DOSRI accounts	**0.0%**	0.0%
Percent of nonaccruing DOSRI accounts to total DOSRI accounts	**0.0%**	0.0%

23. Notes to Statements of Cash Flows

The following is the summary of noncash activities in 2014:

	2014	2013
Noncash operating activities:		
Net foreign currency exchange loss	**₱104,500**	₱253,927
Noncash investing activities:		
Reclassification of property and equipment items	**1,910,000**	1,333,500
Acquisition of land on account	**–**	2,000,000
Noncash financing activities:		
Transfer of deposit for future subscription to common stock	**–**	17,394,025
Transfer of deposit for future subscription to preferred stock	**–**	45,719,600

24. Approval for the Release of Financial Statements

The accompanying financial statements of the Bank were approved and authorized for issue by the BOD on March 21, 2015.

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

The components of 'Taxes and licenses' recognized in the statement of income for the year ended December 31, 2014, follow:

Gross receipt tax (GRT)	₱101,956,495
Business permits and licenses	4,653,190
Documentary stamp (DST)	509,285
Real property tax	579,211
Others	962,345
	₱108,660,526

GRT in 2014 consists of taxes on:

Interest income on loans	₱99,253,361
Other income	2,703,134
	₱101,956,495

DST in 2014 consists of taxes on special savings account.

Withholding taxes in 2014 are categorized into:

Paid:	
Withholding taxes on compensation and benefits	₱21,803,532
Final withholding tax on interest expense and dividends declared	25,207,126
Expanded withholding tax	8,403,442
	55,414,100
Accrued:	
Withholding taxes on compensation and benefits	3,239,887
Final withholding tax on interest expense and dividends declared	628,566
Expanded withholding tax	1,062,090
	4,930,543
	₱60,344,643

Tax Assessment and Cases

The Bank has no outstanding tax assessment and legal cases filed in courts as of December 31, 2014.

CARD Bank, Inc.
A microfinance-oriented Rural Bank
A member of CARD MRI

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