CARD Bank, Inc.

(A Microfinance-Oriented Rural Bank)

Financial Statements
December 31, 2017 and 2016

and

Independent Auditor's Report

C O V E R   S H E E T
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A	-	1	9	9	7	9	3	2	0

C O M P A N Y   N A M E

C A R D   B A N K ,   I N C . ,   (A   M i c r o f i n a n c e - O r i e n t e d   R u r a l   B a n k)

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

2 0   M .   L .   Q u e z o n   S t r e e t ,   C i t y   S u b d i v i s i o n ,   S a n   P a b l o   C i t y ,   L a g u n a

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS	CRMD	N/A

C O M P A N Y   I N F O R M A T I O N

Company's Email Address	Company's Telephone Number	Mobile Number
cb_hosanpablo@cardbankph.com	(049) 562-4309	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
130,504	March/30	December/31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Lourdes B. Dijan	odette.dijan@cardbankph.com	(049) 562-4309	0920-9484459

CONTACT PERSON's ADDRESS

20 M. L. Quezon Street, City Subdivision, San Pablo City, Laguna

NOTE 1 : *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

2 : *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
CARD Bank Inc. (A Microfinance-Oriented Rural Bank)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of CARD Bank, Inc. (A Microfinance-Oriented Rural Bank) (the Bank), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 25 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of CARD Bank, Inc. (A Microfinance-Oriented Rural Bank). The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ray Francis C. Balagtas
Partner
CPA Certificate No. 108795
SEC Accreditation No. 1510-A (Group A),
October 1, 2015, valid until September 30, 2018
Tax Identification No. 216-950-288
BIR Accreditation No. 08-001998-107-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 6621226, January 9, 2018, Makati City

April 18, 2018

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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
CARD Bank, Inc. (A Microfinance-Oriented Rural Bank)
20 M. L. Quezon Street, City Subdivision
San Pablo City, Laguna

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of CARD Bank, Inc. (A Microfinance-Oriented Rural Bank) (the Bank), which comprise the statements of financial position as of December 31, 2017 and 2016, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 25 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of CARD Bank, Inc. (A Microfinance-Oriented Rural Bank). The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ray Francis C. Balagtas
Partner
CPA Certificate No. 108795
SEC Accreditation No. 1510-A (Group A),
October 1, 2015, valid until September 30, 2018
Tax Identification No. 216-950-288
BIR Accreditation No. 08-001998-107-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 6621226, January 9, 2018, Makati City

April 18, 2018

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November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
CARD Bank, Inc. (A Microfinance-Oriented Rural Bank)
20 M. L. Quezon Street, City Subdivision
San Pablo City, Laguna

We have audited the financial statements of CARD Bank, Inc. (A Microfinance-Oriented Rural Bank) (the Bank) as of and for the years ended December 31, 2017 and 2016, on which we have rendered the attached report dated April 18, 2018.

In compliance with Securities Regulation Code Rule 68, As Amended (2011), we are stating that the Bank has one hundred twenty-three (123) stockholders owning one hundred (100) shares or more.

SYCIP GORRES VELAYO & CO.

Ray Francis C. Balagtas
Partner
CPA Certificate No. 108795
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November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULE

The Stockholders and the Board of Directors
CARD Bank, Inc. (A Microfinance-Oriented Rural Bank)
20 M. L. Quezon Street, City Subdivision
San Pablo City, Laguna

We have audited in accordance with Philippine Standards on Auditing, the financial statements of CARD Bank, Inc. (A Microfinance-Oriented Rural Bank) as at and for the years then ended December 31, 2017 and 2016 and have issued our report thereon dated April 18, 2018. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of all Philippine Financial Reporting Standards effective as at December 31, 2017 is the responsibility of the Bank's management. This schedule is presented for the purpose of complying with Securities Regulation Code Rule 68, As Amended (2011), and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ray Francis C. Balagtas
Partner
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October 1, 2015, valid until September 30, 2018
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PTR No. 6621226, January 9, 2018, Makati City

April 18, 2018

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

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2017	2016
ASSETS		
Cash and other cash items	**₱143,046,805**	₱146,860,868
Due from Bangko Sentral ng Pilipinas (Notes 6 and 13)	**256,064,797**	189,947,924
Due from other banks (Note 6)	**1,948,860,842**	1,734,571,649
Available-for-sale investments (Note 7)	**376,124,647**	231,231,531
Loans and receivables (Note 8)	**7,990,274,840**	6,398,359,567
Held-to-maturity investments (Note 9)	**246,475,260**	246,006,757
Investment in an associate (Note 10)	**246,812,578**	170,182,354
Property and equipment (Note 11)	**518,757,284**	555,237,686
Retirement asset (Note 19)	**252,154,652**	219,442,604
Deferred tax assets (Note 21)	**18,552,951**	32,670,711
Other assets (Note 12)	**151,572,020**	144,304,477
	₱12,148,696,676	₱10,068,816,128
LIABILITIES AND EQUITY		
Liabilities		
Deposit liabilities (Notes 13 and 22)		
Demand	**₱185,941,415**	₱63,086,029
Savings	**7,836,619,226**	5,906,098,779
	8,022,560,641	5,969,184,808
Bills payable (Note 14)	**910,974,768**	1,371,050,423
Income tax payable	**100,043,581**	98,458,483
Other liabilities (Note 15)	**352,640,029**	319,742,205
	9,386,219,019	7,758,435,919
Equity		
Capital stock (Note 17)		
Preferred stock	**681,763,800**	570,827,000
Common stock	**999,992,600**	543,185,700
	1,681,756,400	1,114,012,700
Surplus	**1,025,345,873**	1,192,135,303
Remeasurement gains on retirement liabilities (Note 19)	**60,238,093**	16,507,237
Share in other comprehensive income (loss) of an associate (Note 10)	**2,777,611**	(8,692,044)
Net unrealized losses on available-for-sale investments (Note 7)	**(7,640,320)**	(3,582,987)
	2,762,477,657	2,310,380,209
	₱12,148,696,676	₱10,068,816,128

See accompanying Notes to Financial Statements.

SGVFS030534

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

STATEMENTS OF INCOME

	Years Ended December 31	
	2017	2016
INTEREST INCOME ON		
Loans and receivables (Note 8)	**₱3,487,634,488**	₱2,898,808,240
Due from other banks (Note 6)	**29,254,191**	16,820,310
Investment securities (Notes 7 and 9)	**19,606,806**	16,885,910
	3,536,495,485	2,932,514,460
INTEREST EXPENSE ON		
Deposit liabilities (Notes 13 and 22)	**150,969,073**	111,203,343
Bills payable (Note 14)	**46,128,757**	46,855,651
	197,097,830	158,058,994
NET INTEREST INCOME	**3,339,397,655**	2,774,455,466
Miscellaneous (Note 18)	**14,460,885**	17,159,504
TOTAL OPERATING INCOME	**3,353,858,540**	2,791,614,970
OPERATING EXPENSES		
Compensation and benefits (Notes 19 and 22)	**1,065,535,236**	830,310,380
Transportation and travel	**196,816,601**	173,412,626
Taxes and licenses (Note 21)	**191,447,502**	161,363,925
Information and technology (Note 22)	**175,327,157**	84,027,093
Rent (Notes 20 and 22)	**144,166,947**	106,598,931
Depreciation and amortization (Note 11)	**107,826,908**	83,273,945
Stationery and office supplies	**101,227,269**	77,310,850
Security, messengerial and janitorial	**78,604,798**	53,290,164
Employee trainings (Note 22)	**64,946,032**	57,846,304
Postage, telephone and cable	**54,540,300**	46,268,539
Members training and development (Note 22)	**50,745,604**	40,166,483
Power, light and water	**33,014,091**	26,812,503
Management and other professional fees	**21,193,110**	19,853,865
Directors’ fee	**19,045,876**	18,867,698
Insurance	**17,022,878**	21,772,829
Seminars and meetings (Note 22)	**13,403,705**	12,074,164
Repairs and maintenance	**12,267,735**	8,881,824
Program monitoring and evaluation	**6,509,929**	7,247,955
Provision for credit losses (Note 8)	**771,917**	40,935,931
Miscellaneous (Notes 18 and 22)	**63,352,315**	47,579,047
	2,417,765,910	1,917,895,057
INCOME BEFORE SHARE IN NET INCOME OF AN ASSOCIATE	**936,092,630**	873,719,913
SHARE IN NET INCOME OF AN ASSOCIATE (Note 10)	**88,560,569**	63,917,586
INCOME BEFORE TAX	**1,024,653,199**	937,637,499
PROVISION FOR INCOME TAX (Note 21)	**283,057,923**	263,428,461
NET INCOME	**₱741,595,276**	₱674,209,038

See accompanying Notes to Financial Statements.

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

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2017	2016
NET INCOME	**₱741,595,276**	₱674,209,038
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that may not be classified to the statement of income:		
Remeasurement gains on retirement liabilities (Note 19)	**62,472,651**	9,300,096
Income tax effects (Note 21)	**(18,741,795)**	(2,790,028)
	43,730,856	6,510,068
Items that may be reclassified to the statement of income:		
Unrealized losses on available-for-sale investments (Note 7)	**(5,796,190)**	(3,921,608)
Income tax effects (Note 21)	**1,738,857**	1,176,482
	(4,057,333)	(2,745,126)
Share in other comprehensive income (loss) of an associate (Note 10)	**11,469,655**	(518,954)
	7,412,322	(3,264,080)
TOTAL COMPREHENSIVE INCOME	**₱792,738,454**	₱677,455,026

See accompanying Notes to Financial Statements.

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

STATEMENTS OF CHANGES IN EQUITY

	Preferred Stock (Note 17)	Common Stock (Note 17)	Surplus	Remeasurement Gains on Retirement Liabilities (Note 19)	Share in Other Comprehensive Income (Loss) of an Associate (Note 10)	Net Unrealized Losses on Available-for-sale Investments (Note 7)	Total
Balance at January 1, 2017	**₱570,827,000**	**₱543,185,700**	**₱1,192,135,303**	**₱16,507,237**	**(₱8,692,044)**	**(₱3,582,987)**	**₱2,310,380,209**
Total comprehensive income	**–**	**–**	**741,595,276**	**43,730,856**	**11,469,655**	**(4,057,333)**	**792,738,454**
Issuance of shares of stocks	**56,853,600**	**–**	**–**	**–**	**–**	**–**	**56,853,600**
Collection of subscription receivable (Note 23)	**54,083,200**	**81,814,300**	**–**	**–**	**–**	**–**	**135,897,500**
Stock dividends (Note 17)	**–**	**374,992,600**	**(374,992,600)**	**–**	**–**	**–**	**–**
Cash dividends (Note 17)	**–**	**–**	**(533,392,106)**	**–**	**–**	**–**	**(533,392,106)**
Balance at December 31, 2017	**₱681,763,800**	**₱999,992,600**	**₱1,025,345,873**	**₱60,238,093**	**₱2,777,611**	**(₱7,640,320)**	**₱2,762,477,657**
Balance at January 1, 2016	₱499,884,000	₱492,286,800	₱772,926,265	₱9,997,169	(₱8,173,090)	(₱837,861)	₱1,766,083,283
Total comprehensive income	–	–	674,209,038	6,510,068	(518,954)	(2,745,126)	677,455,026
Application of deposit for future stock subscription to issued shares	42,191,010	26,097,100	–	–	–	–	68,288,110
Collection of subscription receivable (Note 23)	28,751,990	24,801,800	–	–	–	–	53,553,790
Cash dividends	–	–	(255,000,000)	–	–	–	(255,000,000)
Balance at December 31, 2016	₱570,827,000	₱543,185,700	₱1,192,135,303	₱16,507,237	(₱8,692,044)	(₱3,582,987)	₱2,310,380,209

See accompanying Notes to Financial Statements.

SGVFS030534

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

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱1,024,653,199**	₱937,637,499
Adjustments for:		
Depreciation and amortization (Note 11)	**107,826,908**	83,273,945
Share in net income of an associate (Note 10)	**(88,560,569)**	(63,917,586)
Retirement expense (Note 19)	**29,760,603**	25,758,411
Amortization of transaction costs (Note 14)	**4,801,468**	5,069,709
Gain on disposal of property and equipment (Note 18)	**(1,598,854)**	(972,556)
Provision for credit losses (Note 8)	**771,917**	40,935,931
Amortization of net premium on available-for-sale investments (Note 7)	**691,740**	699,869
Amortization of net discount on held-to-maturity investments (Note 9)	**516,497**	1,651,028
Dividend received from unquoted equity security (Note 7)	**(141,540)**	–
Net unrealized gains on foreign exchange transactions	**(80,493)**	(260,171)
Operating income before changes in operating assets and liabilities:	**1,078,640,876**	1,029,876,079
Decrease (increase) in the amounts of:		
Loans and receivables	**(1,592,687,190)**	(1,115,041,717)
Other assets	**(8,187,670)**	22,797,150
Increase (decrease) in the amounts of:		
Deposit liabilities	**2,053,375,833**	1,456,418,236
Other liabilities	**(7,951,336)**	10,255,913
Net cash generated from operations	**1,523,190,513**	1,404,305,661
Income taxes paid	**(284,358,003)**	(259,336,169)
Contribution to retirement fund (Note 19)	–	(109,800,000)
Net cash provided by operating activities	**1,238,832,510**	1,035,169,492
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Available-for-sale investments	**(150,981,046)**	(99,344,795)
Property and equipment (Note 11)	**(75,196,919)**	(118,939,820)
Held-to-maturity investments (Note 9)	**(50,000,000)**	(72,934,670)
Software costs (Note 12)	**(2,869,954)**	–
Dividends received (Notes 7 and 10)	**48,141,540**	12,000,000
Additional investment in an associate (Notes 10 and 23)	**(25,000,000)**	(29,600,000)
Proceeds from:		
Maturity of held-to-maturity investments (Note 9)	**49,015,000**	63,497,281
Disposal of property and equipment (Note 11)	**9,239,349**	1,638,153
Net cash used in investing activities	**(197,652,030)**	(243,683,851)

(Forward)

	Years Ended December 31	
	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES		
Settlements of bills payable (Note 14)	**(₱963,160,000)**	(₱821,580,000)
Availments of bills payable (Note 14)	**498,282,877**	925,858,904
Proceeds from (Note 17):		
Collection of subscriptions receivable on common stock	**81,814,300**	24,801,800
Collection on issuance of preferred stock	**56,853,600**	–
Collection of subscriptions receivable on preferred stock	**54,083,200**	28,751,990
Dividends paid (Note 17)	**(492,542,947)**	(287,431,457)
Net cash used in financing activities	**(764,668,970)**	(129,598,763)
EFFECTS OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS	**80,493**	260,171
NET INCREASE IN CASH AND CASH EQUIVALENTS	**276,592,003**	662,147,049
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and other cash items	**146,860,868**	100,838,896
Due from Bangko Sentral ng Pilipinas	**189,947,924**	149,539,008
Due from other banks	**1,734,571,649**	1,158,855,488
	2,071,380,441	1,409,233,392
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and other cash items	**143,046,805**	146,860,868
Due from Bangko Sentral ng Pilipinas	**256,064,797**	189,947,924
Due from other banks	**1,948,860,842**	1,734,571,649
	₱2,347,972,444	₱2,071,380,441

OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS

	Years Ended December 31	
	2017	2016
Interest received	**₱3,453,540,896**	₱2,914,385,026
Interest paid	**139,519,723**	153,044,736

See accompanying Notes to Financial Statements.

1. Corporate Information

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

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

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

As at December 31, 2017 and 2016, the Bank is 37.48% and 29.6%-owned by CARD, Inc., respectively.

The Bank's executive office is located at 20 M. L. Quezon Street, City Subdivision, San Pablo City, Laguna. The head office is located at No. 35 P. Burgos, corner M. Paulino Street, San Pablo City, Laguna. As at December 31, 2017 and 2016, the Bank has 86 and 78 branches, respectively.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

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

Statement of Compliance

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

Presentation of Financial Statements
The statements of financial position of the Bank are presented in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 16.

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

The Bank has no offsetting arrangements with its counterparties.

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

Changes in Accounting Policies and Disclosures
The Bank applied certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2017. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and impact of the effect of these changes are disclosed below. Unless otherwise stated, these pronouncements applied for the first time in 2017 did not have material impact on the financial statements of the Bank.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard (*Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle)*

- Amendments to Philippine Accounting Standards (PAS 12), *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

- PAS 7, *Statement of Cash Flows, Disclosure Initiative*

  The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

  The Bank has provided the required information in Note 14 to the financial statements. As allowed under the transition provisions of the standard, the Bank did not present comparative information for the year ended December 31, 2016.

Foreign Currency Transactions and Translation
Transactions and balances
The books of accounts of the RBU are maintained in Philippine peso, the RBU's functional currency, while those of the FCDU are maintained in USD, the FCDU's functional currency. For financial reporting purposes, the foreign currency-denominated monetary assets and monetary liabilities in the RBU are translated in Philippine peso based on the Philippine Dealing System (PDS) closing rates prevailing at end of the year and foreign currency-denominated income and expenses based on the exchange rates at transaction dates. Foreign exchange differences arising from restatements of

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

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

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

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

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

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

The principal or the most advantageous market must be accessible to the Bank.
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

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

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

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, due from BSP and other banks that are highly liquid, readily convertible to known amounts of cash with original maturities of three months or less from dates of placements and which are subject to insignificant risk of changes in value. Due from BSP includes statutory reserves required by the Bank which the Bank considers as cash and cash equivalents as withdrawals can be made to meet the Bank's cash requirements as allowed by the BSP.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

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

Initial recognition of financial instruments

All financial instruments are initially recognized at fair value. Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial instruments includes transaction costs. Financial assets are classified, at initial recognition, as financial assets at FVPL, AFS investments, held-to-maturity (HTM) investments and loans and receivables. The classification 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 financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

As at December 31, 2017 and 2016, the Bank has no outstanding financial instruments at FVPL.

'Day 1' difference

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

In cases where the transaction price used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the 'Day 1' difference amount.

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

AFS investments
AFS investments are those which are designated as such or do not qualify to be classified as financial assets 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 quoted government debt securities and unquoted equity security.

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

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

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

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

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

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

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

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

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

When the Bank breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the reporting period and before the authorization of the financial statements for issue, not to demand payment as a consequence of the breach.

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

Derecognition of Financial Assets and Financial Liabilities
Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

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

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

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

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

Financial assets carried at amortized cost
For financial assets carried at amortized cost, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the statement of income under 'Provision for credit losses'. Interest income continues to be recognized based on the original EIR of the asset. The financial assets, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized.

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

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

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

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

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

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

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

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

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

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

Property and Equipment

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

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

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

Building	7 to 15 years
Furniture, fixtures and equipment	3 to 7 years
Leasehold improvements	3 years or the terms of the related leases, whichever is shorter
Land improvements	5 years
Transportation equipment	3 years

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

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

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

Intangible Assets

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

Intangible assets are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets is recognized in the statement of income in the expense category that is consistent with the function of the intangible assets.

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

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

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

Impairment of Nonfinancial Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Defined benefit costs comprise the following:
- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

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

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

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

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

Defined contribution plan
The Bank also operates defined contribution plan referred to as "Hybrid Plan" which provides a retirement benefit equal to 100% of the member's employer accumulated value, if any, provided that in no case shall 100% of the employee accumulated value in Fund A be less than 100% of plan salary for every year of credited service. As at December 31, 2017 and 2016, the Bank does not value its defined benefit assets (liability) for the contributions made to the Hybrid Plan.

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

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

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

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

<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; or
d. There is a substantial change to the asset.

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

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

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

Income Taxes

Current tax

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

Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that future taxable income will be available against which the deductible temporary differences and carryforward of unused excess MCIT over RCIT and unused NOLCO can be utilized. Deferred tax assets, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting income nor taxable income.

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

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

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

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

Provisions and Contingencies

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

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

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

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

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

Effective beginning on or after January 1, 2018
- Amendments to PFRS 2, *Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Applying PFRS 9, Financial Instruments, with PFRS 4*
- PFRS 15, *Revenue from Contracts with Customers*
- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2017 Cycle)
- Amendments to PAS 40, *Investment Property - Transfers of Investment Property*
- Philippine Interpretation IFRIC-22, Foreign Currency Transactions and Advance Consideration

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

Effective beginning on or after January 1, 2018
- PFRS 9, *Financial Instruments*
  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Bank plans to adopt the new standard on the mandatory effective date and will not restate comparative information.

  The Bank is currently assessing the impact of adopting PFRS 9.

(a) Classification and measurement

The adoption of PFRS 9 will have no impact on the classification and measurement of the Bank's financial assets and liabilities because the financial assets of the Bank will only be affected by loans and receivables which will be classified as amortized cost. The adoption will have effect on the Bank's allowance for credit losses. The Bank is currently assessing the impact of adopting the expected credit loss model.

(b) Impairment

PFRS 9 requires the Bank to record expected credit losses on all of its debt financial assets. The Bank plans to apply the simplified approach and to record lifetime expected losses on all trade receivables that do not contain significant financing component. For the Bank's debt securities and other receivables that will be measured at amortized cost, the general approach for measuring expected credit losses is required to be applied. Thus, credit losses for these financial assets will be measured either on 12-month or lifetime basis depending on the extent of the deterioration of their credit quality. The adoption will have an impact on the Bank's amount of provisioning based on the new requirements of the expected credit loss model. The Bank is currently quantifying the impact of the change in measuring credit losses.

(c) Hedge accounting

The Bank has no existing hedge relationships that are currently designated in effective hedging relationships under PAS 39. Hence, the hedging requirements of PFRS 9 will not have a significant impact on the Bank's financial statements

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

- PFRS 16, *Leases*

  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

  PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

  Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

  The Bank is currently assessing the impact of adopting PFRS 16.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

Deferred effectivity
- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

3. Significant Accounting Judgments and Estimates

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

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

Estimates

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

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

As at December 31, 2017 and 2016, the carrying values of loans and receivables and related allowance for credit losses are disclosed in Note 8.

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

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

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

As at December 31, 2017 and 2016, the present value of retirement obligation and fair value of plan assets of the Bank are disclosed in Note 19.

As at December 31, 2017 and 2016, management assessed that there are no significant accounting judgments exercised with respect to the preparation of the financial statements.

4. **Fair Value Measurement**

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

Unquoted debt classified as loans (UDSCL)
The fair value of UDSCL is estimated based on the discounted cash flow methodology, using current incremental lending rates for similar types of loans or instruments of 2.4% in 2017.

As at December 31, 2016, the fair value of UDSCL with a carrying amount of ₱56.5 million approximates its fair value due to short-term maturity of this instrument.

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

Noncurrent portion of deposit liabilities and bills payable
Fair values of noncurrent deposit liabilities are estimated using the discounted cash flow methodology, using the Bank’s current incremental borrowing rates for similar borrowings, ranging from 3.9% to 4.1% and 2.3% to 3.9% in 2017 and 2016, respectively, with maturities consistent with those remaining for the liability being valued, if any.

Fair values of long-term bills payable were based on interpolation of Philippine zero rate of 4.7% and 3.7% in 2017 and 2016, respectively.

Fair Value Hierarchy
The following table summarizes the carrying amounts and the fair values by level of the fair value hierarchy of the Bank's financial assets and liabilities that are carried at fair value or for which fair value is disclosed as at December 31, 2017 and 2016 (amounts in thousands):

	2017				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements					
AFS investments	**₱375,725**	**₱243,645**	**₱132,080**	**₱–**	**₱375,725**
Assets and liabilities for which fair values are disclosed:					
Financial assets					
HTM investments	**246,475**	**–**	**238,834**	**–**	**238,834**
Loans and receivables					
Unquoted debt securities classified as loans (UDSCL)	**73,008**	**–**	**–**	**66,890**	**66,890**
Receivables from borrowers	**51,695**	**–**	**–**	**30,513**	**30,513**
Financial liabilities					
Bills payable	**412,549**	**–**	**–**	**434,855**	**434,855**
Deposit liabilities					
Special savings	**5,938**	**–**	**–**	**5,883**	**5,883**

	2016				
	Carrying Value	Level 1	Level 2	Level 3	Total
Recurring fair value measurements					
AFS investments	₱231,232	₱157,771	₱73,461	₱–	₱231,232
Assets and liabilities for which fair values are disclosed:					
Financial assets					
HTM investments	246,007	–	251,015	–	251,015
Loans and receivables					
Receivables from borrowers	35,891	–	–	30,214	30,214
Financial liabilities					
Bills payable	452,636	–	–	542,024	542,024
Deposit liabilities					
Special savings	25	–	–	25	25

As at December 31, 2017 and 2016, there were no transfers of financial instruments between Levels 1, 2, and 3.

5. Financial Risk Management Objectives and Policies

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

- Credit risk
- Market risk
- Liquidity risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Maximum exposure to credit risk
The carrying values of the financial assets and liabilities best represent the maximum exposure to credit risk. The table below shows the analysis of the maximum exposure to risk, net of allowance for credit losses, for financial assets as at December 31, 2017 and 2016:

	2017			
	Maximum Exposure*	**Fair Value of Collateral**	**Financial Effect of Collateral**	**Net Exposure**
Receivables from borrowers	**₱7,774,674,230**	**₱5,218,558,209**	**₱1,910,065,050**	**₱2,556,116,021**

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

	2016			
	Maximum Exposure*	**Fair Value of Collateral**	**Financial Effect of Collateral**	**Net Exposure**
Receivables from borrowers	₱6,307,606,208	₱3,836,586,607	₱734,503,465	₱2,490,646,237

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

Credit enhancement on receivable from borrowers pertains to deposit hold-out from pledge savings equivalent to 15.0% of the original amount of the loan to the member, deed of assignment, and real estate mortgage as at December 31,2017 and 2016 (Note 13).
As at December 31, 2017 and 2016, the Bank has no financial assets with rights to offset in accordance with PAS 32. There are also no financial assets that are subject to an enforceable master netting arrangements or similar agreements which require disclosure in the financial statements in accordance with the offsetting disclosure requirements of PFRS 7.

Additionally, the tables below show the distribution of maximum credit exposure by industry sector of the Bank as at December 31, 2017 and 2016 (in thousands):

	2017				
	Loans and Receivables*	**AFS Investments**	**HTM Investments**	**Security Deposits****	**Total**
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	**₱3,842,544**	**₱–**	**₱–**	**₱–**	**₱3,842,544**
Agriculture, hunting and forestry	**1,906,106**	**–**	**–**	**–**	**1,906,106**
Financial institutions	**1,519,870**	**–**	**–**	**–**	**1,519,870**
Government	**859,736**	**375,725**	**246,475**	**–**	**1,481,936**
Other community, social and personal service activities	**858,505**	**–**	**–**	**39,259**	**897,764**
Real estate, renting and business activities	**604,685**	**–**	**–**	**–**	**604,685**
Fishing	**444,864**	**–**	**–**	**–**	**444,864**
Health and social work	**162,488**	**–**	**–**	**–**	**162,488**
Education	**143,666**	**–**	**–**	**–**	**143,666**
Manufacturing	**109,558**	**–**	**–**	**–**	**109,558**
	10,452,022	**375,725**	**246,475**	**39,259**	**11,113,481**
Less allowance for credit losses	**256,822**	**–**	**–**	**–**	**256,822**
Total	**₱10,195,200**	**₱375,725**	**₱246,475**	**₱39,259**	**₱10,856,659**

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

	2016				
	Loans and Receivables*	AFS Investments	HTM Investments	Security Deposits**	Total
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	₱5,786,233	₱–	₱–	₱–	₱5,786,233
Agriculture, hunting and forestry	15,588	–	–	–	15,588
Financial institutions	1,837,377	–	–	–	1,837,377
Government	195,443	231,232	246,007	–	672,682
Other community, social and personal service activities	4,281	–	–	–	4,281
Real estate, renting and business activities	163,047	–	–	33,931	196,873
Fishing	390,578	–	–	–	390,578
Health and social work	59	–	–	–	59
Education	180,345	–	–	–	180,345
Manufacturing	16,581	–	–	–	16,581
	8,589,532	231,232	246,007	33,931	9,100,597
Less allowance for credit losses	266,653	–	–	–	266,653
Total	₱8,322,879	₱231,232	₱246,007	₱33,931	₱8,833,944

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

Credit quality per class of financial assets
The table below shows the credit quality per class of financial assets (gross of allowance for credit and impairment losses) as at December 31, 2017 and 2016:

	2017				
	Neither past due nor impaired				
	High grade	**Standard grade**	**Past due but not impaired**	**Impaired**	**Total**
Due from BSP	**₱256,064,797**	**₱–**	**₱–**	**₱–**	**₱256,064,797**
Due from other banks	**1,947,508,226**	**1,352,616**	**–**	**–**	**1,948,860,842**
AFS investments	**375,724,647**	**–**	**–**	**–**	**375,724,647**
Receivable from borrowers					
Microfinance loans	**–**	**6,399,099,789**	**14,638,337**	**132,932,885**	**6,546,671,011**
Other loans	**–**	**1,387,009,351**	**4,494,075**	**12,433,725**	**1,403,937,151**
Other receivables:					
UDSCL	**66,890,331**	**95,820,423**	**–**	**–**	**162,710,754**
Accrued interest receivable	**9,242,485**	**120,746,473**	**–**	**–**	**129,988,958**
Accounts receivable	**–**	**3,789,081**	**–**	**–**	**3,789,081**
HTM investments	**246,475,260**	**–**	**–**	**–**	**246,475,260**
Security deposits	**–**	**39,259,267**	**–**	**–**	**39,259,267**
	₱2,901,905,746	**₱8,047,077,000**	**₱19,132,412**	**₱145,366,610**	**₱11,113,481,768**

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

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, 2017 and 2016, 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, 2017 and 2016:

	2017			
	Less than 30 Days	**31 to 60 Days**	**61 to 90 Days**	**Total**
Microfinance	**₱6,814,526**	**₱3,077,634**	**₱4,746,177**	**₱14,638,337**
Regular	**910,889**	**302,277**	**1,070,204**	**2,283,370**
Agri-agra	**2,101,752**	**44,501**	**64,452**	**2,210,705**
	₱9,827,167	**₱3,424,412**	**₱5,880,833**	**₱19,132,412**

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

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, 2017 and 2016, the Bank's outstanding restructured receivables tagged as impaired account amounted ₱0.3 million.

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

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

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

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

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

	2017					
	On Demand	**Less than 30 days**	**30 to 90 days**	**91 to 360 days**	**More than 360 days**	**Total**
Financial Assets						
Cash and other cash items	**₱143,047**	**₱–**	**₱–**	**₱–**	**₱–**	**₱143,047**
Due from BSP	**256,065**	**–**	**–**	**–**	**–**	**256,065**
Due from other banks	**310,431**	**–**	**1,009,331**	**629,099**	**–**	**1,948,861**
AFS investments		**119**	**3,570**	**19,683**	**652,220**	**675,592**
Loans and receivables						
Microfinance	**6,657,696**	**8,916**	**7,933**	**47,713**	**87,572**	**6,809,830**
Others	**1,128,414**	**911**	**1,372**	**4,921**	**5,160**	**1,140,778**
Total Financial Assets	**8,495,653**	**9,946**	**1,022,206**	**701,416**	**744,952**	**10,974,173**
Financial Liabilities						
Deposit liabilities						
Demand	**185,941**	**–**	**–**	**–**	**–**	**185,941**
Savings	**6,589,166**	**247,244**	**399,694**	**600,514**	**0**	**7,836,618**
Bills payable	**-**	**139,617**	**64,195**	**412,485**	**381,198**	**997,495**
Other liabilities	**291,655**	**–**	**–**	**–**	**–**	**291,655**
Total Financial Liabilities	**7,066,762**	**386,861**	**463,889**	**1,012,999**	**381,198**	**9,311,709**
Net	**₱1,428,891**	**(₱376,915)**	**₱558,317**	**(₱311,583)**	**₱363,754**	**₱1,662,464**

	2016					
	On Demand	Less than 30 days	30 to 90 days	91 to 360 days	More than 360 days	Total
Financial Assets						
Cash and other cash items	₱146,861	₱–	₱–	₱–	₱–	₱146,861
Due from BSP	189,948	–	–	–	–	189,948
Due from other banks	649,169	1,085,403	–	–	–	1,734,572
AFS investments	–	212	3,281	5,191	272,490	281,174
Loans and receivables						
Microfinance	5,350,600	1,309	8,935	26,720	107,431	5,494,995
Others	969,454	671	1,187	2,982	990,117	1,964,411
Total Financial Assets	7,306,032	1,087,755	13,403	34,893	1,370,038	9,811,961
Financial Liabilities						
Deposit liabilities						
Demand	63,086	–	–	–	–	63,086
Savings	4,917,338	186,131	144,255	266,184	392,191	5,906,099
Bills payable	–	49,972	226,338	682,473	501,397	1,460,180
Other liabilities	250,337	–	–	–	–	250,337
Total Financial Liabilities	5,230,761	236,103	370,593	948,657	893,588	7,679,702
Net	₱2,075,271	₱851,492	(₱357,190)	(₱913,764)	(476,450)	2,132,259

Market Risk

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

Interest rate risk

The Bank's receivables earn fixed interest rates ranging from 6.0% to 28.0% per annum with equivalent EIR ranging from 16.0% to 52.0% and 16.0% to 53.0% in 2017 and 2016, respectively. The shortest term of loan is one (1) month while the longest term is twelve (12) years.

The Bank's savings deposit liabilities include compulsory and voluntary savings that earn 0.3% to 6.0% per annum in 2017 and 2016. Special savings deposits have interest rates of 2.0% to 4.3% in 2017 and 2016.

The Bank pays fixed interest rates on its bills payables from 3.0% to 6.5% per annum in 2017 and 2016, and payable within 6 months to 7 years and 1 year to 7 years in 2017 and 2016, respectively.

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

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

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

	Changes in interest rates (in basis points)			
	2017		2016	
	+10.0	**-10.0**	+10.0	-10.0
Sensitivity of equity	**(₱368,154)**	**₱383,542**	₱230,828)	₱231,398

Cash flow interest rate risk
The exposure to cash flow interest rate risk results primarily from financial instruments which carry floating interest rates that are reset as market rates changes. As at December 31, 2017 and 2016, the Bank has no AFS investments, HTM investments, and financial liabilities that have floating interest rates, therefore no exposure to cash flow interest risk.

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

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

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

The Bank's policy is to maintain foreign currency exposure within existing regulations and within acceptable risk limits. The Bank believes in ensuring its foreign currency exposure is, at all times, within limits presented for a financial institution engaged in the type of business in which the Bank is engaged in. As at December 31, 2017 and 2016, the Bank has no significant foreign currency exposure since its transactions and balances in FCDU are only minimal.

6. **Due from BSP and Other Banks**

'Due from BSP' account represents the aggregate balance of noninterest-bearing peso deposit account with the BSP which the Bank maintains primarily to meet reserve requirements and to serve as a clearing account for interbank claims (Note 13).
Due from other banks represent funds deposited with domestic banks which are used as part of the Bank's operating funds.

As at December 31, 2017 and 2016, due from other banks include dollar-denominated deposits amounting to $0.2 million (₱11.2 million) and $0.2 million (₱11.4 million), respectively.

Peso-denominated deposits pertain to demand, savings, and time deposit accounts that earn interest at annual rates ranging from nil to 2.3% and nil to 1.8% in 2017 and 2016, respectively. Dollar-denominated deposits earn interest at annual rates ranging from 0.1% to 0.3% in 2017 and 2016.

Total interest income earned on deposits from other banks amounted to ₱29.3 million and ₱16.8 million in 2017 and 2016, respectively. Of these amounts, ₱15,675 and ₱13,548 pertain to interest income from USD deposits in 2017 and 2016, respectively.

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

This account consists of:

	2017	2016
Quoted government debt securities	**₱375,724,647**	₱231,231,531
Unquoted equity security	**400,000**	–
	₱376,124,647	₱231,231,531

AFS quoted debt securities are government debt securities that earn nominal interest rates ranging from 3.5% to 5.4% and 3.5% to 4.8% in 2017 and 2016, respectively. Effective interest rates range from 3.4% to 3.8% and 3.4% to 4.9% on 2017 and 2016, respectively.

Unquoted equity security represents the Bank's 10.7% ownership for interest in MIDAS Corporation. As of December 31, 2017, the Bank received dividend income from MIDAS Corporation amounting to ₱0.1 million.

Interest income on AFS investments amounted to ₱10.0 million and ₱6.2 million in 2017 and 2016, respectively. Amortized premium on AFS investments amounted to ₱0.7 million in 2017 and 2016.

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

	2017	2016
Balance at January 1	**(₱3,582,987)**	(₱837,861)
Fair value changes during the year	**(5,796,190)**	(3,921,608)
Income tax effects	**1,738,857**	1,176,482
	(4,057,333)	(2,745,126)
Balance at December 31	**(₱7,640,320)**	(₱3,582,987)

8. Loans and Receivables

This account consists of:

	2017	2016
Receivables from borrowers		
Microfinance loans* (Note 14)	**₱6,546,671,011**	₱5,494,994,697
Regular loans	**1,140,473,418**	809,070,590
Agricultural-agrarian loans	**263,158,574**	172,785,180
Restructured loans	**305,159**	348,807
	7,950,608,162	6,477,199,274
Other receivables:		
UDSCL	**162,710,754**	56,475,387
Accrued interest receivable	**129,988,958**	96,295,366
Accounts receivable (Note 22)	**3,789,081**	35,042,547
	8,247,096,955	6,665,012,574
Less allowance for credit losses	**256,822,115**	266,653,007
	₱7,990,274,840	₱6,398,359,567

**Include microfinance loans used to secure bills payable amounting to ₱1.2 billion and ₱1.7 billion as at December 31, 2017 and 2016, respectively.*

Regular loans include salary loans granted to the Bank's employees and officers and government and schools employees amounting to ₱31.6 million and ₱36.5 million as at December 31, 2017 and 2016, respectively, and earning fixed annual interest rates ranging from 6.0% to 28.0% in 2017 and in 2016 (see Note 22).

Interest income on receivables from borrowers amounted to ₱3.5 billion and ₱2.9 billion in 2017 and 2016, respectively. Receivables from borrowers earn interest with effective interest rates ranging from 33.5% to 57.9% in 2017 and 2016. Nominal interest rates of these receivables ranges from 16.0% to 53% and 16.0% to 52.0% in 2017 and 2016, respectively.

Unquoted debt securities classified as loans

As at December 31, 2017 and 2016, UDSCL consists of short-term non-negotiable Micro, Small and Medium Enterprise (MSME) notes issued by Small Business Corporation and long-term certificates of Agrarian Reform (AR) bonds issued by the National Government.

As at December 31, 2017 and 2016, MSME notes amounted to ₱95.8 million and ₱56.5 million, respectively, with a term of one (1) to five (5) years and one (1) year, respectively. These notes bear annual interest rates ranging from 1.8% to 2.5% and 1.2% to 1.7% in 2017 and 2016, respectively. Income earned from this account amounted to ₱1.7 million and ₱0.9 million in 2017 and 2016, respectively.

The AR bonds, which were acquired in 2017, bear annual interest rates based on the 91-day Treasury bill and is subject to repricing. Interest income on investments in AR bonds amounted to ₱0.9 million and amortized discount amounted to ₱0.3 million in 2017.

These instruments are acquired in compliance with the requirements set by Republic Act 9501 that lending institutions or any party otherwise required to make a mandatory allocation of credit resources to MSMEs, shall be deemed as compliance with the mandated loan portfolio allocation percentage.

BSP Reporting
In accordance with BSP regulations, the Bank considers a loan as part of portfolio-at-risk (PAR) when an installment payment that is past due for one day. As at December 31, 2017 and 2016, the Bank's PAR amounted to ₱164.5 million and ₱157.1 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 microfinance loans, past due/PAR accounts are considered as NPLs.

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

As at December 31, 2017 and 2016, based on the revised definition of NPLs under Circular No. 772, NPLs of ₱15.1 million and ₱12.1 million which the Bank reported to the BSP are net of specific allowance amounting to ₱149.4 million and ₱145.0 million, respectively.

The following table shows the secured and unsecured portions of receivables from borrowers as at December 31, 2017 and 2016:

	2017		2016	
	Amount	**%**	**Amount**	**%**
Secured portion				
Deposit hold-out (Note 13)	**₱7,918,454,441**	**99.6%**	₱6,440,315,413	99.4%
Deed of assignment	**3,974,232**	**0.1%**	3,756,486	0.1%
Real estate mortgage	**1,325,941**	–	1,328,939	–
Unsecured portion	**26,853,548**	**0.3%**	31,798,706	0.5%
	₱7,950,608,162	**100.0%**	₱6,477,199,274	100.0%

As at December 31, 2017 and 2016, information on the concentration of gross loans and receivables as to industry follows (amounts in thousands):

	2017		2016	
	Amount	**%**	Amount	%
Wholesale and retail trade	**3,842,544**	**46.6%**	₱4,669,538	70.1%
Agriculture, hunting and forestry	**1,906,106**	**23.1%**	1,542,520	23.1%
Other community, social and personal service activities	**858,505**	**10.4%**	13,885	0.2%
Real estate renting and business activities	**604,685**	**7.3%**	104,897	1.6%
Fishing	**444,864**	**5.4%**	36,492	0.5%
Health and social work	**162,488**	**2.0%**	4,385	0.1%
Education	**143,666**	**1.8%**	180,345	2.7%
Manufacturing	**109,558**	**1.3%**	16,581	0.2%
Financial institutions	**101,069**	**1.2%**	90,874	1.4%
Government	**73,612**	**0.9%**	5,495	0.1%
	₱8,247,097	**100.0%**	₱6,665,012	100.0%

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

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

	2017	2016
Balance at beginning of year	**₱265,888,432**	₱224,967,208
Provision for credit losses	–	40,935,931
Accounts written-off	**(10,590,721)**	(14,707)
Balance at end of year	**₱255,297,711**	₱265,888,432
Individual impairment	**₱145,366,610**	₱145,043,906
Collective impairment	**109,931,101**	120,844,526
Total allowance for credit losses	**₱255,297,711**	₱265,888,432
Gross amounts of loans individually determined to be impaired, before deducting any individually assessed impairment losses	**₱145,366,610**	₱145,043,906

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

	2017	2016
Balance at beginning of year	**₱764,575**	₱767,237
Provision for credit losses	**771,917**	–
Accounts written-off	**(12,088)**	(2,662)
Balance at end of year	**₱1,524,404**	₱764,575

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

9. Held-to-Maturity Investments

This account represents investments in quoted government debt securities bearing fixed annual interest rates ranging from 3.3% to 5.8% and 3.3% to 7.0% in 2017 and 2016, respectively and EIR ranging from 3.1% to 5.8% in 2017 and 2016.

The terms of these investments range from 3 to 10 years in 2017 and 2016.

The rollforward analysis of this account follows:

	2017	2016
Face Value		
Balance at beginning of year	**₱246,954,000**	₱236,427,281
Acquisitions	**50,000,000**	74,024,000
Maturities	**(49,015,000)**	(63,497,281)
Balance at end of year	**247,939,000**	246,954,000
Net Discount		
Balance at beginning of year	**(947,243)**	1,793,115
Acquisitions	**–**	(1,089,330)
Amortization	**(516,497)**	(1,651,028)
Balance at end of year	**(1,463,740)**	(947,243)
Carrying Value	**₱246,475,260**	₱246,006,757

Interest income earned from HTM investments amounted to ₱9.6 million and ₱10.7 million in 2017 and 2016, respectively.

10. Investment in an Associate

This account consists of:

	2017	2016
Acquisition cost		
Balance at beginning of year	**₱83,350,000**	₱83,350,000
Additional investments during the year (Notes 15 and 23)	**25,000,000**	–
	108,350,000	83,350,000
Accumulated equity in net earnings		
Balance at beginning of year	**117,524,398**	53,606,812
Share in net income of an associate	**88,560,569**	63,917,586
	206,084,967	117,524,398
Accumulated equity in other comprehensive income (loss)		
Balance at beginning of year	**(8,692,044)**	(8,173,090)
Share in other comprehensive income (loss) of an associate	**11,469,655**	(518,954)
	2,777,611	(8,692,044)
Dividends		
Balance at beginning of year	**(22,400,000)**	(10,400,000)
Dividends	**(48,000,000)**	(12,000,000)
	(70,400,000)	(22,400,000)
Investment in Rizal Bank, Inc.	**246,812,578**	169,782,354
Advances to an associate	–	400,000
	₱246,812,578	₱170,182,354

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

On May 14, 2016, RBI's BOD and stockholders approved and ratified the increase in the authorized capital stock from ₱250.0 million to ₱500.0 million.

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

	2017	2016
Current assets	**₱2,532.4**	₱1,773.1
Noncurrent assets	**191.7**	116.7
Current liabilities	**1,938.7**	1,448.9
Noncurrent liabilities	**211.5**	6.1
Revenue	**753.6**	517.1
Expenses	**525.2**	357.3
Net income	**228.4**	159.8
Other comprehensive income (loss)	**8.2**	(1.3)
Total comprehensive income	**236.6**	158.5

As at December 31, 2017 and 2016, there were no agreements entered into by the Bank and RBI that may restrict dividends and other capital distributions to be paid and the Bank has no share on commitments and contingencies of RBI.

11. Property and Equipment

The composition of and movements in this account follow:

	Land	**Building**	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Land Improvements**	**Transportation Equipment**	**Construction in Progress**	**Total**
Cost								
Balance at beginning of year	**₱205,109,592**	**₱305,966,266**	**₱296,971,235**	**₱94,517,515**	**₱3,747,000**	**₱25,603,780**	**₱–**	**₱931,915,388**
Additions	**–**	**2,628,503**	**38,429,228**	**5,391,161**	**750,000**	**–**	**27,998,027**	**75,196,919**
Disposals	**(7,447,161)**	**–**	**(740,244)**	**–**	**–**	**(3,484,021)**	**–**	**(11,671,426)**
Reclassification (Note 12)	**–**	**601,000**	**(3,625,000)**	**19,735,375**	**1,682,149**	**–**	**(22,018,524)**	**(3,625,000)**
Balance at end of year	**197,662,431**	**309,195,769**	**331,035,219**	**119,644,051**	**6,179,149**	**22,119,759**	**5,979,503**	**991,815,881**
Accumulated Depreciation and Amortization								
Balance at beginning of year	**–**	**95,442,166**	**199,016,353**	**55,583,903**	**1,041,350**	**25,593,931**	**–**	**376,677,703**
Depreciation and amortization	**–**	**39,065,566**	**46,645,093**	**13,740,731**	**951,627**	**8,808**	**–**	**100,411,825**
Disposals	**–**	**–**	**(546,910)**	**–**	**–**	**(3,484,021)**	**–**	**(4,030,931)**
Balance at end of year	**–**	**134,507,732**	**245,114,536**	**69,324,634**	**1,992,977**	**22,118,718**	**–**	**473,058,597**
Net Book Value		**₱ 174,688,037**	**₱85,920,683**	**₱ 50,319,417**	**₱4,186,172**	**₱1,041**	**₱5,979,503**	**₱518,757,284**

	Land	Building	Furniture, Fixtures and Equipment	Leasehold Improvements	Land Improvements	Transportation Equipment	Construction in Progress	Total
Cost								
Balance at beginning of year	₱203,941,985	₱167,298,804	₱258,649,251	₱66,237,797	₱3,066,000	₱31,889,451	₱89,060,351	₱820,143,639
Additions	1,167,607	2,470,746	39,194,383	14,896,738	681,000	–	60,529,346	118,939,820
Disposals	–	–	(872,399)	(10,001)	–	(6,285,671)	–	(7,168,071)
Reclassification	–	136,196,716	–	13,392,981	–	–	(149,589,697)	–
Balance at end of year	205,109,592	305,966,266	296,971,235	94,517,515	3,747,000	25,603,780	–	931,915,388
Accumulated Depreciation and Amortization								
Balance at beginning of year	–	62,087,263	157,156,962	48,832,022	394,100	31,814,666	–	300,285,013
Depreciation and amortization	–	33,354,903	42,076,205	6,751,881	647,250	64,925	–	82,895,164
Disposals	–	–	(216,814)	–	–	(6,285,660)	–	(6,502,474)
Balance at end of year	–	95,442,166	199,016,353	55,583,903	1,041,350	25,593,931	–	376,677,703
Net Book Value	₱205,109,592	₱210,524,100	₱97,954,882	₱38,933,612	₱2,705,650	₱9,849	₱–	₱555,237,686

Depreciation and amortization presented in the statements of income follow:

	2017	2016
Property and equipment	**₱100,411,825**	₱82,895,164
Intangible assets (Note 12)	**7,415,083**	378,781
	₱107,826,908	₱83,273,945

Cost of fully depreciated assets still in use as at December 31, 2017 and 2016 amounted to ₱251.54 million and ₱191.18 million, respectively.

In 2017, the Bank reclassified its property and equipment amounting to ₱3.63 million to ‘Others’ under ‘Other Assets’ as the management determined that the asset is not used in the normal business operations.

12. Other Assets

This account consists of:

	2017	2016
Financial assets		
Security deposits	**₱39,259,267**	₱33,931,692
Nonfinancial assets		
Stationeries and supplies	**67,758,467**	57,225,989
Intangible assets	**29,568,269**	34,113,398
Prepaid expenses	**10,410,034**	18,630,506
Others (Note 11)	**4,575,983**	402,892
	112,312,753	110,372,785
	₱151,572,020	₱144,304,477

Security deposits pertain to refundable deposits on the Bank’s leased office spaces, and staff house premises and leased IT equipment with CLFC.

Intangible assets include purchased licenses and softwares.

The movements of intangible assets follow:

	2017	2016
Cost		
Balance at beginning of year	**₱38,146,566**	₱38,146,566
Additions	**2,869,954**	–
Balance at end of year	**41,016,520**	38,146,566
Accumulated Amortization		
Balance at beginning of year	**4,033,168**	3,654,387
Amortization (Note 11)	**7,415,083**	378,781
Balance at end of year	**11,448,251**	4,033,168
Net Book Value	**₱29,568,269**	₱34,113,398

13. **Deposit Liabilities**

The Bank's savings deposit liabilities include pledge savings amounting to ₱5.2 billion and ₱3.8 billion as at December 31, 2017 and 2016, respectively. These represent the aggregate compulsory savings of ₱50.0 per week collected from each member and earn an annual interest rate of 2.0% in 2017 and 2016. Under an assignment agreement, the pledge savings balances serve as security for loans granted by the Bank to its members. Pledge savings equivalent to 15.0% of the loan proceeds serves as guarantee fund of the outstanding loan receivable from members.

Savings deposits include regular and special savings deposit. Regular savings deposits include "Kayang-kaya", "Tagumpay", "Maagap", "Matapat" and "Dollar" savings. These savings accounts bear annual fixed interest rates ranging from 0.3% to 6.0% in 2017 and 2016. Special savings deposits include "Tiwala" savings with annual interest rates ranging from 2.0% to 4.3% in 2017 and 2016. Interest expense on deposit liabilities amounted to ₱151.0 million and ₱111.2 million in 2017 and 2016, respectively.

BSP Circular No. 830 requires reserves against deposit liabilities. As at December 31, 2017 and 2016, due from BSP amounting to ₱256.1 million and ₱189.9 million, respectively, were set aside as reserves for deposit liabilities per latest report submitted by the Bank to the BSP. As at December 31, 2017 and 2016, the Bank is in compliance with such regulation.

14. **Bills Payable**

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

	2017	2016
Face Value		
Balance at beginning of year	**₱1,378,420,000**	₱1,270,000,000
Availments	**500,000,000**	930,000,000
Principal payments	**(963,160,000)**	(821,580,000)
Balance at end of year	**915,260,000**	1,378,420,000
Unamortized Transaction Costs		
Balance at beginning of year	**(7,369,577)**	(8,298,190)
Availments	**(1,717,123)**	(4,141,096)
Amortization	**4,801,468**	5,069,709
Balance at end of year	**(4,285,232)**	(7,369,577)
Carrying Value	**₱910,974,768**	₱1,371,050,423

<u>Local banks</u>
Bills payable of ₱498.7 million and ₱876.8 million as at December 31, 2017 and 2016, respectively, pertain to promissory notes obtained from various local banks for working capital requirements with a tenor of six (6) months to one (1) year and one (1) year in 2017 and 2016, respectively, and annual interest rates ranging from 3.0% to 3.3% and 3.0% to 3.5% in 2017 and 2016, respectively.

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

As at December 31, 2017 and 2016, carrying value of the Loan amounted to ₱412.3 million and ₱494.3 million, respectively.

Borrowings from IFC contain the following embedded derivatives:

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

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

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

a. Negative covenants

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

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

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

b. Financial covenants

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

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

The period of compliance with the above covenants commenced on March 31, 2016. As at December 31, 2017 and 2016, the Bank is in compliance with the above covenants.

Receivable from borrowers amounting to ₱1.2 billion and ₱1.7 billion secure the above borrowings as at December 31, 2017 and 2016, respectively (Note 8).

The Bank has undrawn credit line amounting to ₱1.5 billion and ₱920.0 million in 2017 and 2016, respectively.

Changes in liabilities arising from financing activities

	January 1, 2017	Cash flows	Amortization	December 31, 2017
Bills payable	₱1,371,050,423	(464,877,123)	4,801,468	₱910,974,768

Interest expense recognized in the statements of income amounted to ₱46.1 million and ₱46.9 million in 2017 and 2016, respectively. Unpaid interest as at December 31, 2017 and 2016 amounted to ₱2.9 million and ₱3.4 million, respectively, is presented under ‘Accrued expense’ (Note 15).

15. Other Liabilities

This account consists of:

	2017	2016
Financial liabilities		
Accrued expenses	**₱133,513,008**	₱128,691,223
Accrued interest on deposit liabilities (Note 22)	**58,036,558**	46,587,208
Dividends payable (Note 17)	**50,454,716**	9,605,557
Accounts payable (Note 22)	**45,565,115**	60,865,619
Accured interest on bills payable (Note 14)	**2,885,135**	3,436,245
Refundable deposits	**1,200,818**	1,151,318
	291,655,350	250,337,170
Nonfinancial liabilities		
Accured vacation leaves	**26,967,522**	45,278,430
Accrued taxes	**18,825,945**	13,065,424
Withholding taxes payable	**15,191,212**	11,061,181
	60,984,679	69,405,035
	₱352,640,029	₱319,742,205

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

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

16. Maturity Analysis of Assets and Liabilities

The following table presents the Bank's assets and liabilities as at December 31, 2017 and 2016 analyzed according to when they are expected to be recovered or settled within one year and beyond one year from respective reporting date (in thousands):

	2017			2016		
	Within one year	**Beyond one year**	**Total**	Within one year	Beyond one year	Total
Financial Assets						
Cash and other cash items	**₱143,047**	**₱–**	**₱143,047**	₱146,861	₱–	₱146,861
Due from BSP	**256,065**	**–**	**256,065**	189,948	–	189,948
Due from other banks	**1,948,861**	**–**	**1,948,861**	1,734,572	–	1,734,572
AFS investments	**–**	**376,125**	**376,125**	–	231,231	231,231
Loans and receivables	**8,193,604**	**53,493**	**8,247,097**	6,629,122	35,891	6,665,013
HTM investments	**27,312**	**219,163**	**246,475**	49,318	196,689	246,007
Security deposits	**–**	**39,259**	**39,259**	–	33,932	33,932
Nonfinancial Assets						
Investment in an associate	**–**	**246,813**	**246,813**	–	170,182	170,182
Property and equipment	**–**	**991,816**	**991,816**	–	931,915	931,915
Retirement asset	**–**	**252,155**	**252,155**	–	219,443	219,443
Deferred tax assets	**–**	**18,553**	**18,553**	–	32,671	32,671
Other assets	**82,744**	**41,017**	**123,761**	76,258	38,147	114,405
Total Assets	**₱10,651,633**	**₱2,238,394**	**12,890,027**	₱8,826,079	₱1,890,101	10,716,180
Less: Allowance for credit losses			**256,823**			266,653
Accumulated depreciation and amortization			**484,507**			380,711
			₱12,148,697			₱10,068,816

	2017			2016		
	Within one year	**Beyond one year**	**Total**	Within one year	Beyond one year	Total
Financial liabilities						
Deposit liabilities	**₱8,016,622**	**₱5,938**	**₱8,022,560**	₱5,969,160	₱25	₱5,969,185
Bills payable	**534,062**	**381,198**	**915,260**	888,129	490,291	1,378,420
Other liabilities:						
Accrued expenses	**131,600**	**1,913**	**133,513**	56,621	72,072	128,693
Accounts payable	**45,565**	**–**	**45,565**	60,866	–	60,866
Accrued interest	**60,922**	**–**	**60,922**	50,023	–	50,023
Dividends payable	**50,455**	**–**	**50,455**	9,606	–	9,606
Refundable deposits	**–**	**1,201**	**1,201**	–	1,151	1,151
Nonfinancial liabilities						
Income tax payable	**100,044**	**–**	**100,044**	98,458	–	98,458
Other liabilities:						
Accrued vacation leaves	**2,895**	**24,072**	**26,967**	9,804	35,474	45,278
Accrued taxes	**18,826**	**–**	**18,826**	13,065	–	13,065
Withholding taxes payable	**15,191**	**–**	**15,191**	11,061	–	11,061
Total Liabilities	**₱8,976,182**	**₱414,322**	**₱9,390,504**	₱7,166,793	₱599,013	7,765,806
Less: Unamortized discount on bills payable			**4,285**			7,370
			₱9,386,219			₱7,758,436

17. Equity

Capital Stock

As at December 31, 2017 and 2016, the Bank's capital stock consists of:

	2017		2016	
	Shares	**Amount**	Shares	Amount
Preferred stock - ₱200 par value, 5,000,000 authorized shares				
Issued and outstanding				
Beginning of year	**2,850,706**	**₱570,141,200**	2,495,991	₱499,198,200
Application of deposit for future stock subscription to issued shares	**–**	**–**	210,955	42,191,010
Issuance of shares of stocks	**284,268**	**56,853,600**	–	–
Issuance of shares of stocks from settlement of subscriptions receivables	**270,416**	**54,083,200**	143,760	28,751,990
Preferred stock at the end of the year	**3,407,428**	**681,078,000**	2,850,706	570,141,200
Subscribed	**2,980**	**596,000**	274,294	54,858,800
Subscription receivable	**(449)**	**(89,800)**	–	(54,173,000)
	3,408,819	**₱681,763,800**	3,125,000	₱570,827,000
Common stock - ₱100 par value, 10,000,000 authorized shares				
Issued and outstanding				
Beginning of year	**3,932,933**	**₱393,293,300**	3,423,944	₱342,394,400
Application of deposit for future stock subscription to issued shares	**–**	**–**	260,971	26,097,100
Issuance of shares of stocks from settlement of subscriptions receivables	**818,143**	**81,814,300**	248,018	24,801,800
Stock dividends	**3,749,926**	**374,992,600**	–	–
Common stock at the end of the year	**8,501,200**	**850,100,200**	3,932,933	393,293,300
Subscribed	**1,498,924**	**149,892,400**	2,317,067	231,706,700
Subscription receivable	**–**	**–**	–	(81,814,300)
	9,999,926	**₱999,992,600**	6,250,0000	₱543,185,700

Preferred has the following features: (a) 8.0% cumulative dividends, (b) non-participating, and (c) non-redeemable. As at December 31, 2017 and 2016, cumulative dividends amounted to ₱204.5 million and ₱45.7 million, respectively.

Deposit for Future Stock Subscriptions (DFS)
On January 17, 2015, the BOD and the stockholders approved and ratified the increase in the Bank's capitalization from ₱1.0 billion to ₱2.0 billion by increasing its authorized preferred and common stock by ₱0.5 billion each.

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

Dividend Declaration
Cash and stock dividends
On March 17, 2017, the BOD declared and approved cash dividends of 20.0% and ₱30.0 per share to its preferred and common stockholders, respectively, and ₱30.0 per share of stock dividends to its common stockholders of record as at February 28, 2017. Cash dividends declared amounting to ₱312.5 million were paid starting March 21, 2017 to preferred and common stockholders of record as at February 28, 2017.

On August 28, 2017, the BOD declared and approved another cash dividends of 8.0% and ₱12.0 per share to its preferred and common stockholders, respectively. Cash dividends declared amounting to ₱149.9 million were paid starting September 6, 2017 to preferred and common stockholders.

On September 16, 2017, the BOD declared and approved stock dividends of ₱8.0 per share to all common stockholders of record as at July 31, 2017.

On December 15, 2017, the BOD declared approved another cash dividend of 4.0% and ₱5.0 per share to its preferred and common stockholders, respectively and ₱ 14.0 per share stock dividend to its common stockholders of record as at November 30, 2017. Cash dividends declared amounting to ₱71.0 million were paid starting December 19, 2017 to preferred and common stockholders.

Subsequent Event
On March 17, 2018, the BOD declared cash dividends of 12.0% and ₱15.0 per share to its preferred and common stockholders, respectively, to stockholders of record as at February 28, 2018.

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

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

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

Regulatory Qualifying Capital
Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's unimpaired capital (regulatory capital) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRS in some aspects. The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BSP guidelines. As at December 31, 2017 and 2016, the Bank was in compliance with the risk-based capital adequacy ratio (CAR).

BSP Circular No. 688, Revised Risk-Based Capital Adequacy Framework for stand-alone thrift banks, rural banks and cooperative banks which took effect on January 1, 2012 represents BSP's commitment to align existing prudential regulations with international standards consistent with the BSP's goal of promoting the soundness and stability of individual banks and of the banking system as a whole. BSP Circular No. 688 replaced BSP Circular No. 280 which is primarily based on Basel 1.

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

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

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

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

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

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

The CAR of the Bank as at December 31, 2017 and 2016, as reported to the BSP, is shown in the table below (amounts in millions):

	2017	2016
Tier 1 capital	**₱1,857.0**	₱1,501.1
Tier 2 capital	**664.0**	598.9
Total qualifying capital	**₱2,521.0**	₱2,100.0
Risk weighted assets	**₱9,938.7**	₱8,186.0
Tier 1 capital ratio	**18.7%**	18.3%
Tier 2 capital ratio	**6.7%**	7.3%
Total CAR	**25.4%**	25.6%

As at December 31, 2017 and 2016, the Bank's CAR is in compliance with the regulatory requirements.

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

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

	2017	2016
Return on average equity	**29.5%**	33.1%
Return on average assets	**6.7%**	7.4%
Net interest margin	**34.8%**	35.9%

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:

	2017	2016
Deposit-related fees and other charges	**₱4,059,606**	₱9,147,297
Rental income	**3,925,669**	1,868,857
Recoveries of written-off account	**1,952,286**	2,501,032
Gain on disposal of property and equipment	**1,598,854**	972,556
Commission income	**520,058**	504,470
Others (Note 22)	**2,404,412**	2,165,292
	₱14,460,885	₱17,159,504

Others include service charges on remittances and insurance claims for transportation equipment.

Miscellaneous expense consists of the following:

	2017	2016
Other donations and charitable expenses (Note 22)	**₱35,167,542**	₱5,368,203
Medical and other related expenses	**5,878,653**	4,936,027
Representation and entertainment (Note 21)	**1,463,967**	10,497,637
Advertising and promotions	**1,202,123**	530,595
Penalties and other service charges	**27,800**	115,333
Scholarship allowance	**–**	10,039,762
Others	**19,612,230**	16,091,490
	₱63,352,315	₱47,579,047

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., CARD MRI Insurance Agency (CAMIA), Inc., CARD Business Development Service Foundation, Inc. (BDSFI), Inc., CARD MRI Information Technology, Inc. (CMIT), CARD Employees Multi-Purpose Cooperative (EMPC), Responsible Investments for Solidarity and Empowerment Financing Co. (RISE), BotiCARD Inc., CARD Leasing and Finance Corporation (CLFC), RBI, CARD, Inc. and Mga Likha ni Inay Inc. (MLNI), maintain a funded and formal noncontributory defined benefit retirement plan - the CARD MRI Multi-Employer Retirement Plan (MERP) - covering all of their regular employees and CARD Group Employees' Retirement Plan (Hybrid Plan) applicable to employees hired on or after July 1, 2016. MERP and Hybrid Plan comply with the requirements of Republic Act No. 7641 (Retirement Pay Law).

MERP is valued using the projected unit cost method and is financed solely by the Bank and its related parties. MERP provides lump sum benefits equivalent to up to 120% of final salary for every year of credited service, a fraction of at least six (6) months being considered as one whole year, upon retirement, death, total and permanent disability, or voluntary separation after completion of at least one year of service with the participating companies.

The date of the latest actuarial valuation report for MERP is December 31, 2017.

Changes in net retirement asset in 2017 and 2016 are as follows:

2017

	January 1	**Current service cost**	**Net interest**	**Subtotal**	**Transfer to the plan**	**Benefits paid**	**Return on plan assets (excluding amount included in net interest)**	**Experience adjustments**	**Actuarial changes arising from changes in demographic assumptions**	**Actuarial changes arising from changes in financial assumptions**	**Effect of asset ceiling**	**Subtotal**	**Contribution by employer**	**December 31**
		Net benefit cost in statement of income*					**Remeasurements in other comprehensive income**							
Fair value of plan assets	**₱583,343,108**	**₱–**	**₱34,089,950**	**₱34,089,950**	**₱1,062,050**	**(₱4,268,752)**	**(₱8,546,093)**	**₱–**	**₱–**	**₱–**	**₱–**	**(₱8,546,093)**	**₱-**	**₱605,680,263**
Present value of defined benefit obligation	**(318,789,148)**	**(42,525,984)**	**(18,681,044)**	**(61,207,028)**	**(1,062,050)**	**4,268,752**	**–**	**4,671,804**	**4,033,813**	**95,876,319**	**–**	**104,581,936**	**–**	**(272,207,538)**
Effect of asset ceiling	**(45,111,356)**	**–**	**(2,643,525)**	**(2,643,525)**	**–**	**–**	**–**	**–**	**–**	**–**	**(33,563,192)**	**(33,563,192)**	**–**	**(81,318,073)**
Net retirement liability (asset)	**₱219,442,604**	**(₱42,525,984)**	**₱12,765,381**	**(₱29,760,603)**	**₱–**	**₱–**	**(₱8,546,093)**	**₱4,671,804**	**₱4,033,813**	**₱95,876,319**	**(₱33,563,192)**	**₱62,472,651**	**₱-**	**₱252,154,652**

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

2016

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

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

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

	2017	2016
Cash and other cash items	**₱249,600,836**	₱242,320,727
Government securities	**307,503,870**	286,071,460
Mutual funds	**2,846,697**	3,033,384
Loans and receivables	**37,915,585**	44,042,405
Other assets	**7,813,275**	7,875,132
Fair value of plan assets	**₱605,680,263**	₱583,343,108

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

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

The 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:

	2017	2016
Discount rates		
January 1	**5.9%**	4.9%
December 31	**5.8%**	5.9%
Future salary increases	**5.0%**	7.0%

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

	2017		2016	
	+100	**-100**	+100	-100
Discount rates	**(₱39,186,527)**	**₱48,887,008**	(₱53,054,545)	₱67,296,507
Future salary increases	**45,814,926**	**(37,623,845)**	62,237,615	(50,484,796)

As at December 31, 2017, the average duration of defined benefit obligations is 16.2.

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

	2017	2016
Less than 1 year	**₱–**	**₱–**
More than 1 year to 5 years	**5,761,914**	**5,761,914**
More than 5 years to 10 years	**11,898,767**	**11,898,767**
More than 10 years to 15 years	**34,730,275**	**34,730,275**
More than 15 years to 20 years	**286,691,639**	**286,691639**
More than 20 years to 25 years	**963,765,857**	**963,765,857**
More than 25 years	**11,032,199,741**	**11,032,199,741**

20. **Leases**

Office spaces and staff house
The Bank leases the premises occupied by some of its branches in which lease payments are subjected to escalation clauses at 5.0% to 10.0% starting either on the second or third year of lease. The lease contracts are for the periods ranging from one (1) to ten (10) years and are renewable upon mutual agreement between the Bank and the lessors.

Lease expense presented under 'Rent' in the statements of income amounted to ₱96.1 million and ₱74.2 million in 2017 and 2016, respectively.

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

	2017	2016
Within one year	**₱82,829,275**	₱57,396,647
Beyond one year but not beyond five years	**88,643,017**	89,368,956
	₱171,472,292	₱146,765,603

Transportation and IT equipment
The Bank leases transportation and IT equipment from CLFC. The lease contracts have a term of eighteen (18) months to twenty-four (24) months and eighteen months in 2017 and 2016, respectively.

Lease for transportation equipment recorded under 'Rent' in 2017 and 2016 amounted to ₱29.0 million and ₱21.4 million, respectively. Lease for IT equipment recorded under 'Rent' amounted to ₱19.1 million and ₱11.0 million in 2017 and 2016, respectively.

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

	2017	2016
Within one year	**₱36,235,737**	₱13,560,700
Beyond one year but not beyond five years	**6,930,727**	2,459,400
	₱43,166,464	₱16,020,100

21. **Income Taxes**

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

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

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

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

An optional standard deduction (OSD) equivalent to 40.0% of gross income may be claimed as an alternative deduction in computing for the RCIT. For the 2017 and 2016 RCIT computation, the Bank elected to claim itemized expense deductions instead of the OSD.

Current tax regulations also provide for the ceiling on the amount of entertainment, amusement and recreation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense is limited to the actual EAR paid or incurred but not to exceed 1.0% of the Bank's net revenue. The regulations also provide for MCIT of 2.0% on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Bank's income tax liability and taxable income, respectively, over a three-year period from the year of inception.

Provision for income tax consists of:

	2017	2016
Current:		
RCIT	**₱276,377,354**	₱244,647,386
Final tax	**9,565,747**	7,037,757
	285,943,101	251,685,143
Deferred	**(2,885,178)**	11,743,318
	₱283,057,923	₱263,428,461

Components of net deferred tax assets are as follows:

	2017	2016
Deferred tax asset		
Allowance for credit and impairment losses	**₱77,046,635**	₱79,995,902
Accrued rent and vacation leave	**11,572,373**	14,135,244
Unamortized past service cost	**2,330,064**	2,914,831
Unrealized loss on AFS investments	**3,274,423**	1,535,566
	94,223,495	98,581,543
Deferred tax liability		
Retirement asset	**(75,646,396)**	(65,832,781)
Unrealized foreign exchange gain	**(24,148)**	(78,051)
	(75,670,544)	(65,910,832)
	₱18,552,951	₱32,670,711

The income tax effect arising from retirement asset recognized in 2017 and 2016 in other comprehensive income amounted to a provision of ₱18.7 million and ₱2.8 million, respectively.

The income tax effect arising from unrealized losses on AFS investment recognized in statements of other comprehensive income amounted to a benefit of ₱1.7 million and ₱1.2 million in 2017 and 2016, respectively.

As at December 31, 2017 and 2016, the Bank has no unrecognized deferred tax assets.

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

	2017	2016
Statutory income tax	**₱307,395,960**	₱281,291,250
Income tax effects of:		
Nontaxable income	**(26,615,160)**	(19,179,332)
Nondeductible interest expense and other expenses	**6,637,540**	4,386,596
Interest income subject to final tax	**(4,271,253)**	(3,070,053)
Provision for income tax	**₱283,147,087**	₱263,428,461

22. **Related Party Transactions**

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

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

Transactions with Retirement Plans

Under PFRS, certain post-employment benefit plans are considered as related parties. CARD-MRI's MERP is a stand-alone entity assigned in facilitating the contributions to retirement starting 2015. The plan assets are mostly invested in time deposits and special savings of related party banks and government bonds (Note 19). As of December 31, 2017 and 2016, the retirement funds do not hold or trade the Bank's shares of stock.

Remunerations of Key Management Personnel

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

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

	2017	2016
Short-term employee benefits	**₱23.2**	₱39.1
Post-employment benefits	**12.5**	2.4
	₱35.7	₱41.5

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

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

Deposit liabilities, accounts receivable, accounts payable and miscellaneous income
Deposit liabilities, accounts receivable, accounts payable and miscellaneous income held by the Bank for key management personnel, shareholder and other related parties as at December 31, 2017 and 2016 follow:

	December 31, 2017		
Category	**Amount/Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Key Management Personnel			
Deposit liabilities		**₱159,174,940**	These are demand and savings accounts with annual interest rates ranging from 1.5% to 6.0%.
Deposits	**₱152,834,836**		
Withdrawals	**34,529,407**		
Shareholders*			
Deposit liabilities		**383,781,007**	These are demand and savings accounts maintained by shareholders with the Bank with annual interest rates ranging from nil to 4.3%.
Deposits	**1,712,227,947**		
Withdrawals	**1,441,205,187**		
Accounts receivable		**1,151,575**	This amount represents the shareholders' share in expenses still payable to the Bank.
Share in expenses	**5,788,440**		
Collections	**5,641,780**		
Accounts payable		**8,610,919**	This amount represents the Bank's share in expenses still payable to its shareholders.
Share in expenses	**14,422,079**		
Remittances	**6,131,270**		
Other Related Parties**			
Deposit liabilities		**748,631,891**	These are demand and savings accounts with annual interest rates ranging from nil to 4.3%
Deposits	**1,639,485,167**		
Withdrawals	**1,003,611,523**		
Accounts receivable		**145,995**	This amount represents other related parties' share in expenses still payable to the Bank.
Share in expenses	**4,059,920**		
Collections	**3,934,470**		
Accounts payable		**4,114,511**	This amount represents the Bank's share in expenses still payable to its other related parties.
Share in expenses	**42,153,103**		
Remittances	**39,109,665**		

**Include transactions with CARD EMPC, CARD MBA and CARD Inc.*
***Include transactions with BotiCARD CARD SME, CMIT, CMDI, CLFC, MLNI, CAMI, BDSF, CMPH, CPMI, CMPIand CMHT*

	December 31, 2016		
Category	Amount/Volume	Outstanding Balance	Nature, Terms and Conditions
Key Management Personnel			
Deposit liabilities		₱40,869,511	These are demand and savings accounts with annual interest rates ranging from nil to 4.5%.
Deposits	₱276,876,218		
Withdrawals	(257,021,781)		
Shareholders*			
Deposit liabilities		210,493,859	These are demand and savings accounts maintained by shareholders with the Bank with annual interest rates ranging from nil to 4.3%.
Deposits	3,162,468,809		
Withdrawals	(3,157,680,617)		
Accounts receivable		1,004,915	This amount represents the shareholders' share in expenses still payable to the Bank.
Share in expenses	10,424,969		
Collections	(9,809,131)		
Accounts payable		320,110	This amount represents the Bank's share in expenses still payable to its shareholders.
Share in expenses	17,004,934		
Remittances	(22,991,186)		
Other Related Parties**			
Deposit liabilities		112,758,247	These are demand and savings accounts with annual interest rates ranging from nil to 4.3%
Deposits	743,870,024		
Withdrawals	(724,943,626)		
Accounts receivable		20,545	This amount represents other related parties' share in expenses still payable to the Bank.
Share in expenses	17,135,516		
Collections	(17,763,418)		
Accounts payable		1,071,073	This amount represents the Bank's share in expenses still payable to its other related parties.
Share in expenses	173,035,090		
Remittances	(173,994,186)		

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

Others

Other related party transactions of the Bank are as follows:

	2017	2016	Nature, Terms and Conditions
Statement of Financial Position			
Key management personnel			
Dividends paid	**₱35,021,956**	₱30,063,450	Relates to common and preference shares of the Bank held by key management personnel
Associate			
Additional investments	**25,000,000**	–	Pertains to additional investments of the Bank in RBI
Shareholders*			
Dividends paid	**184,600,000**	89,195,867	Pertains to dividends on common and preference shares of the Bank held by its shareholders
Dividends payable	**50,454,716**	9,605,557	Pertains to unpaid dividends on common and preference shares of the Bank held by its shareholders
Statement of Comprehensive Income			
Key management personnel			
Interest expense	**256,112**	313,409	Pertains to interest on demand and savings accounts with annual rates ranging from nil to 4.5%
Associate			
Miscellaneous income	**180,000**	180,000	Pertains to management fee income for services to RBI regarding compliance tasks
Dividends received	**48,000,000**	12,000,000	Pertains to income received by the Bank from RBI as an associate
Shareholders*			
Rent	**8,588,133**	6,986,708	Certain establishments are being owned by shareholders leased to the Bank. The lease contracts have a three-year term with no escalation clause and five to six-year term with escalation clause of 10% every after 2 years.
Interest expense	**8,392,138**	8,430,996	Pertains to interest on savings accounts with annual interest rates ranging from 1.5% to 4.3%
Other related parties**			
Interest expense	**2,391,903**	2,371,634	Pertains to interest on savings accounts with annual interest rates ranging from 1.5% to 4.3%
Seminars and training	**77,097,721**	24,690,529	The Bank engaged CMDI for training and development of its members and employees (shown as part of 'Employee trainings' and 'Members training and development' and 'Seminars and meetings' in the statements of income.)
Information and technology	**175,318,656**	80,831,125	Pertains to the CMIT's rendered services in relation to system maintenance agreement and upgrade of the Bank's core banking system
Rent	**54,827,831**	32,431,571	Pertains to the rental of transportation and office equipment of the Bank to CLFC
Miscellaneous expense	**35,000,000**	5,000,000	Pertains to the Bank's donation to CMDI
Retirement Plan			
Contributions	**7,025,488**	110,691,624	Pertains to the funded and formal noncontributory defined benefit retirement plan of the Bank that is handled by CARD MERP (see Note 19)
Interest expense		5,236,463	

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

Transitioned branches from CARD, Inc. to the Bank were 2 and 28 in 2017 and 2016, respectively. The BOD passed a resolution for the transition of the branches from CARD, Inc. after receipt of approval from the BSP to establish additional microfinance-oriented branches on May 13, 2014 with 21 branches to be opened within three (3) years from date of approval.

Regulatory Reporting

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

In the aggregate, loans to DOSRI generally should not exceed total equity or 15.0% of total loan portfolio, whichever is lower. As at December 31, 2017 and 2016, the Bank is in compliance with the regulatory requirements.

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

As at December 31, 2017 and 2016, DOSRI accounts under the existing regulations are shown in the table below (as reported to BSP):

	2017	2016
Total outstanding DOSRI accounts	**₱523,355**	₱452,001
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	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 non-accruing 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 2017 and 2016:

	2017	2016
Noncash investing activity:		
Reclassification from investment in an associate to AFS investments	**400,000**	–

The following table shows the reconciliation analysis of liabilities arising from financing activities for the year ended December 31, 2017:

	January 1, 2017	**Cash flows**	**Dividend declaration**	**Amortization of discount**	**December 31, 2017**
Bills payable (Note 14)	₱1,371,050,423	(₱464,877,123)	₱–	₱4,801,469	₱910,974,768
Dividends payable	9,605,557	(492,542,947)	533,392,106	–	50,454,716
Total liabilities from financing activities	₱1,380,655,980	(₱957,420,070)	₱533,392,106	₱4,801,469	₱961,429,484

24. Approval of the Issuance of the Financial Statements

The accompanying financial statements of the Bank were approved and authorized for issue by the BOD on April 18, 2018.

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, 2017, follow:

Gross receipt tax (GRT)	₱178,783,225
Business permits and licenses	7,112,850
Documentary stamp (DST)	2,517,863
Real property tax	1,568,361
Others	1,465,203
	₱191,447,502

GRT in 2017 consists of taxes on:

Interest income on loans	₱174,170,064
Other income	4,613,161
	₱178,783,225

DST in 2017 consists of taxes on special savings account, loans, and capital increase.

Withholding taxes in 2017 are categorized into:

Paid:	
Expanded withholding tax	₱15,260,439
Withholding taxes on compensation and benefits	34,316,116
Final withholding tax on interest expense and dividends declared	52,967,803
	102,544,358
Accrued:	
Expanded withholding tax	3,904,026
Withholding taxes on compensation and benefits	7,934,051
Final withholding tax on interest expense	3,353,135
	15,191,212
	₱117,735,570

Tax Assessment and Cases

The Bank has no outstanding tax assessment and legal cases filed in courts as at December 31, 2017.

CARD BANK, INC. (A MICROFINANCE-ORIENTED RURAL BANK)
INDEX TO THE FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2017

Schedules Required under Securities Regulation Code Rule 68

SCHEDULE I

CARD BANK, INC. (A MICROFINANCE-ORIENTED RURAL BANK)
LIST OF PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRS)
EFFECTIVE AS OF DECEMBER 31, 2017

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		**Adopted**	**Not Adopted**	**Not Applicable**	**Not Early Adopted**
Framework for the Preparation and Presentation of Financial Statements		✓			
Conceptual Framework Phase A: Objectives and qualitative Characteristics		✓			
PFRSs Practice Statement Management Commentary		✓			
Philippine Financial Reporting Standards					
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓			
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓	
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓	
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓	
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓	
	Amendments to PFRS 1: Government Loans			✓	
	Amendments to PFRS 1: Borrowing Cost	✓			
	Amendment to PFRS 1: Meaning of Effective PFRSs			✓	
PFRS 2	Share Based Payment			✓	
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓	
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓	
	Amendment to PFRS 2: Definition of Vesting Condition			✓	
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions			✓	
PFRS 3 (Revised)	Business Combinations			✓	
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓	
	Amendment to PFRS 3: Scope Exceptions for Joint Arrangements			✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable	Not Early Adopted
PFRS 4	Insurance Contracts			✓	
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓	
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4			✓	
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓	
	Amendment to PFRS 5: Changes in Methods of Disposal			✓	
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓	
PFRS 7	Financial Instruments: Disclosures	✓			
	Amendments to PFRS 7: Transition	✓			
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓			
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓			
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓			
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓			
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓			
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures			✓	
	Amendments to PFRS 7: Additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in PFRS 9			✓	
	Amendments to PFRS 7: Servicing Contracts and Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓	
	Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓	
PFRS 8	Operating Segments			✓	
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets			✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS **Effective as of December 31, 2017**		Adopted	Not Adopted	Not Applicable	Not Early Adopted
PFRS 9	Financial Instruments			✓	
	Financial Instruments: Classification and Measurement of Financial Liabilities			✓	
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures			✓	
	Reissue to incorporate a hedge accounting chapter and permit early application of the requirements for presenting in other comprehensive income the “own credit” gains or losses on financial liabilities designated under the fair value option without early applying the other requirements of PFRS 9			✓	
	Financial Instruments (final version), incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition				✓
PFRS 10	Consolidated Financial Statements			✓	
	Amendments to PFRS 10: Transition Guidance			✓	
	Amendments to PFRS 10: Investment Entities			✓	
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture			✓	
	Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception			✓	
PFRS 11	Joint Arrangements			✓	
	Amendments to PFRS 11: Transition Guidance			✓	
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓	
PFRS 12	Disclosure of Interest in Other Entities	✓			
	Amendments to PFRS 12: Transition Guidance			✓	
	Amendments to PFRS 12: Investment Entities			✓	
	Amendments to PFRS 12: Clarification of the Scope of the Standard			✓	
PFRS 13	Fair Value Measurements	✓			
	Amendment to PFRS 13: Short-term Receivables and Payables	✓			
	Amendment to PFRS 13: Portfolio Exception			✓	
PFRS 14	Regulatory Deferral Accounts	✓			
PFRS 15	Revenue from Contracts with Customers				✓
PFRS 16	Leases				✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable	Not Early Adopted
Philippine Accounting Standards		✓			
PAS 1 (Revised)	Presentation of Financial Statements	✓			
	Amendment to PAS 1: Capital Disclosure	✓			
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓	
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓			
	Amendment to PAS 1: Comparative Information	✓			
	Amendments to PAS 1: Disclosure Initiative	✓			
PAS 2	Inventories			✓	
PAS 7	Statement of Cash Flows	✓			
	Amendments to PAS 7: Disclosure Initiative	✓			
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓			
PAS 10	Events after the Reporting Period	✓			
PAS 11	Construction Contracts			✓	
PAS 12	Income Taxes	✓			
	Amendment to PAS 12 – Deferred Tax: Recovery of Underlying Assets	✓			
	Amendments to PAS 12 – Recognition of Deferred Tax Assets for Unrealized Losses				✓
PAS 16	Property, Plant and Equipment	✓			
	Amendment to PAS 16: Revaluation Method – Proportionate Restatement of Accumulated Depreciation on Revaluation			✓	
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓	
	Amendments to PAS 16 and PAS 41, Agriculture: Bearer Plants			✓	
PAS 17	Leases	✓			
PAS 18	Revenue	✓			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable	Not Early Adopted
PAS 19	Employee Benefits	✓			
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures			✓	
	Amendments to PAS 19: Defined Benefit Plans: Employee Contribution			✓	
	Amendments to PAS 19: Discount Rate: Regional Market Issue	✓			
PAS 19 (Amended)	Employee Benefits			✓	
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓	
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓			
	Amendment: Net Investment in a Foreign Operation	✓			
PAS 23 (Revised)	Borrowing Costs			✓	
PAS 24 (Revised)	Related Party Disclosure	✓			
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓			
PAS 27 (Amended)	Separate Financial Statements			✓	
	Amendments for Investment Entities			✓	
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓	
PAS 28	Investments in Associates and Joint Ventures	✓			
PAS 28 (Amended)	Amendments to PAS 28: Investment Entities – Applying the Consolidation Exception			✓	
	Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value				✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓	
PAS 32	Financial Instruments: Disclosure and Presentation	✓			
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓	
	Amendment to PAS 32: Classification of Rights Issues			✓	
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓			
PAS 33	Earnings per Share			✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable	Not Early Adopted
PAS 34	Interim Financial Reporting			✓	
	Amendment to PAS 34: Disclosure of information 'Elsewhere in the Interim financial report'			✓	
PAS 36	Impairment of Assets	✓			
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓			
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓			
PAS 38	Intangible Assets	✓			
	Amendments to PAS 38: Proportionate Restatement of Accumulated Depreciation on Revaluation			✓	
	Amendments to PAS 38: Revaluation Method – Proportionate Restatement Of Accumulated Amortization			✓	
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization				✓
PAS 39	Financial Instruments: Recognition and Measurement	✓			
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓			
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transaction			✓	
	Amendments to PAS 39: The Fair Value Option			✓	
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓	
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓	
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓	
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓	
	Amendment to PAS 39: Eligible Hedged Items			✓	
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable	Not Early Adopted
PAS 40	Investment Property			✓	
	Amendments to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property			✓	
	Amendments to PAS 40: Transfers of Investment Property			✓	
PAS 41	Agriculture			✓	
	Amendments to PAS 16 and PAS 41, Agriculture: Bearer Plants			✓	
Philippine Interpretations					
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓	
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓	
IFRIC 4	Determining Whether an Arrangement Contains a Lease			✓	
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓	
IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓	
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓	
IFRIC 9	Reassessment of Embedded Derivatives			✓	
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓	
IFRIC 10	Interim Financial Reporting and Impairment			✓	
IFRIC 12	Service Concession Arrangements			✓	
IFRIC 13	Customer Loyalty Programmes			✓	
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓	
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement			✓	
IFRIC 15	Agreements for the Construction of Real Estate			✓	
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓	
IFRIC 17	Distributions of Non-cash Assets to Owners			✓	
IFRIC 18	Transfers of Assets from Customers			✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable	Not Early Adopted
IFRIC 19	Extinguishing Financial Liabilities with Equity Investment			✓	
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓	
IFRIC 21	Levies			✓	
IFRIC 22	Foreign Currency Transactions and Advance Consideration				✓
IFRIC 23	Uncertainty over Income Tax Treatments				✓
SIC - 7	Introduction of the Euro			✓	
SIC - 10	Government Assistance - No Specific Relation to Operating Activities			✓	
SIC - 15	Operating Leases - Incentives			✓	
SIC - 25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓	
SIC - 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓			
SIC - 29	Service Concession Arrangements: Disclosures			✓	
SIC - 31	Revenue - Barter Transactions Involving Advertising Services			✓	
SIC - 32	Intangible Assets - Web Site Costs			✓	

CARD BANK, INC. (A MICROFINANCE-ORIENTED RURAL BANK)
SUPPLEMENTARY SCHEDULE OF FINANCIAL SOUNDNESS RATIOS
AS AT DECEMBER 31, 2017 AND 2016

Liquidity

	2017	2016
Liquid assets*	**₱2,347,972,444**	₱2,071,380,441
Total deposits	**8,022,560,642**	5,969,184,808
Ratio of liquid assets to total deposits	**29.3%**	34.7%

Debt-to-equity ratio

	2017	2016
Total liabilities	**₱9,386,219,019**	₱7,758,435,919
Total equity	**2,762,477,657**	2,310,380,209
Ratio of debt to equity	**339.8%**	335.8%

Assets-to-equity ratio

	2017	2016
Total assets	**₱12,148,696,676**	₱10,068,816,128
Total equity	**2,762,477,657**	2,310,380,209
Ratio of total assets to equity	**439.8%**	435.8%

Interest rate coverage ratio

	2017	2016
Income before income taxes and interest expense	**₱1,221,751,029**	₱1,095,696,493
Interest expense	**197,097,830**	158,058,994
Interest coverage ratio	**619.9%**	693.2%

Profitability ratios

	2017	2016
Net income	**₱741,595,276**	₱674,209,038
Average total equity	**2,536,428,933**	2,038,231,747
Return on average equity	**29.2%**	33.1%
Net income	**₱741,595,276**	₱674,209,038
Average total assets	**11,108,756,402**	9,077,641,581
Return on average assets	**6.7%**	7.4%
Net financial margin	**₱3,339,539,195**	₱2,774,455,466
Average interest earning assets*	**9,585,752,547**	7,734,003,691
Net interest margin on average earning assets	**34.8%**	35.9%

**Consist of cash and other cash items, due from BSP and other banks.*
**Consist of due from other banks, AFS and HTM investments, and loans and receivables*