



# CARDBANK ANNUAL REPORT 2020

BUILDING DIGITAL COMMUNITIES THROUGH OPTIMAL  
RESOURCES AND TECHNOLOGY-DRIVEN INITIATIVES



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# ABOUT THE COVER



**F**or the last 35 years, CARD MRI has been supporting marginalized women and their families through microfinance services and social development initiatives. As a new era approaches and a New Normal begins, we continue our mission to eradicate poverty armed with optimal resources that will help us achieve our ultimate goal. This 2020, we chose a new path paved with innovations that had proven to be effective in our journey to digitalization.

Our cover embraces the technology-driven initiatives of CARD MRI and addresses the challenges of the pandemic by utilizing key digital strategies to banking in the comforts of one's home.

The cover features Lorna Atienza, 62 years old, a former president of CARD MBA, as she holds one of the most important tools the CARD banking group has devised for a hassle-free mobile banking experience, konek2CARD. The cover entails that there is no limitation as to who uses the mobile banking application, which can be integrated to the lives of the clients we serve for easier, faster, and more efficient transactions. Be they young or old, anyone can freely use konek2CARD as the application fulfills the goal of CARD MRI to financially include those in the hem of the society. Meanwhile, the icons that emanate from the mobile device symbolize the digital communities that we have built to bridge the gaps in communication and encourage a collaborative approach between the mutually reinforcing institutions.

**LORNA ATIENZA**  
Client





# VISION

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

# MISSION

CARD BANK Inc. is committed to:

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



**DR. JAIME ARISTOTLE B. ALIP**  
Founder and Chairman Emeritus

## BOUND BY HEARTS FOR SERVICE

### Message from the Chairperson

other. While we were still one meter apart, when I glanced at the faces of our clients and staff, albeit covered with face masks and shields, I felt a sense of relief. Their faces reminded me why we do all these: to include them in our ever-growing movement of poverty eradication in the country. At that moment, I knew we would surpass everything 2020 has thrown at us and we did; we did it together. If 2020 did one thing for us, it only made us all stronger.

With the rage of the COVID-19 pandemic threatening our clients' safety, we have laid out the first brick in building our digital communities where our beloved clients could make their day-to-day banking transactions in their respective centers. This means they could pay, create a loan, and manage their bank accounts without risking their health to go to our units or branches.

We were also working hand in hand with our like-minded partners such as ECPay, Paymaya, Ayannah, and RCBC ATM Go to bring our services nearer and to provide more convenience to our clients. They could now go to their nearest convenience stores and use our partners' services.

This year, we have also launched our client recovery program which aims to assist our clients during the

**W**hen I think about the past year, I begin to admire the bravery and resilience of the Filipino people. We have indeed fought an invisible enemy that is the COVID-19 virus and have continuously learned to adapt to its impact. Our hope did not waiver, we are now on our way towards recovery.


When the protocols for community quarantines relaxed by mid-year, I personally visited branches together with other CARD leaders to know the current situation of CARD Bank staff and clients. After weeks of isolation, we were able to physically see each

global financial crisis brought about by the series of lockdowns due to the pandemic. We made sure that they were provided with the most affordable products and services during those long months of financial insecurity.

Our konek2CARD mobile banking application has truly reinvented how our clients do their banking transactions when physical connections were almost impossible. It provided them faster and more efficient banking services in the comfort of their own homes. We have also launched CAMILA (CARD My Instant Loan Assistant), our chatbot which can process banking transactions instantaneously. Our clients can now create a loan and have the funds debited in their accounts in a blink of an eye. Truly, our hunger for upgrading our technology shed light for us to better provide to our clients and only brought us to be triumphant when we finished 2020.

I could never thank the whole CARD MRI community enough for being with CARD Bank through the whole whirlwind 2020 brought us. Working day and night with them was truly worth it as we bid 2020 goodbye with smiles on our clients' faces. To all the staff, I know you made a lot of sacrifices in order to provide our services to our clients and for that, our biggest thanks are with you! Our prayers go to all our staff, clients, and members.

With all the trials 2020 gave us, only one thing is certain— we would never get tired to seek for opportunities to better serve our clients in the following years. Even a global pandemic and financial crisis would not stop us in doing what we do. CARD Bank, the whole CARD MRI community, and our partners are bound by our hearts for service, ready to provide a strong and robust future for all the Filipinos worldwide.



**With all the trials  
2020 gave us,  
only one thing  
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opportunities to  
better serve our  
clients.**



**MARIVIC M. AUSTRIA**  
President and CEO

## WE MADE IT THROUGH TOGETHER

### President and CEO's Report

as we renew our commitment to the families we serve.

### Extending our helping hand

The health crisis did not stop us from advocating financial inclusion in the country. This year, we were able to open 20 Branch-Lite Units (BLUs) in different regions of the country, and another 18 BLU licenses were approved by the Banko Sentral ng Pilipinas (BSP). We were also able to open our Milagros Branch to better serve our clients in Masbate. Milagros branch has 24,130 clients and loan outstanding of PhP 101.8 million.

Many of our clients experienced the impact of COVID-19 in their businesses. As such, we designed a client recovery program to personally assess what products and services each of them needed to get up on their knees and stand again. We also declared a moratorium to assist them during the pandemic and through their recovery period.

Amidst the pandemic, we were still able to sign up 166,278 new members who we could help in taking hold of their lives and somehow have a better standard of living.

In totality, CARD Bank, Inc. served 3,370,601 clients, having a total of PhP18,576,059,675 of loans

**T**he year 2020 demanded us to become braver as a deluge of challenges due to the COVID-19 pandemic shook the microfinance industry repeatedly. Thanks to our dedicated staff, we have put our heads together to formulate various strategies that will push us forward to serve our clients effectively and excellently. There is nothing that can stop us from rendering our microfinance services to the marginalized Filipino families who need us the most. At CARD Bank, we continue to be a ray of hope as we expand our reach and extend our services to more people. Gratefully, we have achieved our goals for 2020

disbursed and total savings amounting to PhP13,207,358,699. All of these became possible through our 918 offices which are home to our 5,686 devoted staff who are always ready to serve with their hearts out.

Defying physical hindrances with digital means CARD Bank, Inc. together with the whole CARD MRI community, is committed to bringing our client's experience to the next level. We want to bring them the products and services they need with utmost ease and comfort. For years, we have been crafting a worthwhile digital experience for our clients through our Core Banking System (CBS) initiative which essentially digitize and centralize all their transactions making them easier, faster, and more convenient. This year, three of our branches had successfully migrated to T24 making 69 of our 98 branches live on T24.

We were also able to deploy our mobile collection sheets to ten branches making a total of 53 branches and 478 BLUs using the mobile collection sheets.

It has been said several times to view a crisis as an opening of a new opportunity. Because of the challenges we faced in the pandemic, I have a greater appreciation of how we started early in our digitization journey through konek2CARD. It was the most important tool that made us all connected during the uncertainty and restlessness of

the lockdown. As safety was our superior priority, konek2CARD made banking transactions possible in the absence of our regular face-to-face communication. We have also established our digital communities where access to free internet connection were given to communities so that they can use konek2CARD. We have opened new digital communities in Bay, Laguna and Tagum, Davao.

This year, we were able to enrol 150,096 more clients to konek2CARD resulting to a cumulative total of 352,172 clients using our mobile banking application. We have also signed up 1,300 new konek2CARD agents this year making a total of 5,912 agents.

In addition to this, we have also launched konek2Pay which aims to provide a platform where our clients can pay any products and services without risking their safety in going out of their homes. To date, we have a total of 254 merchants enrolled in our konek2Pay system.

CARD Bank has also forged a partnership with InstaPay that lets our clients transfer funds to and from different banking institutions and other InstaPay partners through their mobile phones. Since the launching in July 2020, we have had a total of 42,206 sending transactions totalling to PhP151,713,981.58 and 10,545 receiving transactions amounting to a total of PhP38,033,288.47.



We also actively continued developments and optimization of our Digital Cash Machines (DCMs) so our clients can do their day-to-day transactions with just a QR code. We were able to install another 20 DCMs this year making our total at 58 DCMs nationwide.

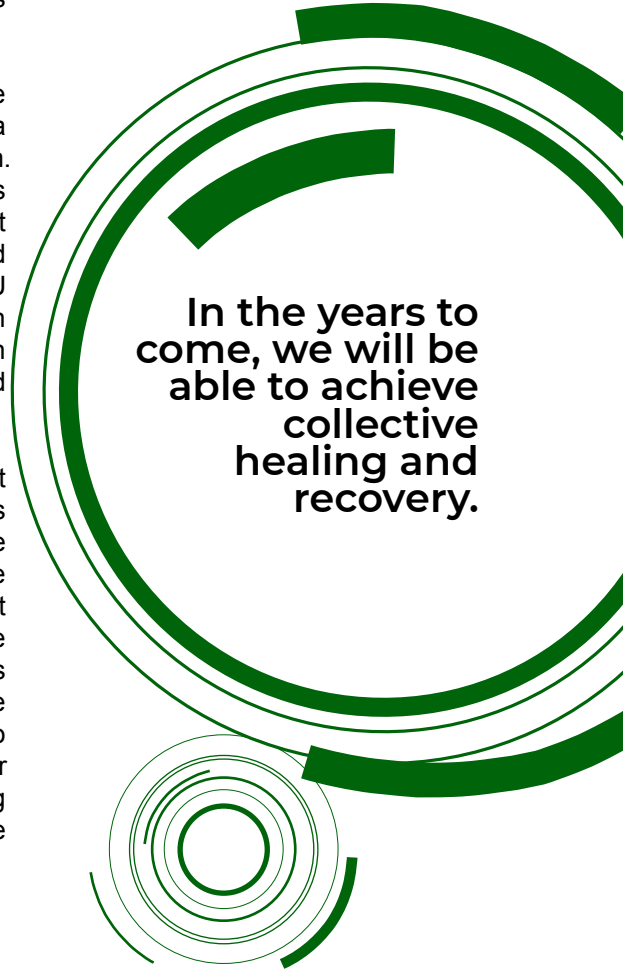
Alongside these, we have also made our remittance kiosks seven days a week and open from 7 a.m. to 7 p.m. which made it possible for our clients to do their transactions at their most convenient time. We also opened a kiosk in Samal Island, a BLU covered by Buhangin Branch, which generated 8,262 transactions with the amount of PhP18,644,444.53 and gross income of PhP32,792.68.

We also deemed it relevant to boost our presence in Facebook as it is one of the leading and most effective social media platforms to promote our cause and we are grateful that CARD Bank's official Facebook page reached 159,574 of total page likes and 161,721 followers as of June 2020. Truly, Facebook enabled us to communicate our message with our clients especially during these trying times where physical connections are very limited.

### **Uniting Against COVID-19**

The pandemic brought the best out

of people; it showed our culture of Bayanihan, our willingness to share what we could in order to preserve the greater good. CARD Bank, together with the whole CARD MRI have surpassed all the challenges we faced this year through our daily virtual meetings where we discussed



**In the years to come, we will be able to achieve collective healing and recovery.**



updates and solutions to any problem that might occur. We are also grateful to all our staff who also shared a piece of them to provide quality services to our clients despite the alarming risks all of us have taken. We at CARD Bank cannot thank the whole CARD MRI community enough for all the continuous support we received through the years especially during this pandemic.

CARD Bank also went beyond the CARD MRI borders and formed robust partnerships with different organizations who share our vision of poverty eradication in order for us to solidify the services we provide to our clients. Through ECPay, Paymaya, Ayannah, and RCBC ATM Go's existing technology, we tapped them as our alternative delivery channels so our clients can have a variety of options on how to make their transactions in their own convenient time and place, of course putting their safety on top of our list.

### **The Future is Online**

It cannot be denied that the digital platform played a very significant role in connecting us despite all the physical distance we had. While we truly believe that our future lies on the realms of the online space, we found out that it is also important to remain grounded to our communities. When the lockdowns and restrictions relaxed, we immediately but carefully visited our beloved Nanays to know how they were doing and

to understand how we can better support them in this challenging time. We have proven that as we move forward in the digital space, it is still worthwhile to look back at the very core of our existence.

We are hoping that in the years to come, we will be able to achieve collective healing and recovery in all aspects of our lives. Whatever happens, CARD Bank will always be here to provide the best service there is for our socio-economically challenged communities.



# ONLINE UGNAYAN AT KWENTUHAN



## Online Ugnayan at Kwentuhan

@CARDkvento · Community

It was in March 2020 when Luzon was placed under Enhanced Community Quarantine (ECQ) to mitigate the effects of the pandemic. During this time, the Philippines imposed health and safety protocols as well as checkpoints to restrict travel to different places in the country. Face to face interactions also halted, and in its place were virtual gatherings to avoid the spread of the virus.

With this, CARD MRI announced a nationwide moratorium on its loans in accordance to the regulations set by the Bangko Sentral ng Pilipinas. The mutually reinforcing institutions also took a pause to regroup and re-strategize to put its staff and clients' health as its top priority without compromising the relationship they have built overtime.

To bridge the distance between CARD MRI and its clients during the pandemic, Ugnayan at Kwentuhan was formed. The project allowed CARD MRI to stay connected with its clients and staff by means of constant communication. Through phone conversations and various online activities, CARD MRI assures its clients that it will continue to be an ever-present help through its programs.

It has also come up with a way to encourage its members amid challenging times by sharing with them stories of hope through Ang Kwentong Center Ko. This chronicles the lives of nanays

in 142 Centers in Luzon, Visayas, and Mindanao whose lives changed for the better because of CARD MRI's dedication to its core mission of eradicating poverty in the Philippines.

Moreover, to boost the morale of both its staff and clients, CARD MRI also took the opportunity to gather them in a series of four online training sessions that let them reminisce about the history of CARD MRI and its journey. Following the minimum health standards even after the ECQ was lifted, they gathered just like they do during Center Meetings and listened to CARD MRI's institutional heads as they recount the story of how CARD came to be.

During the online training session, attended by approximately 500 participants per session, they shared both laughter and tears because of the stories they have heard and imparted to the community.

However intangible these stories and conversations are, these are an important foundation in CARD MRI's relationship with its clients. With Ugnayan at Kwentuhan, CARD MRI ensures that their relationship with their clients and staff will not falter even with a global pandemic underway. Through this initiative, CARD hopes to gather more stories of hope from its clients and staff as it continues its journey towards recovery.



# A TOUCH OF TRUST

**F**or 35 years, CARD MRI has been true to its mission of eradicating poverty in the country. With its undying service to the poor, it cannot be denied that there are a lot of stories of change that needs to be told; one of which is the story of a then small center in Ilocos Sur—Paypayad 2 Center.

Paypayad 2 Center is located in Candon, Ilocos Sur and is one of the oldest centers in the province, founded back in 2007. It started small with very few members and has now grown to more than 100 members.

From simple homemakers, the members of Paypayad 2 Center are now business owners. They were able to open their own stores and different other businesses through the help of CARD Bank. CARD Bank assisted them not only through financial means but also helped them to be more knowledgeable in handling their own businesses through its training

and education programs.

Alongside these achievements, some of them were chosen to become officers in their community to facilitate good relationships amongst each other and promote better strategies to keep their organization in order. Through these leadership opportunities, they have learned to handle more responsibilities with patience and perseverance in everything they do.

Paypayad 2 Center's current chief, Lhucy Gaston, shared that CARD Bank played a vital role in improving and expanding her sari-sari store and computer shop. For her, CARD Bank is more than just a company; it is a family—one that recognizes trust as the true foundation of a life-long relationship. She shared her experience that CARD Bank is the only organization who lends money without any collateral. CARD Bank trusts the members that is why the members reciprocate that trust to

them and to the whole CARD MRI community. This is one of the many reasons she is with CARD Bank for 13 years now and said that no one in Paypayad 2 Center ever left CARD Bank because of this mutual trust to each other.

While it is the trust that CARD Bank first gave them that made the members of Paypayad 2 Center join, it is CARD Bank's faithful service that made them stay. The story of Paypayad 2 Center is just one of the stories of change that shows the quality of service of CARD MRI. One thing is for sure, this center will continue to grow and become a catalyst of change in their community as they who would also give that very same trust to new members.



918  
OFFICES

820  
BANKING UNITS  
& BLUS

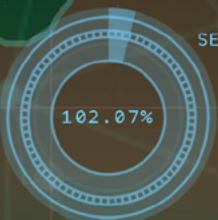
97  
BRANCH

1  
HEAD OFFICE

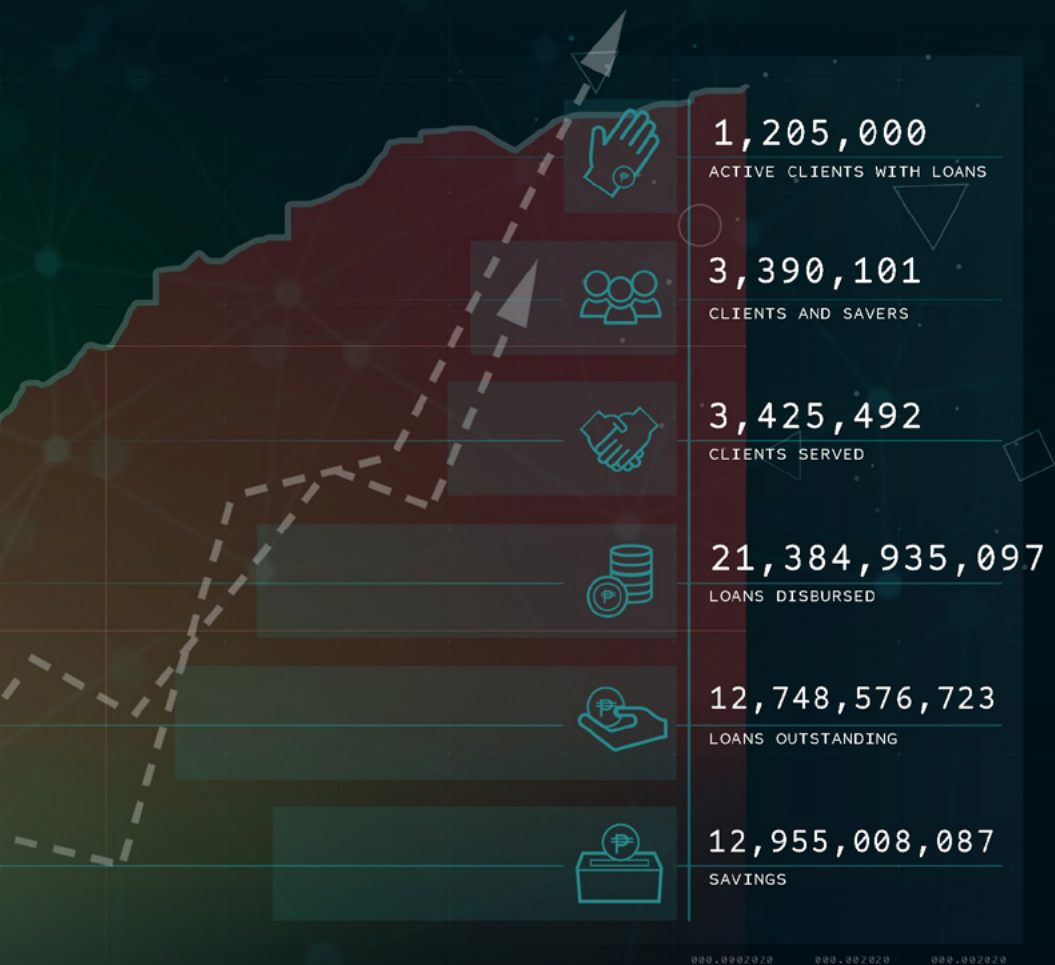
5,686

STAFF

0  
1  
2







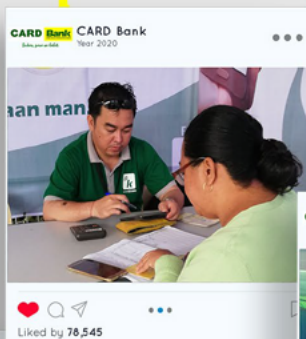
# 2020 IN NUMBERS

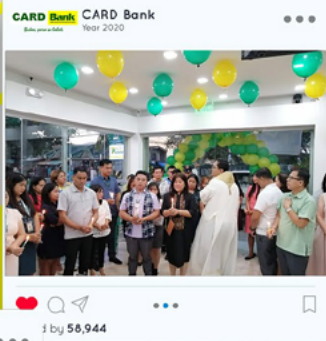
# FINANCIAL HIGHLIGHTS

	Year End	Year End
Minimum Required Data	2020	2019
<b>Profitability</b>		
Total Net Interest Income	3,419,272,962	5,373,360,444
Total Non-Interest Income	23,996,798	15,728,545
Total Non-Interest Expense	3,265,233,250	3,661,346,131
<b>Pre-Provision Profit</b>		
Allowance for Credit Losses	511,853,110	194,222,326
Net Income	140,657,095	1,357,043,825
<b>Selected Balance Sheet Data</b>		
Liquid Asset	5,011,890,814	4,692,138,512
Gross Loans	12,748,576,723	11,738,579,194
Total Asset	18,923,811,716	18,069,965,432
Deposit	12,954,446,303	11,998,457,638
Total Equity	4,309,694,112	4,283,381,103
<b>Selected Ratios</b>		
Return on Equity	3.3%	34.0%
Return on Assets	0.8%	8.2%
<b>Selected Balance Sheet Data</b>		
Cash Dividend Declared	420,000,000	790,000,000
<b>Head Count</b>		
Officers	1,318	1,234
Staffs	4,368	4,743



Capital Structure and Capital Adequacy		
Tier 1 Capital		
Paid Up common stock	1,620,767,600	1,000,000,000
Retained Earnings	1,320,253,599	883,209,773
Undivided Profits	140,657,095	1,357,043,826
Deferred Tax Asset, net of deferred tax liability	-44,491,929	-56,422,481
<b>Total Core Tier 1 Capital</b>	<b>3,037,186,365</b>	<b>3,183,831,118</b>
Tier 2 Capital		
Paid Up perpetual and cumulative preferred stock	1,143,575,000	1,000,000,000
General Loan Loss provision	21,936,127	68,709,462
<b>Total Core Tier 2 Capital</b>	<b>1,165,511,127</b>	<b>1,068,709,462</b>
Gross qualifying Capital	4,231,241,989	4,395,970,042
Deductions from Tier 1 and Tier 2 Capital	-442,688,699	-449,383,472
<b>TOTAL QUALIFYING CAPITAL</b>	<b>3,788,553,290</b>	<b>3,946,586,570</b>
Capital Requirements for Credit Risks	16,302,629,566	14,422,216,026
Capital Requirements for Market Risks		
Capital Requirements for Operational Risks	6,573,013,815	5,259,195,137
Total and Tier 1 Capital Adequacy Ratio	16.56%	20.05%





# MANAGEMENT COMMITTEE

**MARIVIC M. AUSTRIA**  
President and CEO

**LOURDES B. DIJAN**  
Executive Vice President

**MARISSA M. DE MESA**  
Executive Vice President for Audit

**LAARNE D. PAJE**  
Vice President for Risk

**RIZALINE A. MANALO**  
Assistant Vice President for Operations

**GLENDA C. MAGPANTAY**  
Vice President for Operations

**HERMINIGILDA P. MANUBA**  
Vice President for Operations

**RONNIE D. FALLEGA**  
Vice President for IT

**NICETO Q. LUPIG**  
Vice President for IT

**JEFFREY M. RONDINA**  
Vice President for Compliance

**CLARITA G. MERCADO**  
Assistant Vice President for Operations

**BABY ANALYN A. MALABORBOR**  
Assistant Vice President for Operations

**RAQUEL B. ZARAGOZA**  
Assistant Vice President for Operations

**MICHAEL S. BORJA**  
Assistant Vice President for MIS

**JUANITO I. DELA CUEVA**  
Deputy Director for konek2CARD

**REX P. DE LUMBAN**  
Deputy Director for Remittance

**ERWIN B. ALCANTARA**  
Deputy Director for konek2CARD

**GLENDA C. CASTRONUEVO**  
Senior MOPG Manager

**DARRYL DANE C. LAGGUI**  
General Accountant for Taxation

**ACE B. MONTES**  
Regional Director

**ARLENE M. CORBANTES**  
Regional Director

**EILEN A. REANZARES**  
Regional Director

**FUNDARD A. BUNCARAS**  
Regional Director

**GENALYN L. DECILLO**  
Regional Director







## CARD BANK MANAGEMENT COMMITTEE



# MANAGEMENT COMMITTEE

**GERALYN C. MACASINAG**  
Regional Director

**HECTOR M. NAQUILA**  
Regional Director

**JENET R. CONSTANTINO**  
Regional Director

**JESSICA J. DICHOSO**  
Regional Director

**JOCelyn L. LAMPAS**  
Regional Director

**JONEL A. RAPERA**  
Regional Director

**JOSEPH I. LABASTIDA**  
Regional Director

**LESLIE C. MARCAIDA**  
Regional Director

**MA. LUELLA S. BULALACAO**  
Regional Director

**MARIA FE C. BUSADRE**  
Regional Director

**MARIA FE L. YAP**  
Regional Director

**MARIDEL C. MENDOZA**  
Regional Director

**MARISSA D. CARANDANG**  
Regional Director

**MARISSA P. ESCALONA**  
Regional Director

**MEDY M. VALENZUELA**  
Regional Director

**SHIELA M. NUÑEZ**  
Regional Director

**SHIELA P. REGINIO**  
Regional Director

**VENANCIA M. SALAZAR**  
Regional Director

**WILMA D. LAURIO**  
Regional Director

**ZABETH M. OPIS**  
Regional Director

**BONIFACIO D. TORRES**  
Regional Director OIC

**MICHAEL L. DIMAANO**  
Regional Director OIC

**JOSIE P. CRUZIN**  
Regional Director OIC

**LEONISA M. MANALO**  
Regional Director OIC

**AMAFE D. SAN JOSE**  
Senior Area Manager

**DEOLITO C. VALDEMAR**  
Director for Legal and Security

**ROSAFE M. MATUNAN**  
HR Director







# BOARD OF DIRECTORS

**DR. JAIME ARISTOTLE B. ALIP**

Chairperson

**MS. FLORDELIZA L. SARMIENTO**

Vice Chairperson for Administration

**DR. DOLORES M. TORRES**

Vice Chairperson for Management & External Affairs

**MS. LORENZA T. BAÑEZ**

Director/Corporate Treasurer

**MS. MARIVIC M. AUSTRIA**

President and CEO

**MS. MA. LUISA P. CADAING**

Director

**DR. GILBERTO M. LLANTO**

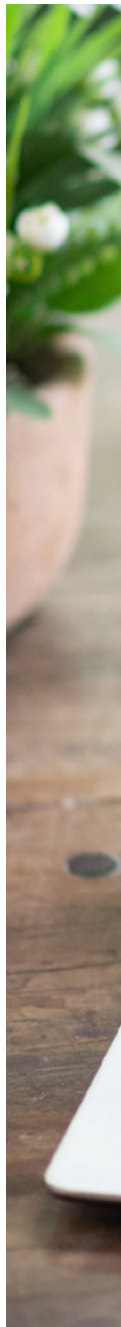
Independent Director

**MS. MERCEDITA MEDEQUISO**

Independent Director

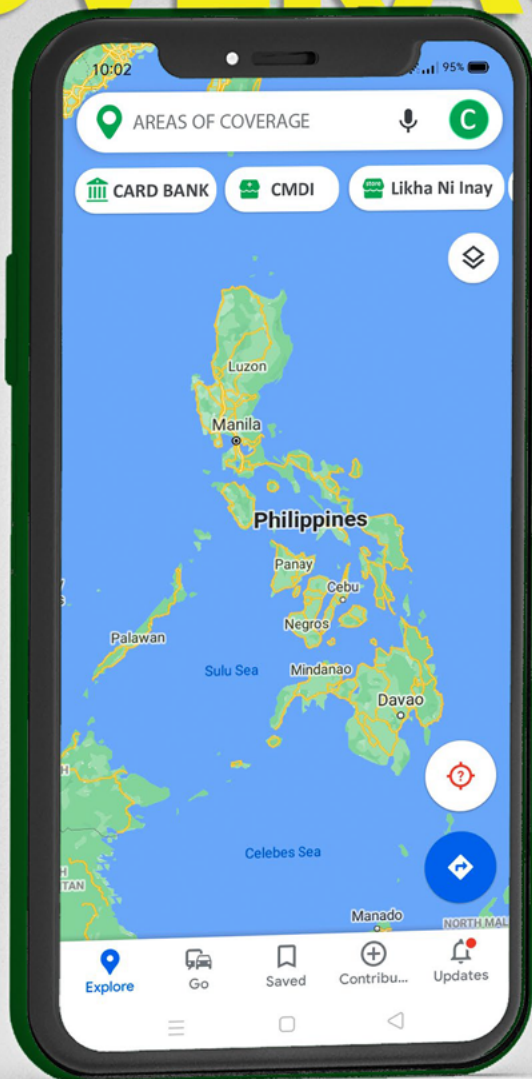
**MS. MALVAROSA PEROTE**

Independent Director





# AREAS OF COVERAGE



**We served Filipinos nationwide through our 97 branches including our Head Office and 525 Branch-Lite Units**

**MAIN OFFICE San Pablo City, Laguna**

**LUZON PROVINCIAL OFFICES**

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

**VISAYAS PROVINCIAL OFFICES**

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

**MINDANAO PROVINCIAL OFFICES**

Buhangin  
Davao  
Kabacan  
Kidapawan  
Malalag  
Malita  
Mati  
Matina  
Midsayap  
Mabunturan  
Tagum



# INSTITUTIONAL PARTNERSHIP

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

# CORPORATE GOVERNANCE





## MISSION

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

## VISION



**CARD Bank** is committed to:

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

## **INSTITUTIONAL OBJECTIVES**

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

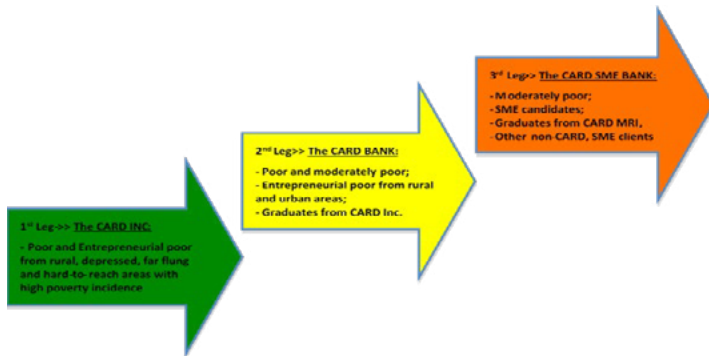
## **CORE VALUES AND PRINCIPLES**

- **COMPETENCE.** Upholding that the staff is the primary asset and driving force of the institution, CARD Bank values the continuing development of its competence and capability through instilling the value of integrity, honesty, transparency, discipline, hard work and excellence leading to the empowerment of its staff and members in an atmosphere of mutual respect.
- **FAMILY SPIRIT.** CARD Bank, guided by its genuine love for the poor, builds and nurtures an atmosphere of family spirit through mutual trust, demonstrating commitment and dedication, and sharing of learning experiences among staff and members.

- **INTEGRITY.** CARD Bank values high transparency, ethics, morality, truthfulness, and sincerity in all its undertakings, programs, and activities. The Bank honors commitments to clients, partners, and stakeholders by way of providing faithfully what was agreed upon or promised. Everyone is responsible and accountable for the performance of its institution, officers, and individual staff.
- **SIMPLICITY.** As CARD Bank dedicates its life to the ultimate empowerment of the poor, CARD Bank opts to always live a simple life in words and in deeds.
- **HUMILITY.** CARD Bank recognizes the value of “kababaang loob” towards achieving the CARD MRI’s overarching goal of poverty eradication with a heart. As such, all staff are enjoined and encouraged to celebrate the accomplishment and successes of CARD Bank at heart and not boast them publicly. All staff remain to have strong faith, determined, and committed to working passionately and warmly towards achieving the CARD MRI vision.
- **EXCELLENCE.** CARD Bank’s pioneering effort is rooted in excellence drawn from the Board and staff’s confidence to create, innovate, inspire, and continuously challenge the existing paradigm to ultimately empower the poor.
- **STEWARDSHIP.** The Board and staff of CARD Bank live as stewards of its vision and builds on its strengths, distinctive and uniqueness of its being through a framework of good governance.

## TRANSITIONING OF GOOD AND PRIME CLIENT OF CARD INC.

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



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

As a methodology, transitioning of matured CARD Inc. clients/borrowers to CARD Bank will be its mainstream. Transitioning of clients means that the CARD Inc. clients with good/prime credit standing may avail of the microfinance, small and medium (MSME) facility/services from CARD Bank resulting in more loans and deposit products to borrowers/members.

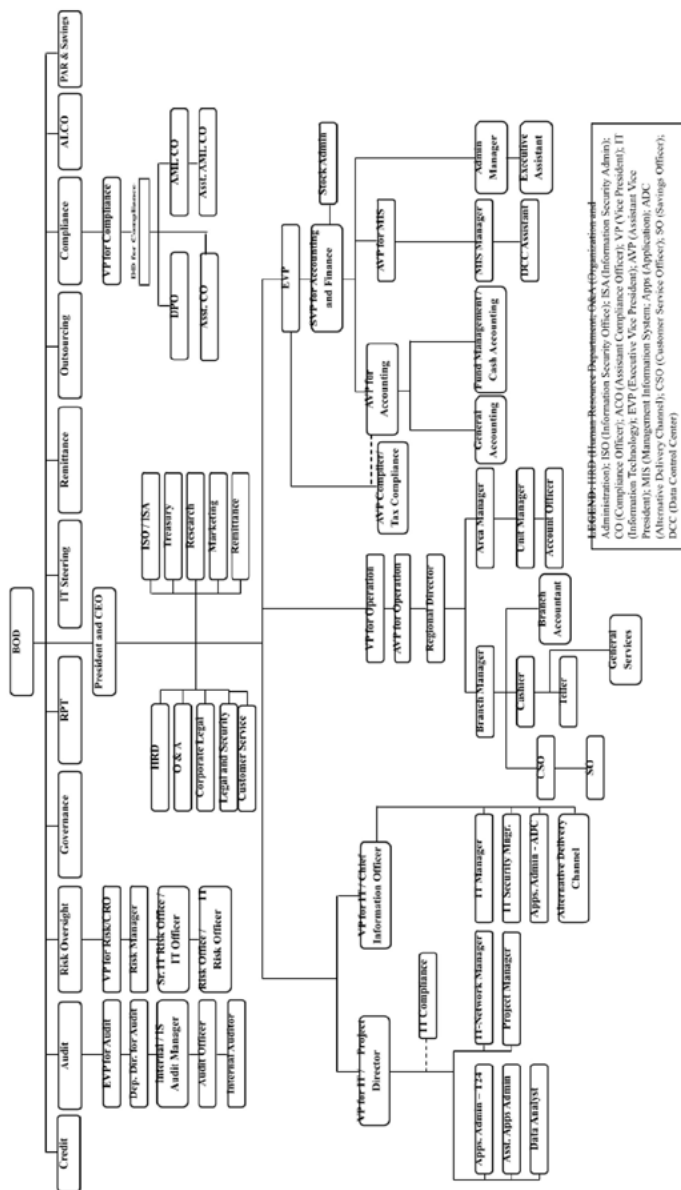
This business strategy encourages the borrowers/members further to comply with the repayment discipline required for them to qualify in the transitioning. Upon transitioning of the clients, clients are continuously provided with

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

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

## CARD BANK ORGANIZATIONAL STRUCTURE

**CARD Bank, Inc.**  
**Organizational Chart**





## RISK MANAGEMENT AND CORPORATE GOVERNANCE

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

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

## **BOARD OF DIRECTORS**

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

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

### **COMPOSITION**

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

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

#### **Directors**

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



training, diligence, and knowledge/experience.

## **Independent Directors**

The independent directors must and have not been an officer or employee of the bank, its subsidiaries, or affiliates or related interest during the past three (3) years counted from the date of the board's election. They are not a director or officer of the related companies of the institution's majority stockholders. They are not stockholders with shares of stock sufficient to elect one seat in the board of directors of the institution, or any of its related companies, or of its majority corporate stockholders. They should not have a relative within the fourth degree of consanguinity or affinity, legitimate or common-law of any director, officer, or a stockholder holding a share of stock sufficient to elect one seat in the board of the bank or any of its related companies. They are not acting as a nominee or representative of any director or substantial shareholder of the bank, any of its related companies, or any of its substantial shareholders. They are not retained as professional advisers, consultants, agents, or counsels of the institution, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm. The independent director is also independent of management and free from any business or other relationship, and has not engaged and does not engage in any transaction with the institution or with any of its related companies or with other persons or through the firm of which, he is a partner or a company of which he is a director or substantial shareholder, other than transaction which is conducted at arm's length and could not materially interfere with or influence the exercise of his judgment. An independent director may only serve as such for a maximum cumulative term of nine (9) years. After which, the independent director shall be perpetually barred from serving as an independent director of the bank but may continue to serve as a regular director.

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

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

- take the chair at general meetings and board meetings;
- ensure that the meeting agenda focuses on strategic matters including discussion on risk appetites, and key governance concerns;

- ensure a sound decision-making process;
- encourage and promote critical discussion;
- ensure that dissenting views can be expressed and discussed within the decision-making process; ensure that members of the board of directors receive accurate, timely, and relevant information;
- ensure the conduct of proper orientation for first-time directors and provide training opportunities for all directors; and
- ensure the conduct of performance evaluation of the board of directors at least once a year.

There are nine (9) Board of Directors elected dated March 21, 2020; three (3) of whom are independent directors.

Name of Director	Type of Directorship	No. of Years as Director	Percent-age of Shares	BOD Meeting Attendance F.Y. 2020	
Dr. Jamie Aristotle B. Alip	Non-Executive	17 Years	13%	12/12	100%
Dr. Dolores M. Torres	Non-Executive	23 Years	11%	12/12	100%
Ms. Flordeliza L. Sarmiento	Non-Executive	2 Years	3%	12/12	100%
Ms. Lorenza DT. Bañez	Executive	23 Years	10%	12/12	100%
Ms. Marivic M. Austria	Executive	5 Years	1%	12/12	100%
Ms. Ma. Luisa P. Cadaing	Non-Executive	17 Years	1%	12/12	100%
Dr. Gilberto M. Llanto	Independent	17 Years	1%	10/12	83%
Ms. Mercedita G. Medequiso	Independent	5 Years	0%	12/12	100%
Ms. Malvarosa P. Perote	Independent	2 Year	0%	11/12	92%

## BOARD QUALIFICATIONS

Name	Age and Nationality	Date Elect-ed	Shares Held	Qualifications
<b>Dr. Jaime Aristotle B. Alip</b> Chairman of the Board  (since November 2003)	63, Filipino	November 2003	2,234,185 (Direct)	With more than 30 years of experience and expertise in the field of microfinance, banking, microinsurance, and related fields.  <b>Educational Attainment:</b> BS Agriculture Major in Agricultural Economics, MS in Professional Studies, Ph.D. in Organization Development, OPM Program in Harvard Business School.  <b>BSP and Other Trainings Attended:</b> Corporate Governance for Board of Directors, Risk Management Seminar, Briefing on Updated AML Rules and Regulations, Exposure in MABS Program, Exposure in SME in BRAC Bank, Grameen Bank, ASA, Seminar in SME Banking, IT Governance Seminar
	Other Current Directorship and Officership:			
	<b>Institution</b>	<b>Position</b>		
	CARD SME Bank	Chairman/Director		
	CMDI	Chairman/Director		
	ICMIF	Director		
	ICMIF Foundation	Trustee		
	IGNITE Foundation	Trustee		
	MIDAS	Chairman/Director		
	CARAGA Renewable Energy Corp.	Director		
	Rizal College Laguna	Director		
	The Hunger Project	Director		

Name	Age and Nationality	Date Elected	Shares Held	Qualifications
<b>Dr. Dolores M. Torres</b> Board of Director (since September 1997)  Vice-Chairperson for Management and External Affairs	65, Filipino	September 1997	1,994,709 (Direct)	With more than 30 years of experience and expertise in the field of microfinance, banking, microinsurance, and related fields.  <b>Educational Attainment:</b> Bachelor of Science in Commerce major in Accountancy, MS in Community Development, Global Excellence in Management, Microfinance Training at Boulder Colorado, Executive MBA at AIM, Key Executive management Course at Harvard Business School, Ph.D. in Organization Development.  <b>BSP and Other Trainings Attended:</b> Corporate Governance for Board of Directors, Risk Management Seminar, Microfinance Training, Basic Rural Banking Course, Exposure Training in Savings Mobilization, Grameen and ASA Training, Basic and Advance Microfinance Training, Appreciative Inquiry at University of USA, ITIL Foundation Certificate in IT Service Management, ITIL Intermediate Certificate in Service Strategy, Succession Planning: Developing Leaders from Within, Risk Management Excellence in Microfinance, IT Governance Seminar, Anti-Money Laundering/Combating the Financing of Terrorism.
	Other Current Directorship and Officership:			
	<b>Institution</b>	<b>Position</b>		
	CARD Inc.	Chairperson/ Trustee		
	CMDI	Director		
MIDAS	Director			

Name	Age and Nationality	Date Elected	Shares Held	Qualifications
<b>Ms. Flordeliza L. Sarmiento</b> Board of Director (since March 2018)  Vice-Chairperson for Administration	58, Filipino	March 2018	487,718 (Direct)	With more than 30 years of experience in microfinance, banking, and other related fields.
	Other Current Directorship and Officership:			<b>Educational Attainment:</b> BS in Agriculture, Master's Degree - MBA, Executive MBA and Advanced Management Program.  <b>BSP and other trainings attended:</b> Financial Inclusion Workshop, Updated Guidelines on Sound Credit Risk Management, Succession Planning: Developing Leaders from Within, Risk Management Seminar, Governance and Risk Management Training, Microfinance Management Training, Basic Rural Banking Course, International Training Course on Rural Finance, IT Governance Seminar, Anti-Money Laundering/Combating the Financing of Terrorism.
	<b>Institution</b>		<b>Position</b>	
	CARD Inc.	Trustee/President		
	CARD SME Bank	Director		
	CARD MRI Rizal Bank	Director/Chairman		
	BDSFI	Trustee		
	CMDI	Director/President		
	CARD MRI Holdings Inc.	Director		
	FDS Asya Pte. Ltd.	Director		
<b>Ms. Lorenza dt Bañez</b> Board of Director (since September 1997)	61, Filipino	September 1997	1,761,197 (Direct)	With more than 30 years of experience in microfinance, banking, and other related fields.
	Other Current Directorship and Officership:			<b>Educational Attainment:</b> BS Commerce, MS in Development Mat., MA in CED, CFA Course Review Program for Development Manager, and CPA Review Course.  <b>BSP and other trainings attended:</b> Enterprise-Wide Risk Management, Financial Statement Compilation Engagements, FATCA Orientation, Succession Plan - CRAFTING THE PROTOTYPE, Briefing on BSP Cir.706 Updated AML Rules and Regulations, International Finance Seminar, Financial Risk Management Workshop, MFI's Financial Performance Analysis, Corporate Governance & Risk Management, Basic Rural Banking Course, IT Governance Seminar, Anti-Money Laundering/Combating the Financing of Terrorism.
	<b>Institution</b>		<b>Position</b>	
	CARD Inc.	Trustee		
	BDSFI	Trustee		
	CMDI	Treasurer/Secretary		
	De TorresBañez Dev't Corp.	Director		



Name	Age and Nationality	Date Elected	Shares Held	Qualifications
Ms. Ma. Luisa P. Cadaing Board of Director (since March 2003)	59, Filipino	March 2003	241,199 (Direct)	With more than 25 years of experience in banking and finance.
	Other Current Directorship and Officership:			<b>Educational Attainment:</b> BS Human Ecology, MS Urban & Regional Planning, and Program for Women Managers  <b>BSP and other trainings attended:</b> Corporate Governance and Risk Management, IT Governance Seminar, Anti-Money Laundering/Combating the Financing of Terrorism.
	<b>Institution</b>		<b>Position</b>	
	CARD Inc.	Trustee		
	CMDI	Director		
Ms. Marivic M. Austria Board of Director (since March 2015)	47, Filipino	March 2015	178,607 (Direct)	With more than 25 years of experience in banking and finance.
	Other Current Directorship and Officership:			<b>Educational Attainment:</b> BS Commerce-Accounting, Executive Master's in Business Administration, and Advanced Management Program.  <b>BSP and other trainings attended:</b> Governance and Risk Management Training, Boulder Microfinance Training, High Potentials Leadership Program, Managing Portfolio-at-Risk, IVP Training on Micro Banking Internal Practices, Basic Internal Audit Course, Basic Rural Banking Course, and Exposure Study Visit on Banking Operations, IT Governance Seminar.
	<b>Institution</b>		<b>Position</b>	
	NA	NA		

Name	Age and Nationality	Date Elected	Shares Held	Qualifications
<b>Dr. Gilberto M. Llanto</b> Independent Board (since March 2003)	70, Filipino	March 2003	141,307 (Direct)	<p>His areas of expertise are Money and Banking, Public Finance, and International Trade. A professional economist who has held various executive and technical (research) positions at the National Tax Research Center of the DoF, BSP, DAR and NEDA. He has been a consultant on financial markets, microfinance, public finance and public economics to international organizations.</p> <p><b>Educational Attainment:</b>  A. B. Philosophy, M.S. Economic Program, M.A. Economics, and Ph.D. Economics.</p> <p><b>BSP and other trainings attended:</b>  Governance for Board of Directors, Briefing on BSP Cir.706 Updated AML Rules and Regulations, and Agricultural Banking.</p>
	Other Current Directorship and Officership:			
	<b>Institution</b>	<b>Position</b>		
	CARD SME Bank	Director		
<b>Ms. Mercedita G. Medequiso</b> Independent Board (since March 2015)	59, Filipino	March 2015	1 (Direct)	<p><b>Educational Attainment:</b>  BSC Major in Business</p> <p><b>BSP and other trainings attended:</b>  Corporate Governance Seminar and Supervisory Training, IT Governance Seminar, Anti-Money Laundering/Combating the Financing of Terrorism.</p>
	Other Current Directorship and Officership:			
	<b>Institution</b>	<b>Position</b>		
	NA	NA		

Name	Age and Nationality	Date Elected	Shares Held	Qualifications
Ms. Malvarosa P. Perote Independent Board (since March 2018)	64, Filipino	March 2018	22 (Direct)	<b>Educational Attainment:</b> Bachelor in Elementary Education
	Other Current Directorship and Officership:			<b>BSP and other Trainings Attended:</b>
	Institution		Position	- Corporate Governance Seminar, Risk management Seminar, IT Governance Seminar, Anti-Money Laundering/Combating the Financing of Terrorism.
	NA		NA	

## BOARD COMMITTEES

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

### A. Corporate Governance Committee

Committee Member	Attendance	Position
Ms. Mercedita G. Medequiso	12/12 100%	Chairperson
Ms. Ma. Luisa P. Cadaing	12/12 100%	Member
Ms. Malvarosa P. Perote	11/12 100%	Member

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

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

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

## B. Risk Oversight Committee

Name of Director	Attendance		Position
Ms. Malvarosa P. Perote	11/12	92%	Chairperson
Dr. Dolores M. Torres	12/12	100%	Member
Dr. Gilberto M. Llanto	10/12	83%	Member

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

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

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

## C. Audit Committee

Name of Director	Attendance		Position
Ms. Malvarosa P. Perote	11/12	92%	Chairperson
Dr. Dolores M. Torres	12/12	100%	Member
Dr. Gilberto M. Llanto	10/12	83%	Member

The audit committee is responsible for overseeing senior management in establishing and maintaining an adequate, effective, and efficient internal control framework. It shall ensure that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations, and safeguarding of assets. The committee is composed of three (3) members of the board, all are non-executive director, and the majority are independent directors, who have knowledge of financial reporting and internal controls. The committee has regularly met every 3rd Saturday of the month or as the need arises.

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

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

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

<b>Name of Director</b>	<b>Attendance</b>		<b>Position</b>
Ms. Mercedita G. Medequiso	12/12	100%	Chairperson
Dr. Gilberto M. Llanto	10/12	83%	Member
Ms. Malvarosa P. Perote	11/12	92%	Member

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

The RPT Committee shall assist the bank in handling transactions with related parties. It shall review and evaluate each transaction to assess its fairness. The committee is composed of three (3) members of the board of directors, two (2) of whom are independent directors, including the chairperson. Committee members are entirely composed of independent and non-executive directors, with independent directors comprising the majority. In case a member has a conflict of interest in a particular RPT, he/she refrain from evaluating such a particular transaction. Independent Units such as Compliance Officer or Internal Auditor shall sit as resource person of the committee. The committee has regularly met every 3rd Saturday of the month or as the need arises.

The Related Party Transactions (RPT) Committee's tasks include the following:

- a. Ensures that all related parties are continuously identified, monitored, and



subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured.

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

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

## **E. Compliance Committee**

<b>Name of Director</b>	<b>Attendance</b>		<b>Position</b>
Ms. Malvarosa P. Perote	11/12	92%	Chairperson
Ms. Lorenza dT. Bañez	12/12	100%	Vice-Chairperson
Ms. Mercedita G. Medequiso	12/12	100%	Member
Mr. Jeffrey M. Rondina	12/12	100%	Member
Ms. Marissa M. De Mesa	12/12	100%	Member

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

reports to the Board during monthly regular Board of Directors meeting any updates, agreements and policy recommendation discussed by the members of the committee during monthly compliance committee meeting.

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

The Compliance Committee tasks include the following:

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

## F. Outsourcing Oversight Committee

Name of Director	Attendance		Position
Ms. Marivic M. Austria	12/12	100%	Chairperson
Ms. Lorenza dt Bañez	6/12	50%	Member
Ms. Lourdes B. Dijan	12/12	100%	Member
Ms. Laarne D. Paje	12/12	100%	Member
Mr. Ronnie Fallega	12/12	100%	Member
Mr. Niceto Lupig	12/12	100%	Member
Mr. Jeffrey M. Rondina	12/12	100%	Member
Ms. Rowena Galarde	9/12	75%	Member

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

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

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

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

## G. IT Steering Committee

Name of Director	Attendance		Position
Ms. Marivic M. Austria	12/12	100%	Chairperson
Dr. Dolores M. Torres	7/12	58%	Member
Ms. Flordeliza Sarmiento	8/12	67%	Member
Mr. Ronnie Fallega	12/12	100%	Member
Mr. Niceto Lupig	12/12	100%	Member
Mr. Jeffrey M. Rondina	11/12	92%	Member
Mr. Jose Romulo Karagdag	12/12	100%	Member

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

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

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

## H.Asset and Liability Committee

Name of Director	Attendance		Position
Ms. Lourdes B. Dijan	12/12	100%	Chairperson
Ms. Marivic M. Austria	11/12	92%	Member
Ms. Lorenza dt Bañez	11/12	92%	Member
Ms. Laarne D. Paje	11/12	92%	Member
Ms. Maria Rowena F. Galarde	11/12	92%	Member
Mr. Daryl Dane C. Laggui*			Member
Ms. Melody E. Escorsa	11/12	92%	Member
Ms. Jenelyn C. Melgar**	7/12	58%	Member

NOTE: \*On Educational Leave; \*\*On Maternity Leave

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

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

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

- Protect the liquidity position of the Bank to meet maturing obligations when they are due, so that there would have adequate liquidity for growth, and adequate liquidity for emergencies.
- Ensure that profitability and sustainability of the institution through proactive balance sheet management.
- Analyze the potential financial risks associated with any new products



and make recommendations of how to measure and limit/manage the risk (including how to incorporate new products into existing asset liability matching reports).

- d. Review the overall financial risk of the organization whenever there is a significant change to the balance sheet structure (for example adding a new funding source or new client product) and present findings to the Board.

## I. Remittance Committee

Name of Director	Attendance		Position
Dr. Dolores M. Torres	10/12	83%	Chairperson
Ms. Marivic M. Austria	12/12	100%	Member
Ms. Lorenza dT. Bañez	11/12	92%	Member
Ms. Lourdes B. Dijan	10/12	83%	Member
Ms. Laarne D. Paje	11/12	92%	Member
Mr. Ronnie Fallega	11/12	92%	Member
Mr. Jeffrey M. Rondina	12/12	100%	Member
Mr. Rex de Lumban	12/12	100%	Member
Mr. Raymond Villapando	11/12	92%	Member
Ms. Lourdes Virtudez	11/12	92%	Member

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

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

- a. Provide strategic direction to the management to achieve the objectives of the Bank's remittance services.
- b. Recommend strategies to improve the accessibility of the Bank's remittance services.
- c. Developing processes and strategies to monitor and mitigate risk areas identified in the implementation of remittance services.

- d. Review and Assess the performance of the remittance operations of the bank.
- e. Review and evaluate possible third-party remittance partnership.
- f. Assessed and recommends marketing strategies to improve remittance operations and promotional activities.
- g. Perform the other functions and duties as the Board may delegate.

## **J. PAR and Savings Committee**

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

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

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

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

Name of Director	Attendance		Position
Ms. Marivic M. Austria	3/3	100%	Chairperson
Ms. Lorenza dT. Bañez	3/3	100%	Member
Ms. Mercedita Medequiso	2/3	67%	Member
Ms. Malvarosa Perote	3/3	100%	Member
Ms. Lourdes B. Dijan	3/3	100%	Member
Ms. Laarne D. Paje	2/3	67%	Member
Ms. Glenda C. Magpantay	2/3	67%	Member
Ms. Herminigilda Manuba	2/3	67%	Member
Mr. Jeffrey M. Rondina	1/3	33%	Member
Ms. Lourdes Virtudez	2/2	100%	Member
Other Selected Members/Clients	3/3	100%	Member

## CARD Bank Management Profiles

NAME	QUALIFICATIONS																					
<b>Ms. Marivic M. Austria</b> President and CEO  Age: <b>47 Years Old</b> Nationality: <b>Filipino</b> Length of Service: <b>23 Years</b>	<b>Educational Attainment:</b>																					
	<table><tr><th>School Attended</th><th>Degree/Course</th><th>Years Attended</th></tr><tr><td>Harvard Business School</td><td>Advance Management Program</td><td>2014</td></tr><tr><td>Asian Institute of Management</td><td>Executive Master's in Business Administration</td><td>2007</td></tr><tr><td>Laguna College</td><td>BS Commerce - Accounting</td><td>1993</td></tr></table>	School Attended	Degree/Course	Years Attended	Harvard Business School	Advance Management Program	2014	Asian Institute of Management	Executive Master's in Business Administration	2007	Laguna College	BS Commerce - Accounting	1993									
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NAME	QUALIFICATIONS																					
<b>Ms. Lourdes B. Dijan</b> Executive Vice-President  Age: <b>58 Years Old</b> Nationality: <b>Filipino</b> Length of Service: <b>23 Years</b>	<b>Educational Attainment:</b>																					
	<table><tr><th>School Attended</th><th>Degree/Course</th><th>Years Attended</th></tr><tr><td>SNHU, Manchester, NH</td><td>Master of Science in International Community Economic Development</td><td>2008</td></tr><tr><td>Trinity College</td><td>Master's in Business Administration</td><td>2003</td></tr><tr><td>Rizal Technological Colleges</td><td>BSBA - Accountancy</td><td>1985</td></tr></table>	School Attended	Degree/Course	Years Attended	SNHU, Manchester, NH	Master of Science in International Community Economic Development	2008	Trinity College	Master's in Business Administration	2003	Rizal Technological Colleges	BSBA - Accountancy	1985									
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<b>Ms. Marissa M. De Mesa</b> Executive Vice-President for Audit  Age: <b>48 Years Old</b> Nationality: <b>Filipino</b> Length of Service: <b>23 Years</b>	<b>Educational Attainment:</b>																					
	<table><tr><th>School Attended</th><th>Degree/Course</th><th>Years Attended</th></tr><tr><td>Asian Institute of Management</td><td>Executive Master's in Business Administration</td><td>2010</td></tr><tr><td>Trinity College</td><td>Master's in Business Administration</td><td>2004</td></tr><tr><td>Sacred Heart College, Lucena City</td><td>Bachelor of Science in Social Work</td><td>1993</td></tr></table>	School Attended	Degree/Course	Years Attended	Asian Institute of Management	Executive Master's in Business Administration	2010	Trinity College	Master's in Business Administration	2004	Sacred Heart College, Lucena City	Bachelor of Science in Social Work	1993									
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<p><b>Ms. Ma. Rowena F. Galarde</b> Senior Vice-President for Finance</p> <p>Age: <b>45 Years Old</b> Nationality: <b>Filipino</b> Length of Service: <b>23 Years</b></p>	<b>Educational Attainment:</b>																					
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<p><b>Ms. Laarne D. Paje</b> Vice President for Risk Management</p> <p>Age: <b>43 Years Old</b> Nationality: <b>Filipino</b> Length of Service: <b>9 Years</b></p>	<b>Educational Attainment:</b>																					
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<p><b>Ms. Glenda C. Magpantay</b> Vice-President for Operation</p> <p>Age: <b>44 Years Old</b> Nationality: <b>Filipino</b> Length of Service: <b>23 Years</b></p>	<p><b>Educational Attainment:</b></p> <table><tr><th>School Attended</th><th>Degree/Course</th><th>Years Attended</th></tr><tr><td>Harvard Business School</td><td>Senior Executive Leadership Program</td><td>2019</td></tr><tr><td>Asian Institute of Management</td><td>Management Development Program</td><td></td></tr><tr><td>SAIDI / SNHU</td><td>Master of Science in International Community Economic Development</td><td>2010</td></tr><tr><td>Trinity College</td><td>Master's in Business Administration</td><td>2004</td></tr><tr><td>San Pablo Colleges</td><td>Bachelor of Science in Business Administration</td><td>1997</td></tr></table> <p><b>Work Experience:</b></p> <table><tr><th>Institution</th><th>Position</th><th>Duration</th></tr><tr><td>CARD Bank</td><td>Assistant Vice-President for Operation</td><td>Dec. 2010 – Dec. 2018</td></tr><tr><td>CARD Bank</td><td>Regional Director</td><td>Jun. 2006 – Nov. 2010</td></tr><tr><td>CARD Bank</td><td>Area Manager</td><td>Jan. 2000 – May. 2006</td></tr><tr><td>CARD Bank</td><td>Branch Manager</td><td>Jan. 1999 – Dec. 1999</td></tr><tr><td>CARD Bank</td><td>Account Officer</td><td>Sep. 1997 – Dec. 1998</td></tr></table>	School Attended	Degree/Course	Years Attended	Harvard Business School	Senior Executive Leadership Program	2019	Asian Institute of Management	Management Development Program		SAIDI / SNHU	Master of Science in International Community Economic Development	2010	Trinity College	Master's in Business Administration	2004	San Pablo Colleges	Bachelor of Science in Business Administration	1997	Institution	Position	Duration	CARD Bank	Assistant Vice-President for Operation	Dec. 2010 – Dec. 2018	CARD Bank	Regional Director	Jun. 2006 – Nov. 2010	CARD Bank	Area Manager	Jan. 2000 – May. 2006	CARD Bank	Branch Manager	Jan. 1999 – Dec. 1999	CARD Bank	Account Officer	Sep. 1997 – Dec. 1998
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<p><b>Ms. Herminigilda P. Manuba</b> Vice-President for Operation</p> <p>Age: <b>54 Years Old</b> Nationality: <b>Filipino</b> Length of Service: <b>24 Years</b></p>	<p><b>Educational Attainment:</b></p> <table><tr><th>School Attended</th><th>Degree/Course</th><th>Years Attended</th></tr><tr><td>Development Academy of the Philippines</td><td>Master in Productivity and Quality Management major in Microfinance</td><td>2013</td></tr><tr><td>San Pablo Colleges</td><td>Bachelor of Elementary Education (BEED)</td><td>1989</td></tr></table> <p><b>Work Experience:</b></p> <table><tr><th>Institution</th><th>Position</th><th>Duration</th></tr><tr><td>CARD Bank</td><td>Assistant Vice-President for Operation</td><td>Dec. 2014 – Dec. 2018</td></tr><tr><td>CARD Bank</td><td>Regional Director</td><td>Jan. 2006 – Nov. 2014</td></tr><tr><td>CARD Inc.</td><td>Area Manager</td><td>1998 – 2006</td></tr><tr><td>CARD Inc.</td><td>Unit Manager</td><td>1996 – 1998</td></tr><tr><td>CARD Inc.</td><td>Account Officer</td><td>1993 – 1996</td></tr></table>	School Attended	Degree/Course	Years Attended	Development Academy of the Philippines	Master in Productivity and Quality Management major in Microfinance	2013	San Pablo Colleges	Bachelor of Elementary Education (BEED)	1989	Institution	Position	Duration	CARD Bank	Assistant Vice-President for Operation	Dec. 2014 – Dec. 2018	CARD Bank	Regional Director	Jan. 2006 – Nov. 2014	CARD Inc.	Area Manager	1998 – 2006	CARD Inc.	Unit Manager	1996 – 1998	CARD Inc.	Account Officer	1993 – 1996									
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<p><b>Ms. Baby Analyn A. Malaborbor</b> Assistant Vice-President for Operation</p> <p>Age: <b>44 Years Old</b> Nationality: <b>Filipino</b> Length of Service: <b>21 Years</b></p>	<p><b>Educational Attainment:</b></p> <table><tr><th>School Attended</th><th>Degree/Course</th><th>Years Attended</th></tr><tr><td>Asian Institute of Management</td><td>Management Development Program</td><td></td></tr><tr><td>SAIDI School of OD</td><td>Master of Arts in Organizational Development specializing in Microfinance Management</td><td>2009</td></tr><tr><td>Laguna College</td><td>Bachelor of Science in Commerce Major in Management</td><td>1997</td></tr></table>	School Attended	Degree/Course	Years Attended	Asian Institute of Management	Management Development Program		SAIDI School of OD	Master of Arts in Organizational Development specializing in Microfinance Management	2009	Laguna College	Bachelor of Science in Commerce Major in Management	1997									
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<p><b>Ms. Clarita A. Mercado</b> Assistant Vice President for Operation</p> <p>Age: <b>44 Years Old</b> Nationality: <b>Filipino</b> Length of Service: <b>22 Years</b></p>	<p><b>Educational Attainment:</b></p> <table><tr><th>School Attended</th><th>Degree/Course</th><th>Years Attended</th></tr><tr><td>SAIDI School of OD</td><td>Master of Arts in Organizational Development specializing in Microfinance Management</td><td>2012</td></tr><tr><td>Manuel S Enverga University</td><td>AB Psychology</td><td>1998</td></tr></table>	School Attended	Degree/Course	Years Attended	SAIDI School of OD	Master of Arts in Organizational Development specializing in Microfinance Management	2012	Manuel S Enverga University	AB Psychology	1998												
	School Attended	Degree/Course	Years Attended																			
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	Manuel S Enverga University	AB Psychology	1998																			
	<p><b>Work Experience:</b></p> <table><tr><th>Institution</th><th>Position</th><th>Duration</th></tr><tr><td>CARD Bank</td><td>Sr. Regional Director</td><td>2016 –2017</td></tr><tr><td>CARD Bank</td><td>Regional Director</td><td>2013–2016 / 2008–2013</td></tr><tr><td>CARD Bank</td><td>Remittance Manager</td><td>2013</td></tr><tr><td>CARD Bank</td><td>Area Manager</td><td>2007 – 2008</td></tr><tr><td>CARD Bank</td><td>Unit Manager</td><td>2006 – 2007</td></tr><tr><td>CARD Bank</td><td>Account Officer/Loan Officer</td><td>1998 – 2006</td></tr></table>	Institution	Position	Duration	CARD Bank	Sr. Regional Director	2016 –2017	CARD Bank	Regional Director	2013–2016 / 2008–2013	CARD Bank	Remittance Manager	2013	CARD Bank	Area Manager	2007 – 2008	CARD Bank	Unit Manager	2006 – 2007	CARD Bank	Account Officer/Loan Officer	1998 – 2006
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NAME	QUALIFICATIONS																		
<b>Ms. Raquel B. Zaragoza</b> Assistant Vice President for Operation  Age: <b>47 Years Old</b> Nationality: <b>Filipino</b> Length of Service: <b>15 Years</b>	<b>Educational Attainment:</b> <table><tr><th>School Attended</th><th>Degree/Course</th><th>Years Attended</th></tr><tr><td>Asian Institute of Management</td><td>Management Development Program</td><td></td></tr><tr><td>SAIDI School of OD</td><td>Master of <b>Arts</b> in Organizational Development specializing in Microfinance Management</td><td>2012</td></tr><tr><td>Masbate Colleges</td><td>Bachelor of Science in Accountancy</td><td>1995</td></tr></table>	School Attended	Degree/Course	Years Attended	Asian Institute of Management	Management Development Program		SAIDI School of OD	Master of <b>Arts</b> in Organizational Development specializing in Microfinance Management	2012	Masbate Colleges	Bachelor of Science in Accountancy	1995						
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CARD Inc.	Account Officer	Apr. 1995 – Dec. 1997																	
<b>Mr. Michael Borja</b> Assistant Vice President for MIS  Age: <b>32 Years Old</b> Nationality: <b>Filipino</b> Length of Service: <b>11 Years</b>	<b>Educational Attainment:</b> <table><tr><th>School Attended</th><th>Degree/Course</th><th>Years Attended</th></tr><tr><td>Ateneo de Naga University</td><td>Bachelor of Science in Accountancy</td><td>2005 - 2009</td></tr><tr><td>De La Salle University – Manila</td><td>Master of Science in Accountancy</td><td>2019 - Current</td></tr></table>	School Attended	Degree/Course	Years Attended	Ateneo de Naga University	Bachelor of Science in Accountancy	2005 - 2009	De La Salle University – Manila	Master of Science in Accountancy	2019 - Current									
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CARD Inc.	Assistant Vice President for MIS	2019 to Present																	

NAME	QUALIFICATIONS																								
<b>Ma. Melody Escorsa</b> Assistant Vice President for Finance and Accounting  Age: <b>39 Years Old</b> Nationality: <b>Filipino</b> Length of Service: <b>18 Years</b>	<b>Educational Attainment:</b>																								
	<table><tr><th>School Attended</th><th>Degree/Course</th><th>Years Attended</th></tr><tr><td>San Pablo Colleges</td><td>College / BSA</td><td>1994</td></tr><tr><td>SAIDI</td><td>MA in OD</td><td>2017</td></tr></table>	School Attended	Degree/Course	Years Attended	San Pablo Colleges	College / BSA	1994	SAIDI	MA in OD	2017															
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## **ORIENTATION, SEMINARS, AND EDUCATION FOR BOARD AND SENIORMANAGEMENT**

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

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

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

With the pandemic situation in 2020, Board of Directors have limited opportunity to attend seminars and trainings. However, Board of Directors and Senior Management is continually updated of the anti-money laundering initiatives, Bangko Sentral ng Pilipinas issuances, and other banking-related issues, conducted by the compliance unit.

Senior officers have attended series of webinars conducted internally by our CMDI and by external organization to further expand and strengthen their areas of expertise, update them on regulatory matters, bring in new ideas and practices to the organization. As part of the capacity building program of the bank for its Senior Management, qualified officers were sent to master's degree and short degree programs, both locally and internationally.

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

### **Board Selection Process**

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

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

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

- a. Membership record performance (repayment, attendance, and

length of membership with CARD)

b. Business potential to support the family needs as well as other family activities or engagement: on-going business, at least college graduate or have at least 5 years' experience in business, legality of the business.

c. Achievements and development work involvement: in CARD, in family, and in the community.

d. Personal attributes: Self-confidence, communication skills, values and principle in life, and good grooming.

e. Reputation in the community, family background and how the family is regarded in the community.

6. Result of the deliberation shall be submitted to the Governance Committee for review and approval for further endorsement to the Board.
7. As part of the process, shortlisted nominees are invited to become board member observer to the board meeting for three (3) consecutive months, one at a time (while priority nominee attends for three consecutive meetings, record/ profile/background of the next nominee is also evaluated/ revalidated prior to her turn to take the place as the next board member observer). This is to give ample time to further evaluate them and see their fitness to the position.
8. The finalist/top selected nominees are then endorsed to the Governance committee for further endorsement to the board.
9. The final selected nominees attend the board meeting as a regular observer.
10. While her status remains as a regular member observer to the board, she is also invited to join the board committee (usually in the Remittance and Savings Mobilization Committee).
11. While attending as regular member observer to the board, she is also given opportunity to share, and report based on the center visit she conducted during the month.
12. When available position in the board opens, regular member observer to the board is further endorsed to the board for confirmation.
13. Once confirmed by the board, submission of the profile/biodata to the BSP is done.
14. Selected Board Member is also required to attend the Corporate Governance and Risk Management Seminar.



## Senior Management Selection Process

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

## PERFORMANCE ASSESSMENT AND REMUNERATION POLICY

### Board Members

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

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

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

# REMUNERATION POLICY

## Board Members

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## Senior Management

CARD Bank, Inc. followed a standard performance evaluation process for all regular employees (Sr. Management and staff) annually covering the twelve months period. All employees accomplished the standard Performance Evaluation form which result serve as the annual performance report of the employee. Performance evaluation considers both quantitative and qualitative performance of the employee.

A special performance evaluation was also conducted depending on specific needs such as but not limited to promotion, transfer of assignment, or lateral transfer among others. Any personnel action related to the conduct of performance appraisal should be acted on time. It is the responsibility of the management to ensure that report on individual performance is properly documented and submitted to corresponding offices. Performance evaluation was conducted by the immediate supervisor and approved by the next level higher authority. For members of the Sr. Management, approval of the performance evaluation report is thru the office of the President and CEO. Except for the members of the executive committee and head of the audit, risk and compliance unit whose performance evaluation approval is thru their respective committee chairperson or thru the office of the Chairman or Vice-Chairperson.

CARD Bank, Inc. has adopted a standardized salary grading system applicable for all level of position with a corresponding rate of pay that are fair and equitable in relation to the job requirements in terms of complexity, responsibility, skills, and qualifications. The Bank maintains a salary and benefits structure competitive with the prevailing rates/system of similar agencies and organizations compatible with the financial condition and

objectives of the institution. These remuneration policies of the bank are duly approved by the Board of Directors. There will be a provision on annual increase and performance assessment measures.

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

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

Elected Directors serve for a period of one (1) year from May to April of the succeeding year shall continue to serve until their successor is duly appointed. Members of the Board of Directors are not entitled to any retirement benefits. There is no prescribed age limit for Directors, provided, they are physically and mentally fit for the position.

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

Under this program are as follows:

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

### **Policy Statement**

1. CARD Bank, Inc. must ensure continuity of a strong leadership through operationalizing an effective and sound succession planning and development program.
2. CARD Bank, Inc. must ensure that a strong and sound succession planning program identifies and fosters the next generation of leaders.

3. CARD Bank, Inc. must ensure that employees have development opportunities to hone their leadership skills and must guarantee that the organization has a leadership plan in place for success in the future.
4. The Succession Planning and Development Program must link talent development with the strategic goals of the Board, the institution, and the staff.
5. The President and CEO may only serve for a total of five years term, however, he/she may be re-appointed subject to the approval of the Board of Directors and confirmation of the Bangko Sentral ng Pilipinas.

## Scope

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

### Policy Guidelines

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

### Roles and Responsibilities

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

### Policy Violation and Non-compliance

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

this policy.

#### Exemption Handling

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

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

NAME OF STOCKHOLDER	Nationality	Type of Shares	Percentage of Stockholdings	Voting Status
Dr. Jamie Aristotle B. Alip	Filipino	Common	12.77%	Voting
Dr. Dolores M. Torres	Filipino	Common	11.11%	Voting
Ms. Lorenza DT. Bañez	Filipino	Common	10.06%	Voting
Center for Agriculture and Rural Development (CARD) Inc. (A Microfinance NGO)	Filipino	Common	31.09%	Voting
CARD Mutual Benefit Association, Inc.	Filipino	Preferred	66.09%	Non-Voting



## INDEPENDENT CHECKS AND BALANCES

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

### Internal Control System

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

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

1. Management oversight and the control culture;
2. Risk recognition and assessment;
3. Control activities and segregation of duties;



4. Information and communication; and
5. Monitoring activities and correcting deficiencies.

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

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

## **Internal Audit**

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

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

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

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

## **External Auditor**

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

## **Compliance System**

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

- a. Risks to reputation that arise from internal decisions that may damage a bank's market standing;
- b. Risks to reputation that arise from internal decision and practices that ultimately impinge on the public trust of a bank;
- c. Risks from the action of a bank that are contrary to the existing regulations and identified best practices and reflect weaknesses in the implementation of codes of conduct and standard of good practice; and
- d. Legal risks to the extent that changes in the interpretation or provisions of regulations directly affect bank's business model.

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

1. The Bank's compliance function has a formal status within the organization. Its charter was approved by the board of directors which defines the compliance function's standing, authority and independence.
2. Compliance offices have the right to obtain access to information necessary to carry out its responsibilities, conduct investigations of possible breaches of the compliance policy. The compliance is directly reporting to and have direct access to the Board of Directors or Compliance Committee.

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

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

To monitor the effectiveness of implementation of the compliance system, the compliance unit has implemented a compliance rating system that measures the compliance risk exposures system of branches and other offices during compliance monitoring and testing.

## **Compliance Risk Management**

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

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

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

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

The Bank adopted the Updated Anti-Money Laundering Rules and Regulations of Bangko Sentral ng Pilipinas (BSP) - a comprehensive and risk-based

Money Laundering and Terrorist Financing Prevention Program (MLTFPP) that promotes high ethical and professional standards of the Bank and ensures that it is not being used for money laundering and terrorist financing activities. It supports governments, law enforcement agencies, and international bodies such as the Financial Action Task Force in their efforts to combat the use of the financial system for the laundering of the proceeds crime and terrorism.

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

- Ensure that bank has conform with high ethical standards in protecting the safety, soundness and integrity of the national banking and financial system
- Ensure that identity of customer is always established along with ensuring that financially and socially disadvantaged are not denied access to financial services.
- Ensure that suspicious individuals or entity are denied from opening or maintaining an account or transacting with the bank.
- Adopting and implementing this MLTFPP risk management system to identify, assess, monitor, and control risks associated with money laundering and terrorist financing.
- Ensure that full compliance with the rules and existing laws by regularly ensuring that all officers and employees are informed on their responsibilities in combating money laundering and terrorist financing.
- Ensure full cooperation with the Anti-Money Laundering Council (AMLC) and Bangko Sentral ng Pilipinas for the effective implementation and enforcement of these regulations.
- In the midst of COVID 19 pandemic, the digital financial services of the bank were strengthened to better serve our clients without compromising the health and security of our staff from the infection of COVID-19 virus. With the increase in digital financial transaction, the bank also strengthened its monitoring activities on transaction passing thru our digital channels to ensure that the Bank will not be used as vehicle to divert any proceeds from illegal activities nor to finance terrorism activities.

## **MLTFPP Risk Management**

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

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

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

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

### **b. Compliance Office**

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

implementation of this MLTFPP program to all branches and other offices.

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

CARD MRI group has established CARD MRI Compliance Committee. The committee was established to oversee the compliance and anti-money laundering requirement and implementation of the entire CARD MRI group. Further, the CARD MRI group has regular coordination meeting of compliance, audit and risk officers to discussed matters that affect the organization as a whole.

### **d. Internal Audit**

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

### **e. Risk Assessment of Independent Check and Balances**

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

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

## **RISK MANAGEMENT**

Since the incorporation of CARD Bank, Inc. in 1997, risk management is always a priority even in all units of operation. Part of it is the regular monitoring



of branches being conducted by the Executive and Management Committee other than the regular audit for all bank branches and head office departments like IT, Compliance, Finance, Security, Marketing, and others.

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

## **RISK GOVERNANCE**

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

## **RISK CULTURE**

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

The main components shall include:

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

### **Three Lines of Defense**

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

## RISK APPETITE, STRATEGIES AND RISK MANAGEMENT PROCESSES

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

#	Type of Risk	Risk Profile	Mitigating Strategies
1	<b>Credit Risk</b> – denotes danger that borrower is not able or willing to pay the principal and/or interest at maturity date.	<ul style="list-style-type: none"> <li>Highly volatile due to non-collateralized loans</li> <li>High loan loss provisioning eroding profitability and equity</li> <li>Breakdown of discipline by some members that impact some good borrowers</li> </ul>	<p><b>First Line of defense:</b></p> <ul style="list-style-type: none"> <li>Intensive follow-up for defaulters</li> <li>Daily monitoring on the number of default members</li> <li>Rehabilitation program for branches with high portfolio at risk</li> <li>Sample legal cases for default members</li> <li>Hiring of consultants to help in enhancement and rehabilitation</li> <li>Intensifying and rebuilding of credit discipline of members thru awareness of advantages and benefits as members/stockholders and Lakbay Aral program.</li> </ul> <p>Codified signing and approving authority.</p> <p><b>Second Line of Defense</b></p> <ul style="list-style-type: none"> <li>Mitigate the risk of incurring losses</li> <li>Check if the credit risk exposures are within the bank risk appetite</li> <li>Develop and review the credit risk policy and recommend changes in the credit risk policy to the Risk Oversight Committee and board of directors.</li> <li>Check and monitor if credit risk policy is properly implemented at the branch and MBO level.</li> <li>Monitor the loan portfolio with higher risk.</li> <li>To maintain the level of non-performing loans below 3%. Take specific actions in case part of non-performing loans exceeds 3% to recover the loans such as: <ul style="list-style-type: none"> <li>Develop a policy to recover the uncollected amount of past due loans</li> <li>Recommend strategies by doing continued follow up and monitoring of the operations staff to members who are not regularly paying their dues to control the credit portfolio at risk</li> <li>Up-to-date reporting of the status of the loan portfolio to the Risk Oversight Committee and Board of Directors</li> <li>Check the credit concentration to ensure if within defined limits</li> </ul> </li> </ul> <p><b>Third Line of Defense</b></p> <ul style="list-style-type: none"> <li>Ensure that Internal Audit is an independent function and has the responsibility of reviewing and verifying the internal control systems and procedures to confirm that they are operating smoothly.</li> </ul>

2	<b>Interest Rate Risk</b> - Risks to earnings or capital arising from mismatches of the timing within which interest rates on assets and liabilities can be changed.	ALCO regularly monitor this risk	<ul style="list-style-type: none"> <li>Process to coordinate interest rate risk sensitivity decisions is done by the Asset and Liability Committee (ALCO) represented with the Head of Finance and Accounting as Chairperson</li> <li>Manage the impact of interest rate environments with balances mix of fixed and variable rate.</li> <li>Mitigate the risk of incurring losses arising from market interest rate changes to an acceptable level.</li> </ul>
3	<b>Liquidity Risk</b> – Risk of a temporary cash flow problem, because assets can be liquidated by large discounts.	Savings composition with an average of 60% of fund were came from savings there are available credit lines.	<p><b>Creation of Assets and Liability Committee</b></p> <ul style="list-style-type: none"> <li>Management Committee (ALCO) that reviews liquidity position of the bank monthly.</li> <li>Early repayment and settlement of loan balances when there are excess funds</li> <li>Continuous savings mobilization activities and program</li> </ul> <p><b>Second Line of Defense</b></p> <ul style="list-style-type: none"> <li>To Check if the obligations can pay on time where this is present and future debts considering the nature of performed activities and requirements due to changes in market environment by checking the financial position and contingent liabilities and commitments.</li> <li>Up-to-date monitoring and reporting to the Risk Oversight Committee if compliant based on the set standard ratio or limit.</li> </ul>
4	<b>Operational Risks</b> - Risk to earnings or capital that may arise because of weakness in organizational structure, poor oversight function of board of directors and senior management, defective personnel recruitment policy, weak internal control system, inadequate internal and external coverage, and deficient management information system.	<ul style="list-style-type: none"> <li>People Risk: internal fraud, External fraud, incompetency, work force interruption, wrongful employment termination.</li> <li>Process Risk: failure of internal process, exceeding limits, project of overruns, inadequate project plan, failure to adhere internal and external compliance procedure, security risk.</li> <li>System and Technology risk: network failure, external security breaches, failure to integrate or migrate with/ from existing system.</li> <li>External Risk: legal risk, regulatory risk, political risk,</li> </ul>	<p><b>First Line of Defense</b></p> <ul style="list-style-type: none"> <li>Strengthen internal control through enhancement of monitoring and supervision at all levels</li> <li>Upgrading of staff capacities both at the top and middle management by sending Senior Officer and Management to different schools like Asian Institute of Management (AIM) in Makati, Southern New Hampshire University in USA, South-East Asia Inter-disciplinary Development Institute (SAIDI).</li> <li>Regular monthly monitoring by the Executive and Management Committee each with individual target</li> <li>Regular management committee meeting once in a month.</li> </ul>

			<b>Second line of defense</b> <ul style="list-style-type: none"> <li>To monitor assessment of the exposure to all types of operational risk faced by the company by assessing the quality and appropriateness of mitigating actions.</li> <li>To ensure that adequate controls and systems are in place to identify and address problems before they become major problems.</li> <li>Up-to-date reporting of the status of the operations related to risk to the Risk Oversight Committee and Board of Directors</li> </ul>
5	<b>Compliance Risk</b> – is the risk of legal or regulatory sanctions, financial loss, or loss to reputation a bank may suffer because of its failure to comply with all applicable laws, regulations, code of conduct and standards of good practice.	Very strong Compliance Unit	<b>First line of defense</b> <ul style="list-style-type: none"> <li>With compliance committee conducting regular monthly meeting.</li> <li>Regular reporting of compliance risk issues to the Risk Oversight Committee.</li> <li>Compliance staff is also conducting regular monitoring and testing of branch compliance.</li> </ul> <b>Second line of defense</b> <ul style="list-style-type: none"> <li>Check and monitor the status of reporting to BSP if compliant</li> <li>Reporting of compliance risk issues to the Risk Oversight Committee</li> </ul>
6	<b>Information Technology Risk</b> – any risk related to information technology	Procedures are yet in checking parameters. Security feature of the current system is currently establishing.	<ul style="list-style-type: none"> <li>Core team to monitor IT related problems was established with regular monthly meeting.</li> <li>With Board and management oversight.</li> <li>Regular IT Audit.</li> <li>Each branch will log all the IT related issues and concerns in ITmate (concern tool) which serve as reference for all the encountered problems and actions taken.</li> <li>For security of data and source code of the system, IT staff has Confidentiality and Non-Disclosure Agreement (CNDA)</li> </ul> <b>Second line of defense:</b> Ensure that the risk under Information technology risk is monitored and report to the Risk Oversight Committee as follows: . <b>a. Process Risk Areas</b> <ul style="list-style-type: none"> <li>Check the processes, procedures, and guidelines for managing risks if established and fully documented and reviewed for relevance and usefulness.</li> </ul> <b>b. Human Resources Management Risk Areas</b> <ul style="list-style-type: none"> <li>Check if the assigned personnel possess the required skills to handle the systems, equipment, services, and facilities in placed and planned.</li> <li>Check if there is Succession planning for key positions.</li> </ul>

		<ul style="list-style-type: none"> <li>Check if procedures is put in place that all concerned personnel are briefed on the information security roles and responsibilities.</li> </ul> <p><b>c. Platform / Application Risk Areas</b></p> <ul style="list-style-type: none"> <li>These are related to the selection and implementation of system hardware, operating and application software associated with the use of information system. In selecting and implementing of any software assets, management have considered the availability and adequacy of support to all platforms within the bank and outsourced IT infrastructure.</li> </ul> <p><b>d. Network Security Risk Areas</b></p> <ul style="list-style-type: none"> <li>Check the risks associated with the connection of information systems, terminals, and other connections to the internal network infrastructure and to the external network such as the Internet and other third-party facilities.</li> <li>Security and network management systems are implemented to monitor any unauthorized access or usage of the systems, resources, and facilities. Management should ensure that all network devices and other communication systems are updated and maintained properly.</li> </ul>
		<p><b>e. Physical / Environmental Risk Areas</b></p> <ul style="list-style-type: none"> <li>Check and report if the physical installation and site of the data center, disaster recovery site(s) and other offices were in a place free from environmental risks like flood, fire etc. Mitigating steps were taken in cases that any site has been identified susceptible to risk.</li> </ul> <p><b>f. Information Assets Risk Areas</b></p> <ul style="list-style-type: none"> <li>All identified information and information assets were securely stored with its full documentation for the continuous operations of the systems and infrastructure. Documentations were maintained and kept updated. There are proper process and procedures in place for verification of all the documentations.</li> </ul> <p><b>g. Outsourcing/External Vendor Risk Areas</b></p> <ul style="list-style-type: none"> <li>Check if Service level agreement put in place in outsourcing of work to vendors.</li> <li>Requirements and responsibilities are clear.</li> <li>Check the lists of service provider that can be easily identified in cases of failure of delivery of services or worst a termination of contract.</li> </ul>

			<ul style="list-style-type: none"> <li>A standard termination/pre-termination clause should be embedded in every Maintenance Agreement to be able to terminate the contract, with or without a cause, at least thirty (30) days prior to the intended date of termination.</li> <li>Check if the regular review on the vendor's service performance is also conducted by the IT Governance Department.</li> </ul> <p><b>h. Bank's Responsibility Risk Areas</b></p> <ul style="list-style-type: none"> <li>Check if proper information on all the benefits is provided for sake of customer on the correct usage of the information system and increase awareness on the aspects of security and confidentiality of data.</li> </ul>
7	<p><b>Legal Risks</b> - Risks to earnings and capital that may arise because of unenforceable contracts, lawsuits, or adverse judgments.</p>	Increasing risk due to increasing transaction.	<ul style="list-style-type: none"> <li>Well documented and set up detailed guidelines for legal transactions involved.</li> <li>With Legal staff in-charge for the completion, compilation and filing of all legal documentations.</li> <li>Guidelines in handling legal cases were established to guide employees in handling staff cases.</li> <li>Settlement of cases shall be done through the Legal Counselor through court proceedings. Executives and Legal Counsel are given authority to decide whether to pursue staff cases or execute compromise agreement:</li> <li>Designation of approving authorities on legal recommendations.</li> <li>To prevent lawsuit, more importantly, the following are being observed by the bank: <ul style="list-style-type: none"> <li>— Maintenance of Legal Counsel in the form of Retainers and maintenance of Legal Unit.</li> <li>— Regular consultation with the Legal Counsel and the Legal Unit on matter that has legal consequences.</li> <li>— Regular monitoring and upgrading of legal policies.</li> <li>— Reports of banking activities and other significant issues are submitted for regular review by the Board of Directors, Executive Committee, Management Committee Regulatory Agencies (i.e. BSP, PDIC, SEC and BIR)</li> </ul> </li> <li>Para-legal training for employees of the bank and capacity building for Legal Unit officers and staffs.</li> <li>Regular monitoring of contracts being entered into by CARD Bank.</li> <li>Review of insurance premium being paid to Philippine Deposit Insurance Corporation.</li> <li>Periodic review and updating of legal documentation used by CARD Bank.</li> </ul>

8	<p><b>Market Risks -</b> Risk to earnings or capital arising from the possible decline in value of trading accounts and investment in equities and debt instruments.</p>	<ul style="list-style-type: none"> <li>• Low risk because the bank is not yet involved with trading.</li> <li>• Investment and bills payable are being monitored by ALCO</li> </ul>	<ul style="list-style-type: none"> <li>• Ensures to identify, measure, control and monitor market risks that may always arise from the conduct of its business transactions and at its portfolio level.</li> <li>• Active and Appropriate Board and Senior Management Oversight</li> <li>• Proposals and the subsequent new product/ activity review are formally presented and written.</li> <li>• An accurate, informative, and timely management information system was regularly prepared and reviewed to inform management and to support compliance with board policy.</li> <li>• Summary of findings or reviews of market risk policies and procedures and the adequacy of the market risk measurement systems including any findings of internal and external auditors and retained consultants</li> </ul>
9	<p><b>Business Continuity Program Management (BCP) Risk -</b> Risk to swiftly resume business operation in the event of business disruptions/ disasters</p>	<p>Increasing risk since the bank was in the stage of digital transformation wherein reliant to technology that may impact the operation. However, there were action taken and existing controls to relevant risks and ability of the bank to swiftly resume business operation in any disruptions/disasters</p>	<ul style="list-style-type: none"> <li>• In the event of a disaster which interferes with Bank's ability to conduct business from one of its offices, this program is to be used by the responsible individuals to coordinate the business recovery of their respective areas and/or departments.</li> <li>• The plan is designed to provide reference to all the information that might be needed at the time of a business recovery.</li> <li>• The Business Continuity Management Program (Business Continuity Plan), is part of the overall Risk Management Program of the Bank, has been established not only to comply with the requirement as set out by the Bangko Sentral ng Pilipinas (BSP), but also to serve as a guide for the Board and Senior Management in ensuring continuity in the business of the bank and for carrying out smooth and efficient banking activities towards profitability.</li> <li>• Coverage of the Business Continuity Management Program (Business Continuity Plan) as follows:             <ol style="list-style-type: none"> <li>1. Alternate and Business Recovery Sites</li> <li>2. Business Continuity</li> <li>3. Business Continuity Management (BCM)</li> <li>4. Business Continuity Plan (BCP)/Plan</li> <li>5. Business Impact Analysis (BIA)</li> <li>6. Crisis</li> <li>7. Crisis Management Plan (CMP)</li> <li>8. Critical Process</li> <li>9. Cyber Resilience</li> <li>10. Events</li> </ol> </li> </ul>



			11. Pandemic 12. Recovery Point Objective (RPO) 13. Recovery Time Objective (RTO) 14. Resilience 15. Risk Assessment Technology Recovery Plan (TRP)/Disaster Recovery Plan (DRP)
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## REGULAR MONITORING

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

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

## RISK SCORING

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

### Likelihood and Impact Severity Thresholds

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

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

## Impact to the Organizations

Rating	Meaning	Financial	Operational	Regulatory	Reputational
1	Insignificant	Impact of risk to the organization might involve either negligible, minimal, high and significant financial loss	Minimal disruption in the delivery of one of the institution's services, products and/or operations	May receive queries or request report to be submitted to regulatory body or may have legal or regulatory sanction and/or penalty	Effect of risk might either localized, controllable, significant or long lasting on the reputation of the Bank.
2	Mild				
3	Moderate				
4	Significant				
5	Catastrophic				

## RISK ORGANIZATIONAL STRUCTURE

### The Board of Directors

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

### The Risk Oversight Committee

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

In line with this vision is the Board of Directors and management concern on "risk management". The creation and approval of risk oversight committee, other than compliance to Circular No. 456, is also a vital move by CARD Bank, Inc. Board of Directors because a bank's success is largely dependent on the ability of its directors and officers in managing risks.

### The Risk Management Unit

CARD Bank has a functioning independent risk management unit that effectively covers all risks (including financial and operational risks) associated with the various activities and operations of the Bank to ensure their consolidated

control and appropriate management and to provide the required coordination across all departments of the Bank.

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





# CARD Bank, Inc.

A Microfinance - Oriented Bank  
A member of CARD MRP

## CODE OF CONDUCT AND BUSINESS ETHICS

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

### Related Party Transactions

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

### STAKEHOLDERS INTEREST

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

## **CARD Bank, Inc. Stockholders**

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

## **Disaster Preparedness and First Aid Training**

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

## **Supplier/Contractor Selection Criteria**

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

## **Employee Benefits**

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

## **Environment-friendly Value Chain**

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

also in support to CARD- Business Development Service Foundation Inc.'s renewable energy initiative.

### **Transparency and Disclosure**

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

### **CARD BANK DATA PRIVACY STATEMENT**

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

### **GENERAL STATEMENT**

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

## OUR PRIVACY PRACTICES

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

## WHAT DATA DO WE COLLECT FROM YOU

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

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

## HOW WE USE YOUR INFORMATION

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

- Opening, maintaining, and/or terminations of accounts;



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

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

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

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

## **RECIPIENTS OF INFORMATION**

We may share your personal information with our subsidiaries, affiliates and third parties, including members of CARD MRI, for the purposes above and with an obligation of confidentiality. Your personal information may similarly be disclosed to government agencies, supervisory bodies, tax authorities, or courts of competent jurisdictions for purposes of complying with banking regulations, which CARD Bank may be subject to such as Republic Act No. 9160 otherwise known as the Anti-Money Laundering Act of 2001 or Republic Act No. 9510 otherwise known as the Credit Information System Act (“CISA”), among others.

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

## **HOW WE SAFEGUARD PERSONAL INFORMATION**

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

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

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

## YOUR RIGHTS AS DATA SUBJECT

CARD Bank respects your rights to:

1. Be informed;
2. Object to the processing of your personal data;
3. Have reasonable access to your personal data under the custody of CARD Bank;
4. Require immediate correction of inaccurate or erroneous personal data under the custody of CARD Bank;
5. Suspend, withdraw, or order the blocking, removal, or destruction of your personal data from CARD Bank's records and/or system; and
6. Be indemnified in case of violation of your rights as data subject.

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

## HOW TO CONTACT US

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

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

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

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

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

Email: [dpo@cardmri.com](mailto:dpo@cardmri.com)

Telephone Number: (049) 562-4309

## **CHANGES TO OUR PRIVACY STATEMENT**

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

## **DIVIDEND POLICY**

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

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

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

### **Right to Dividends**

1. Stockholders have the right to declare dividends subject to the discretion of the Board.
2. The Bank shall be compelled to declare dividends when its retained earnings is in excess of 100% of its paid-up capital, except:
  - a) When justified by definite corporate expansion projects or program approved by the Board; or
  - b) When the Bank is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such has not been secured; or

- c) When it can be clearly shown that such retention is necessary under circumstances obtaining in the Bank, such as when there is a need for a special reserve for probable contingencies.
- d) When the Bank's Capital Adequacy Ratio falls below the set internal limit of 15%
- e) When the Bank's Liquidity Ratio is at 20% and below.

- 3. The bank is compliant to BSP issued regulations on dividend declaration.
- 4. Dividend declaration maybe in form of stock or in cash or both stock and cash.

### **Requirements on the declaration of dividends**

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

- 1. Clearing account with the Bangko Sentral is not overdrawn;
- 2. Liquidity floor requirement for government funds;
- 3. Minimum capitalization requirement and risk-based capital ratios as provided under applicable and existing capital adequacy framework; and
- 4. Has not committed any unsafe or unsound banking as defined under existing regulations and/or major acts or omissions<sup>1</sup> as may be determined by the Bangko Sentral to be ground for suspension of dividend distribution, unless this has been addressed by the bank as confirmed by the Monetary Board or the Deputy Governor of the appropriate sector, as may be applicable, upon recommendation of the appropriate supervising department of the Bangko Sentral.

### **Specific Guidelines**

- 1. The net amount available for dividends shall be the amount of unrestricted or free retained earnings and undivided profits reported in the Financial Reporting Package (FRP) as of the calendar/fiscal year-end immediately preceding the date of dividend declaration. The amount of dividends from the unrestricted/ free retained earnings shall be based on a sound accounting system and loss provisioning processes under existing regulations which takes into account relevant capital adjustments including losses, bad debts and unearned profits or income
- 2. The proposed rate of dividend per share for common stock shall be determined by considering the average CAR after declaring dividend which must not be lower than previous year.

3. The proposed rate of dividends per share for preferred stock shall at least 8% per year.
4. Included in the bank's cash flows.
5. The following ratio must be maintained at its acceptable level:
  - Return on Assets
  - Return on Equity
  - Net Interest Margin
  - Cost to Income
  - Operational Self Sufficiency
  - Liquidity Ratio
  - MLR

### **Recording of dividends**

The liability for dividends declared shall be taken up in the bank's books upon its declaration. For full disclosure purposes, the dividends declared shall be disclosed in the financial statements either as a footnote in the statement of changes in equity or in the notes to the financial statements.

### **Issuance of fractional shares**

Whenever the declaration of stock dividend results in the issuance of fractional shares, banks may observe the following guidelines:

1. The amount corresponding to the fraction should be given in the form of cash dividend; and
2. The certificate of stock issued should be in whole numbers. In no case shall the certificate of stock be issued including such fractional share.

### **CONSUMER PROTECTION PRACTICES**

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

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

complaints relating to the provision of financial products and services.

## **Consumer Protection Risk Management System**

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

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

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

### **a. Disclosure and Transparency**

Recognizing the contribution as well as the rights of customers, the Bank in its policy promotes disclosure and transparency by providing customers with sufficient information to understand the products and services being offered. This information will enable customers to make informed financial decisions by providing them easy access to information such as terms and condition of the products/services being availed of, benefits and its associated risks. This shall be applicable even to products and services offered electronically as well as to products catering to different market segments with particular consideration for segments that may have limited financial literacy.

### **b. Protection of customer Information**

It is always the bank's primary responsibility to ensure protection of client information. As such, bank ensures that policies and procedures to protect



customer information and records are in place. This covers protection against any threat to security or integrity of customer's records and information and unauthorized access or use.

### **c. Fair Treatment**

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

### **d. Effective Recourse**

The Bank has designated service helpdesk accountable on the processing of client's inquiries and concerns to ensure that it is properly attended, timely responded and resolved, which is accessible to the customers. The Bank have mechanisms in place for complaint handling and redress and have employ various modalities and technological innovations.

### **e. Financial Education and Awareness**

Bank recognizes that client education and awareness are powerful strategies to ensure client protection. As such, bank adopted the following measures:

- Financial education and training program/module shall be designed and given to clients. This shall be part of the credit with education and center's agenda during meeting.
- Financial education tool/information materials shall be developed and disseminated to customers.
- Regular monitoring and assessment on campaign materials for possible improvement.

### **Conflict of Interest**

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

- a. Full disclosure to the customer prior to any transaction that the bank or its staff has an interest in a direct/cross transaction with consumer.
- b. Should products be marketed is issued by a related company, the bank informed the customer on the limited availability of the products being marketed.

- c. Basis of the remuneration (e.g. commission, incentives, etc.) of the bank at pre-contractual stage is disclosed.
- d. Regular monitoring to promptly identify issues and matters that may be detrimental to the customer is conducted.

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

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

- Established a consumer service unit that is responsible in dealing with consumer concerns independently. Personnel handling customer service is equipped with the necessary knowledge and skills in the implementation of customer assistance program of the bank.
- Several channels have been set up by the bank to ensure that customers are given option to lodge their concern as follows;
  - a) Customer Service Officer (CSO) in the branch for walk-in clients;
  - b) 24/7 Customer Service Desk

Customer Service hotline numbers:

+6349-503-4156	(PLDT)
+63909-233-6852	(Talk and Text)
+63998-530-8689	(Smart)
+63961-021-4271	(Smart)
+63943-705-2510	(Sun)
+63917-707-9819	(Globe)

c) Bank email address:	<a href="mailto:cardbankcsr@cardmri.com">cardbankcsr@cardmri.com</a>
d) Google Hangouts:	<a href="mailto:csrcardbank@gmail.com">csrcardbank@gmail.com</a>
e) Official website:	<a href="http://www.cardbankph.com">www.cardbankph.com</a>

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

# **CORPORATE SOCIAL RESPONSIBILITY**

## **Policy Objective**

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

## **Policy Statement**

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

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

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

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

## **A. SCHOLARSHIP PROGRAM**

Believing that education brings about change in the community, CARD Bank together with members of CARD MRI offers educational assistance and scholarship through the CARD Scholarship Program (CSP) under the

Resource Mobilization Unit (RMU) of CARD MRI. This was launched in 2000 and CSP has been actively and successfully providing a platform for qualified students to have well-deserved opportunities for education.

## **B. HEALTH PROTECTION PROGRAM**

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

With the restriction on social gatherings and strict implementation of social distancing, the bank and the CARD MRI has deferred its regular activities in providing Credit with Education and community health days. However, with its desire to continuously provide medical assistance to the members and to the public, following health service initiatives were provided in the midst of COVID-19 threat.

### **1) E-Doctor Consultation**

In response to the COVID-19 pandemic where there are physical limitations, the Microfinance and Health Protection (MaHP) program unit launched a free online health consultation using Facebook page where our medical health practitioners continue to provide medical support to the communities nationwide.

### **2) E-Doctor Webinar**

The CARD e-Doctor also, became a venue for CARD Bank to inform and educate the general public about many certain health concerns and issues. Despite the health threat, CARD Bank continues its advocacy in raising awareness on health and wellness.

### **3) CARD MRI Buy-and Sell**

To support the CARD microentrepreneurs, CARD MRI created an online community for its clients and members to continue their businesses despite restricted mobility due to the ECQ. This Facebook page allows CARD clients to buy and sell their products.

# nek2CARD

ahit nasaan man.



## PRODUCTS AND SERVICES

### Savings Products

#### Loan Products

#### Microfinance Loans

- MF-Sikap 1 Loan – For working and business capital
- MF-Sikap Additional Loan - For additional fund for better cash flow and overall business
- MF-Sipag Loan - For small entrepreneurs not belonging to any CARD Bank center
- Micro Housing Loan – For housing improvement and/or renovation
- Micro-Agri Loan – For agriculture-related business
- Microfinance Plus – For business capital amounting up to Php300,000 Loan

## Products

### SME Loan

- For clients needing working capital of more than PHP300, 000.
- SME – Working Capital
- SME – Investment

### Other Loans

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

### Remittance Service

#### 1. Domestic Remittance (in-house) through:

- a. CARD Sulit Padala - CARD Bank and received by their loved ones in any CARD Bank or CARD SME Bank branches nationwide.
- b. Domestic Remittance Partners - A domestic remittance service in partnership with local remittance service providers. Clients can now send money through CARD Bank and receive it in any GCash outlet, Cebuana Lhuiller or vice versa.

#### 2. International Remittance

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

# AUDITED FINANCIAL STATEMENTS

# 2020





**CARD Bank, Inc.**  
*(A Microfinance-Oriented  
Rural Bank)*

Financial Statements  
December 31, 2020 and 2019

and

Independent Auditor's Report



A member firm of Ernst & Young Global Limited

**AUDITED FINANCIAL STATEMENTS**

## 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 statement of financial position as at December 31, 2020 and 2019, and the statement of income, statement of comprehensive income, statement of changes in equity and statement 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, 2020 and 2019, 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.

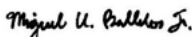
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



**Reports on the Supplementary Information Required Under Bangko Sentral ng Pilipinas (BSP)  
Circular No. 1074 and 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 BSP Circular No. 1074 in Notes 9, 17 and 22 and Revenue Regulations 15-2010 in Note 26 to the financial statements is presented for purposes of filing with the BSP and Bureau of Internal Revenue, respectively, 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.



Miguel U. Ballelos, Jr.

Partner

CPA Certificate No. 109950

SEC Accreditation No. 1566-AR-1 (Group A),

April 3, 2019, valid until April 2, 2022

Tax Identification No. 241-031-088

BIR Accreditation No. 08-001998-114-2019,

January 28, 2019, valid until January 27, 2022

PTR No. 8534220, January 4, 2021, Makati City

April 29, 2021



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

**STATEMENT OF FINANCIAL POSITION**

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
<b>ASSETS</b>		
Cash and other cash items (Note 6)	<b>₱212,449,582</b>	₱175,850,046
Due from Bangko Sentral ng Pilipinas (Notes 6 and 13)	<b>271,318,653</b>	375,395,257
Due from other banks (Note 6)	<b>2,725,483,554</b>	2,657,500,639
Financial assets at fair value through other comprehensive income (Note 7)	<b>1,069,093,682</b>	901,886,290
Financial assets at amortized cost (Note 8)	<b>853,218,810</b>	744,940,616
Loans and receivables, net (Note 9)	<b>12,112,268,589</b>	11,643,215,708
Investments in associates (Note 10)	<b>443,305,022</b>	393,456,340
Property and equipment, net (Note 11)	<b>667,246,434</b>	710,339,756
Retirement asset (Note 19)	<b>199,405,470</b>	212,484,594
Deferred tax assets (Note 21)	<b>203,555,346</b>	56,422,481
Other assets (Note 12)	<b>166,466,574</b>	198,473,704
	<b>₱18,923,811,716</b>	₱18,069,965,431
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
Deposit liabilities (Notes 13 and 22)		
Demand	<b>₱262,352,234</b>	₱206,327,716
Savings	<b>12,692,094,069</b>	11,792,129,921
	<b>12,954,446,303</b>	11,998,457,637
Bills payable (Note 14)	<b>910,744,199</b>	546,811,349
Income tax payable (Note 21)	<b>137,602,613</b>	312,270,341
Other liabilities (Note 15)	<b>611,324,489</b>	929,045,000
	<b>14,614,117,604</b>	13,786,584,327
<b>Equity</b>		
Capital stock (Note 17)		
Preferred stock	<b>1,143,575,000</b>	1,000,000,000
Common stock	<b>1,620,767,600</b>	1,000,000,000
	<b>2,764,342,600</b>	2,000,000,000
Surplus	<b>1,281,305,897</b>	2,060,648,802
Surplus reserve	<b>179,604,796</b>	179,604,796
Remeasurement gains on retirement liabilities (Note 19)	<b>43,179,101</b>	29,249,997
Share in other comprehensive income of an associate (Note 10)	<b>(558,006)</b>	2,159,596
Net unrealized gains (losses) on financial assets at fair value through other comprehensive income (Note 7)	<b>41,819,724</b>	11,717,913
	<b>4,309,694,112</b>	4,283,381,104
	<b>₱18,923,811,716</b>	₱18,069,965,431

*See accompanying Notes to Financial Statements.*



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

	<b>Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
<b>INTEREST INCOME ON</b>		
Loans and receivables (Note 9)	<b>₱3,624,645,493</b>	₱5,502,096,819
Due from other banks (Note 6)	<b>53,789,117</b>	114,718,022
Investment securities and security deposits (Notes 7, 8 and 12)	<b>82,272,512</b>	76,775,773
	<b>3,760,707,122</b>	5,693,590,614
<b>INTEREST EXPENSE ON</b>		
Deposit liabilities (Notes 13 and 22)	<b>287,422,313</b>	255,814,381
Bills payable (Note 14)	<b>41,838,097</b>	51,532,740
Finance lease liability (Note 20)	<b>12,173,750</b>	12,883,049
	<b>341,434,160</b>	320,230,170
<b>NET INTEREST INCOME</b>	<b>3,419,272,962</b>	5,373,360,444
Miscellaneous (Note 18)	<b>23,996,798</b>	15,728,545
<b>TOTAL OPERATING INCOME</b>	<b>3,443,269,760</b>	5,389,088,989
<b>OPERATING EXPENSES</b>		
Compensation and benefits (Notes 19 and 22)	<b>1,306,064,596</b>	1,575,784,917
Provision for credit losses (Note 9)	<b>511,853,110</b>	194,222,326
Taxes and licenses (Note 26)	<b>303,756,366</b>	307,807,964
Depreciation and amortization (Note 11)	<b>209,280,726</b>	188,354,820
Information and technology (Note 22)	<b>175,490,268</b>	174,337,318
Transportation and travel	<b>167,942,078</b>	262,815,766
Stationery and office supplies	<b>119,681,290</b>	172,615,322
Security, messengerial and janitorial	<b>105,552,729</b>	103,475,408
Postage, telephone and cable	<b>99,250,215</b>	89,502,450
Rent (Notes 20 and 22)	<b>75,800,213</b>	106,009,802
Power, light and water	<b>35,529,516</b>	44,014,055
Insurance	<b>32,717,723</b>	27,403,230
Employee trainings (Note 22)	<b>28,902,665</b>	96,041,935
Repairs and maintenance	<b>21,423,412</b>	22,966,132
Management and other professional fees	<b>10,866,567</b>	19,738,446
Seminars and meetings (Note 22)	<b>7,743,691</b>	25,118,529
Directors' fee	<b>4,351,000</b>	17,080,024
Program monitoring and evaluation	<b>3,330,602</b>	11,479,514
Members training and development (Note 22)	<b>1,848,400</b>	49,991,699
Miscellaneous (Notes 18 and 22)	<b>43,848,083</b>	172,586,474
	<b>3,265,233,250</b>	3,661,346,131
<b>INCOME BEFORE SHARE IN NET INCOME OF AN ASSOCIATE</b>	<b>178,036,510</b>	1,727,742,858
<b>SHARE IN NET INCOME OF AN ASSOCIATE</b> (Note 10)	<b>2,333,925</b>	151,382,349
<b>INCOME BEFORE TAX</b>	<b>180,370,435</b>	1,879,125,207
<b>PROVISION FOR INCOME TAX</b> (Note 21)	<b>39,713,340</b>	522,081,382
<b>NET INCOME</b>	<b>₱140,657,095</b>	₱1,357,043,825

*See accompanying Notes to Financial Statements.*



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

	Years Ended December 31	
	2020	2019
<b>NET INCOME</b>	<b>₱140,657,095</b>	<b>₱1,357,043,825</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
<i>Items that may not be reclassified to profit or loss:</i>		
Remeasurement gain (loss) on retirement liabilities (Note 19)	19,898,720	(43,214,661)
Income tax effects (Note 21)	(5,969,616)	12,964,399
	<b>13,929,104</b>	<b>(30,250,262)</b>
<i>Items that may be reclassified to profit or loss:</i>		
Changes in net unrealized gains (losses) on:		
Financial assets through other comprehensive income (Note 7)	43,002,587	84,641,183
Income tax effects (Note 21)	(12,900,776)	(25,392,355)
	<b>30,101,811</b>	<b>59,248,828</b>
Share in other comprehensive income (loss) of an associate (Note 10)	(2,717,602)	(4,547,578)
	<b>41,313,313</b>	<b>24,450,988</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱181,970,408</b>	<b>₱1,381,494,813</b>

*See accompanying Notes to Financial Statements.*





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

	Preferred Stock (Note 17)	Common Stock (Note 17)	Surplus	Surplus Reserve (Note 9)	Retirement Gains on Liabilities (Note 19)	Share in Other Comprehensive Income (Loss) of an Associate (Note 10)	Net Unrealized Gains (Losses) on Financial Assets at Fair Value Through Other Comprehensive Income and Available-for-sale Investments (Note 7)	Total
<b>Balance at January 1, 2020</b>	<b>₱1,000,000,000</b>	<b>₱1,000,000,000</b>	<b>₱2,060,648,802</b>	<b>₱179,604,796</b>	<b>₱29,249,997</b>	<b>₱2,159,596</b>	<b>₱11,717,913</b>	<b>₱4,283,381,104</b>
Total comprehensive income	–	–	140,657,095	–	13,929,104	(2,717,602)	30,101,811	181,970,408
Issuance of stocks	20,656,960	4,367,220	–	–	–	–	–	25,024,180
Application of deposit for future stock subscriptions (Note 15)	122,918,040	116,400,380	(500,000,000)	–	–	–	–	239,318,420
Stock dividends	–	500,000,000	(420,000,000)	–	–	–	–	–
<b>Balance at December 31, 2020</b>	<b>₱1,143,575,000</b>	<b>₱1,620,767,600</b>	<b>₱1,281,305,897</b>	<b>₱179,604,796</b>	<b>₱43,179,101</b>	<b>(₱538,006)</b>	<b>₱41,819,724</b>	<b>₱4,309,694,112</b>
<b>Balance at January 1, 2019</b>	<b>₱1,000,000,000</b>	<b>₱1,000,000,000</b>	<b>₱1,491,239,919</b>	<b>₱181,969,854</b>	<b>₱59,500,259</b>	<b>₱6,707,174</b>	<b>(₱47,530,915)</b>	<b>₱3,691,886,291</b>
Total comprehensive income	–	–	1,357,043,825	–	(30,250,262)	(4,547,578)	59,248,828	1,381,494,813
Transfers from surplus reserve (Note 9)	–	–	2,365,058	(2,365,058)	–	–	–	–
Cash dividends (Note 17)	–	–	(790,000,000)	–	–	–	–	(790,000,000)
<b>Balance at December 31, 2019</b>	<b>₱1,000,000,000</b>	<b>₱1,000,000,000</b>	<b>₱2,060,648,802</b>	<b>₱179,604,796</b>	<b>₱29,249,997</b>	<b>₱2,159,596</b>	<b>₱11,717,913</b>	<b>₱4,283,381,104</b>

*See accompanying Notes to Financial Statements.*



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

	<b>Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	<b>₱180,370,435</b>	<b>₱1,879,125,207</b>
Adjustments for:		
Provision for credit losses (Note 9)	<b>511,853,110</b>	<b>194,222,326</b>
Depreciation and amortization (Note 11)	<b>209,280,727</b>	<b>188,354,820</b>
Retirement expense (Note 19)	<b>32,977,846</b>	<b>10,670,697</b>
Amortization of premium/discount on bills payable (Note 14)	<b>5,975,727</b>	<b>1,640,924</b>
Amortization of net discount on financial assets at fair value through other comprehensive income (FVOCI) (Note 7)	<b>(4,208,017)</b>	<b>(2,481,182)</b>
Amortization of net discount on financial assets at amortized cost (Note 8)	<b>(3,765,256)</b>	<b>(3,128,043)</b>
Share in net income of an associate (Note 10)	<b>(2,333,925)</b>	<b>(151,382,348)</b>
Unrealized foreign exchange gains	<b>280,224</b>	<b>179,191</b>
Gain on disposal of property and equipment (Note 18)	<b>(62,346)</b>	<b>(147,211)</b>
Operating income before changes in operating assets and liabilities:	<b>930,368,525</b>	<b>2,117,054,381</b>
Increase in the amounts of:		
Loans and receivables	<b>(980,905,991)</b>	<b>(1,430,145,793)</b>
Other assets	<b>(64,009,601)</b>	<b>(51,687,012)</b>
Increase in the amounts of:		
Deposit liabilities	<b>955,988,666</b>	<b>1,760,858,497</b>
Other liabilities	<b>45,206,190</b>	<b>342,889,367</b>
Net cash generated from operations	<b>886,647,789</b>	<b>2,738,969,440</b>
Income taxes paid	<b>(380,384,325)</b>	<b>(508,773,932)</b>
Contribution to retirement fund (Note 19)	<b>—</b>	<b>(17,586,545)</b>
Net cash provided by operating activities	<b>506,263,464</b>	<b>2,212,608,963</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of:		
Financial assets at amortized cost (Note 8)	<b>(198,714,435)</b>	<b>(58,931,111)</b>
Financial assets at FVOCI	<b>(119,996,789)</b>	<b>(183,149,431)</b>
Additional investment in associates (Notes 10 and 23)	<b>(74,232,360)</b>	<b>(23,546,580)</b>
Property and equipment (Note 11)	<b>(62,139,361)</b>	<b>(402,254,884)</b>
Software costs (Note 12)	<b>(8,556,424)</b>	<b>(4,556,742)</b>
Proceeds from:		
Dividends from an associate (Notes 10 and 17)	<b>24,000,000</b>	<b>100,800,000</b>
Maturity of financial assets at amortized cost (Note 8)	<b>94,201,496</b>	<b>21,171,085</b>
Disposal of property and equipment (Note 11)	<b>587,457</b>	<b>147,214</b>
Redemption of FVOCI investments (Note 7)	<b>—</b>	<b>219,909,000</b>
Net cash used in investing activities	<b>(344,850,416)</b>	<b>(330,411,449)</b>

(Forward)



	Years Ended December 31	
	2020	2019
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Availments of bills payable (Note 14)	₱1,191,117,123	₱298,834,227
Settlements of bills payable (Note 14)	(833,160,000)	(283,160,000)
Payment of principal portion of lease liability	(118,966,877)	(94,317,285)
Dividends paid (Note 17)	(424,641,403)	(793,448,343)
Proceeds from (Note 17):		
Issuance of common stock	4,367,220	239,318,420
Issuance of preferred stock	20,656,960	—
Net cash used in financing activities	(160,626,977)	(632,772,981)
<b>EFFECTS OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS</b>	(280,224)	(179,191)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	505,847	1,249,245,342
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		
Cash and other cash items	175,850,046	135,437,786
Due from Bangko Sentral ng Pilipinas	375,395,257	323,613,641
Due from other banks	2,657,500,639	1,500,449,173
	3,208,745,942	1,959,500,600
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		
Cash and other cash items	212,449,582	175,850,046
Due from Bangko Sentral ng Pilipinas	271,318,653	375,395,257
Due from other banks	2,725,483,554	2,657,500,639
	3,209,251,789	₱3,208,745,942
<b>OPERATIONAL CASH FLOWS FROM INTEREST</b>		
	Years Ended December 31	
	2020	2019
Interest received	₱3,695,834,304	₱5,629,862,632
Interest paid	302,641,974	287,232,867

See accompanying Notes to Financial Statements.



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

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**NOTES TO FINANCIAL STATEMENTS**

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**1. Corporate Information**

CARD Bank, Inc. (A Microfinance-Oriented Rural Bank) (the Bank) was incorporated in the Philippines on July 1, 1997. The Bank was granted the authority to operate by the Bangko Sentral ng Pilipinas (BSP) on August 25, 1997 and formally opened for business on September 1, 1997.

It is currently engaged in extending microcredit and rural credit to small farmers and tenants and to deserving rural industries or enterprises. The Bank offers a wide range of products and services such as deposit products, loans, and treasury that serve mainly to the consumer market.

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

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

As at December 31, 2020 and 2019, the Bank is 29.57% owned by CARD, Inc.

The Bank's executive office is located at 20 M. L. Quezon Street, City Subdivision, San Pablo City, Laguna. The head office is located at No. 35 P. Burgos Street, corner M. Paulino Street, San Pablo City, Laguna. As at December 31, 2020 and 2019, the Bank has 97 and 96 branches, respectively.

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**2. Summary of Significant Accounting Policies**

**Basis of Presentation**

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

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

**Statement of Compliance**

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



### Presentation of Financial Statements

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

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

The Bank has no offsetting arrangements with its counterparties.

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

### Changes in Accounting Policies and Disclosures

The accounting policies adopted by the Bank are consistent with those of the previous financial year, except for the following new accounting pronouncements which were adopted starting January 1, 2020.

- Amendments to PFRS 3, *Business Combinations, Definition of a Business*  
The amendments to PFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments may impact future periods should the Company enter into any business combinations.
- Amendments to PFRS 7, *Financial Instruments: Disclosures* and PFRS 9, *Financial Instruments, Interest Rate Benchmark Reform*  
The amendments to PFRS 9 provide a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.



- Conceptual Framework for Financial Reporting issued on March 29, 2018  
The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the standard-setters in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

- Amendments to PFRS 16, *COVID-19-related Rent Concessions*  
The amendments provide relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:
  - The rent concession is a direct consequence of COVID-19;
  - The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
  - Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
  - There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

The amendments are effective for annual reporting periods beginning on or after June 1, 2020. Early adoption is permitted.

## **Significant Accounting Policies**

### Foreign Currency Transactions and Translation

#### *Transactions and balances*

The books of accounts of the RBU are maintained in Philippine peso, the RBU's functional currency, while those of the FCDU are maintained in USD, the FCDU's functional currency. For financial reporting purposes, the foreign currency-denominated monetary assets and monetary liabilities in the RBU are translated in Philippine peso based on the Bankers Association of the Philippines (BAP) closing rates prevailing at end of the year and foreign currency-denominated income and expenses based on the exchange rates at transaction dates. Foreign exchange differences arising from restatements of foreign currency-denominated assets and liabilities in the RBU are credited to or charged against the operations in the period which the rates change. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

#### *FCDU*

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



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

#### Fair Value Measurement

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

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

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

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

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

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

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

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

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

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

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





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

#### Cash and Cash Equivalents

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

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

#### Financial Instruments - Initial Recognition and Subsequent Measurement

##### *Date of recognition*

Regular way purchases or sales of financial assets that require delivery of the assets within the time frame established by regulation or convention in the market are recognized on settlement date. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the Bank, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that such asset is delivered by the Bank. Deposits and receivables from borrowers are recognized when cash is received or advanced to the borrowers.

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

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

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

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

#### Classification and Measurement of Financial Assets

##### *Classification and measurement*

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

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

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgment



and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set. In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

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

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

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

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

The Bank's measurement categories are described below:

#### *Financial assets at amortized cost*

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

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

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

#### *Financial assets at FVTPL*

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

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has evidence of a recent actual pattern of short-term profit-taking; or



- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

As of December 31, 2020, the Bank has not designated any debt instrument that meets the amortized cost criteria as FVTPL. The Bank does not have financial assets at FVTPL as of reporting date.

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

#### *Financial assets at FVOCI*

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

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

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

#### *Reclassification of financial assets*

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

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

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

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

#### Financial Liabilities at Amortized Cost

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



amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

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

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

#### *Restructured loans*

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered as past due.

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

#### Impairment of Financial Assets

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

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

For non-credit-impaired financial instruments:

- Stage 1 is comprised of all non-impaired financial assets which have not experienced a SICR since initial recognition or is considered of low credit risk as of the reporting date. The Bank recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all non-impaired financial assets which have experienced a SICR since initial recognition. The Bank recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:

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

The Bank records the allowance for expected credit losses for all loans and receivables and other debt financial assets not held at FVTPL. Equity investment are not subject to impairment under PFRS 9. The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime ECL), unless there has been no significant increase in credit risk since origination, in which



case, the allowance is based on the 12-month ECL, as outlined in Note 5 *Financial Risk Management Objectives and Policies*. The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 5 *Financial Risk Management Objectives and Policies*.

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

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 5 *Financial Risk Management Objectives and Policies*.

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

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

#### Derecognition of Financial Assets and Financial Liabilities

##### *Financial assets*

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

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

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

The transfer of risks and rewards is evaluated by comparing the Bank's exposure, before and after the transfer, with the variability in the amounts and timing of the net cash flows of the transferred asset. The Bank has retained substantially all the risks and rewards of ownership of a financial asset if its exposure to the variability in the present value of the future net cash flows from the financial asset does not change significantly as a result of the transfer (e.g., because the entity has sold a financial asset subject to an agreement to buy it back at a fixed price or the sole price plus a lender's return).

The Bank has transferred substantially all the risks and rewards of ownership of a financial asset if its exposure to such variability is no longer significant in relation to the total variability in the present value of the future net cash flows associated with the financial asset (e.g., because the entity has sold a financial asset subject only to an option to buy it back at its fair value at the time of repurchase or has transferred fully proportionate share of the cash flows from a larger financial asset in an agreement).



Whether the Bank has retained control of the transferred asset depends on the transferee's ability to sell the asset. If the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, the entity has not retained control.

#### *Modification of financial assets*

The Bank derecognizes a financial asset when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new asset, with the difference between its carrying amount and the fair value of the new asset recognized as a derecognition gain or loss in profit or loss, to the extent that an impairment loss has not already been recorded.

The Bank considers both qualitative and quantitative factors in assessing whether a modification of financial asset is substantial or not. When assessing whether a modification is substantial, the Bank considers the following factors, among others:

- introduction of an equity feature;
- change in counterparty; and
- if the modification results in the asset no longer considered SPPI.

The Bank also performs a quantitative assessment similar to that being performed for modification of financial liabilities. In performing the quantitative assessment, the Bank considers the new terms of a financial asset to be substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the present value of the remaining cash flows of the original financial asset.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Bank recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the statement of income.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of a new financial asset, the modified asset is considered a 'new' financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset. The newly recognized financial asset is classified as Stage 1 for ECL measurement purposes, unless the new financial asset is deemed to be originated as credit impaired (POCI).

#### *Write-offs*

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

#### *Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a



new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

#### Investments in Associates

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

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

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

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

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

#### Property and Equipment

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

The Bank recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are initially measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The initial cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

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

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





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

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

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

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

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

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

#### Intangible Assets

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

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

If the entity acquires intangible assets by subcontracting other parties (e.g., development-and-supply contracts or research and development contracts), the entity must exercise judgment in determining whether it is acquiring an intangible asset or whether it is obtaining goods and services that are being used in the development of an intangible asset by the entity itself. In the latter case, the entity will



only be able to recognize an intangible asset if the expenditures meet the criteria which confirm that the related activity is at a sufficiently advanced stage of development, which shall be both technically and commercially viable and includes only directly attributable costs.

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

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

#### Impairment of Nonfinancial Assets

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

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

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

#### Leases

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

#### *Bank as a lessee*

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



*a. Right-of-use assets*

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

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

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

*b. Lease liabilities*

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

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

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

The Bank applies the short-term lease recognition exemption to its short-term leases of branch sites (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of branch sites that are considered to be low value (i.e., below ₱250,000). Lease payments on short-term leases and leases of low value assets are recognized as expense on a straight-line basis over the lease term.

*Bank as a lessor*

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



the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

#### Equity

##### *Capital stock*

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

##### *Surplus*

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

##### *Dividends*

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

#### Deposit for Future Stock Subscription

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

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

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

#### Revenue Recognition

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

Under PFRS 15, revenue from contracts with customers is recognized when control of the services is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services.

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

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



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

#### *Interest income*

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

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

Under PFRS 9, when a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3 (as discussed in "Impairment of Financial Assets" above), the Bank calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis

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

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

#### *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.



#### *Employee leave entitlement*

Employee leave entitlements pertain to the vacation leave credits that can be carried over and monetized by the employees. The valuation of the Parent Company's accrual for other long-term employee benefits are dependent on certain assumptions used by its internal actuary in calculating such amounts. Those assumptions include, among others, discount and salary rates, future salary increase and average remaining working lives of employees.

As at December 31, 2020 and 2019, the amount of long-term employee benefits accrued by the Parent Company is ₱25.3 million and ₱71.9 million, respectively (Note 15).

#### Provisions and Contingencies

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

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

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

#### Income Taxes

##### *Current tax*

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

##### *Deferred tax*

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

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

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



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

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

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

#### Events After the Reporting Period

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

#### Standards Issued but not yet Effective

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

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

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

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

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

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

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





#### *Deferred effectivity*

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

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

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### 3. Significant Accounting Judgments and Estimates

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

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

#### Judgments

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

##### *a. Assessment of going concern*

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

##### *b. Fair value of financial instruments*

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



c. *Business model test*

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

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

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

d. *Cash flow characteristics test*

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

e. *Determination of significant influence over another entity*

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

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

As at December 31, 2020 and 2019, the Bank determined that it exercises significant influence over, and CARD MRI Rizal Bank, Inc. (CMRBI) in which it holds a 40.00% ownership interest for both years. Although the Bank holds less than 20.0% of the ownership interest and voting rights in Microfinance Information Data Sharing Inc. (MIDAS), the Bank considers that it exercises significant influence through both its significant shareholding and its representation in MIDAS' BOD. As at December 31, 2020 and 2019, entities on which the Bank has significant influence are disclosed in Note 10.

f. *Leases*

*Bank as lessor*

The Bank has entered into commercial property leases on its office space and building and over various transportation equipment. The Bank has determined, based on an evaluation of the terms and conditions of the arrangements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the



lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

#### *Bank as lessee*

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

#### *Extension and termination options*

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

#### Estimates

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

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

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

The Bank reviews its financial assets and commitments at each reporting date to determine the amount of expected credit losses to be recognized in the statement of financial position and any changes thereto in the statement of income. Additional considerations were made in estimating the ECL in response to the changing credit environment brought about by the coronavirus (COVID-19) pandemic.

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

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



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

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

*b. Net plan assets and retirement expense*

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

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

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

As at December 31, 2020 and 2019, the present value of retirement obligation and fair value of plan assets of the Bank are disclosed in Note 19.

*c. Recognition of deferred income taxes*

Deferred tax assets are recognized for all unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The estimates of future taxable income indicate that certain temporary differences will be realized in the future. The recognized net deferred tax assets and unrecognized deferred tax assets are disclosed in Note 21.

As of December 31, 2020 and 2019, the Bank expects to realize its recognized deferred tax assets in future taxable periods. The Bank attributed the probability of attaining the forecast of taxable income, and its sufficiency, through planned expansions through establishment of new branches and the general recovery of the economy.



### 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, 2020 and 2019 (amounts in thousands):

	2020				
	Carrying Value	Level 1	Level 2	Level 3	Total
<b>Recurring fair value measurements</b>					
Financial assets at FVOCI					
Government debt securities	1,069,094	1,069,094	-	-	1,069,094
<b>Assets and liabilities for which fair values are disclosed*:</b>					
<b>Financial assets</b>					
Financial assets at amortized cost	853,219	-	616,638	299,626	916,264
Government debt securities					
Loans and receivables					
Receivables from borrowers	12,388	-	-	25,867	25,867
<b>Financial liabilities carried at amortized cost</b>					
Bills payable	910,744	-	-	954,381	954,381
Deposit liabilities					
Special savings	2,190,973	-	-	1,273,347	1,273,347
<i>*pertain to noncurrent assets and liabilities</i>					
	2019				
	Carrying Value	Level 1	Level 2	Level 3	Total
<b>Recurring fair value measurements</b>					
Financial assets at FVOCI					
Government debt securities	P901,886	P901,886	P-	P-	P901,886
<b>Assets and liabilities for which fair values are disclosed*:</b>					
<b>Financial assets</b>					
Financial assets at amortized cost					
Government debt securities	744,941	-	382,541	208,241	590,782
Loans and receivables					
Receivables from borrowers	19,069	-	-	18,997	18,997
<b>Financial liabilities carried at amortized cost</b>					
Bills payable	546,811	-	-	559,505	559,505
Deposit liabilities					
Special savings	1,490,875	-	-	576,854	576,854
<i>*pertain to noncurrent assets and liabilities</i>					

As at December 31, 2020 and 2019, there were no transfers of financial instruments between Levels 1, 2, and 3.

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



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## 5. Financial Risk Management Objectives and Policies

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

- Credit risk
- Market risk
- Liquidity risk

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

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

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

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

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

### Credit Risk

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

### *Management of credit risk*

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

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



In line with the Bank's mission of *"providing continued access to integrated microfinance and social development services to an expanding membership base by organizing and empowering women and their families"*, microfinance services are part of the major programs of the Bank. Accordingly, the microfinance loans portfolio represents the bulk of the Bank's assets. In microfinance lending operations, the field operations personnel are provided with thorough skills training for effective and efficient service delivery. The operations manual is a reference for every operations personnel.

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

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

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

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

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

#### *Bank's Response to the COVID-19 Pandemic*

The COVID-19 pandemic has impacted all types of businesses and the banking sector is among the severely hit, at least operationally. As the National Government imposed stringent quarantine measures and mobility becomes limited, being part of the sector essential to the economy, the need for the Bank to quickly adapt to the rapidly changing business climate becomes apparent. In spite of the exceedingly challenging situation, the Bank continued to open its doors to serve the public while looking after the health, safety and well-being of the workers including service personnel and customers. In place are team rotation work schedules, work from home arrangements, mandatory health and safety measures, and case management protocols which are all included in the Group's Work Management Plan.

In view of the heightened credit risk arising from the COVID 19- pandemic, the Group responded by issuing several credit bulletins on the changes in credit granting and lending policies. This includes, among others, the implementation of guidelines to comply with the provisions of the Bayanihan to Heal as One Act and the tightening of credit approval requirements for new loans and credit facilities both to new and existing clients. In addition, there were also guidelines on post-enhanced community quarantine (ECQ) collection, policies for managing loans affected by the COVID-19 crisis, and procedures for the availment of the regulatory relief measure stated in BSP memoranda No. M-2020-008 (Regulatory Relief for BSFIs Affected by the Corona Virus Disease 2019) and M-2020-032 (Amendments to M-2020-008) (Note 9).



*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, 2020 and 2019:

2020				
	Maximum Exposure*	Fair Value of Collateral	Financial Effect of Collateral	Net Exposure
<b>Receivables from borrowers</b>	<b>₱12,123,531,403</b>	<b>₱2,927,470,437</b>	<b>₱2,831,478,254</b>	<b>₱9,292,053,149</b>

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

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

\*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, 2020 and 2019 (Note 13).

As at December 31, 2020 and 2019, 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, 2020 and 2019 (in thousands):

2020					
	Loans and Receivables*	Financial assets at FVOCI	Financial assets at amortized cost	Security Deposits**	Total
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	₱11,064,734	₱—	₱—	₱—	₱11,064,734
Real estate, renting and business activities	420	—	—	—	420
Financial institutions	2,774,435	—	119,674	—	2,894,109
Government	271,319	1,069,094	733,545	—	2,073,958
Agriculture, hunting and forestry	163,430	—	—	—	163,430
Education	25,689	—	—	—	25,689
Other community, social and personal service activities	1,689,792	—	—	32,687	1,722,479
Manufacturing	18,756	—	—	—	18,756
	16,008,575	1,069,094	853,219	32,687	17,963,575
Less allowance for credit losses	869,104	—	—	—	869,104
<b>Total</b>	<b>₱15,139,471</b>	<b>₱1,069,094</b>	<b>₱853,219</b>	<b>₱32,687</b>	<b>₱117,094,471</b>

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

\*\*Reported under 'Other Assets'





	2019				Total
	Loans and Receivables*	Financial assets at FVOCI	Financial assets at amortized cost	Security Deposits**	
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	P10,367,238	P-	P-	P-	P10,367,238
Real estate, renting and business activities	1,336,024	-	-	-	1,336,024
Financial institutions	1,993,888	-	-	-	1,993,888
Government	1,041,663	901,886	744,941	-	2,688,490
Agriculture, hunting and forestry	181,033	-	-	-	181,033
Education	57,681	-	-	-	57,681
Other community, social and personal service activities	26,320	-	-	37,925	64,245
Manufacturing	17,189	-	-	-	17,189
	15,021,036	901,886	744,941	37,925	16,705,788
Less allowance for credit losses	344,925	-	-	-	344,925
<b>Total</b>	<b>P14,676,111</b>	<b>P901,886</b>	<b>P744,941</b>	<b>P37,925</b>	<b>P16,360,863</b>

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

\*\*Reported under 'Other Assets'

### *Credit quality per class of financial assets*

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

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

#### Stage 1

##### *Microfinance loans*

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

##### *Other loans*

Agri loans, Educ loans and Other loans

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

##### *Other loans*

SME loans and Fringe loans

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

#### Stage 2

##### *Other loans*

SME loans and Fringe loans

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

#### Stage 3

##### *Microfinance loans*

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



*Other loans*

Agri loans, Educ loans and Other loans

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

*Other loans*

SME loans and Fringe loans

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

The following tables illustrate the Bank's credit exposures as at December 31, 2020 and 2019:

2020				
Due from BSP	ECL Staging			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Neither past due nor impaired				
High grade	P271,318,653	P–	P–	P271,318,653
Standard grade	–	–	–	–
Past due but not impaired	–	–	–	–
Past due and impaired	–	–	–	–
Gross carrying amount	P271,318,653	P–	P–	P271,318,653

2019				
Due from BSP	ECL Staging			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Neither past due nor impaired				
High grade	P375,395,257	P–	P–	P375,395,257
Standard grade	–	–	–	–
Past due but not impaired	–	–	–	–
Past due and impaired	–	–	–	–
Gross carrying amount	P375,395,257	P–	P–	P375,395,257

2020				
ECL Staging				
Due from other banks	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Neither past due nor impaired				
High grade	P1,564,000,136	P–	P–	P1,564,000,136
Standard grade	1,161,483,418	–	–	1,161,483,418
Past due but not impaired	–	–	–	–
Past due and impaired	–	–	–	–
Gross carrying amount	P2,725,483,554	P–	P–	P2,725,483,554

2019				
ECL Staging				
	Stage 1	Stage 2	Stage 3	
Due from other banks	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Neither past due nor impaired				
High grade	P663,612,860	P-	P-	P663,612,860
Standard grade	1,993,887,779	-	-	1,993,887,779
Past due but not impaired	-	-	-	-
Past due and impaired	-	-	-	-
Gross carrying amount	P2,657,500,639	P-	P-	P2,657,500,639

2020				
Financial assets at FVOCI	ECL Staging			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Neither past due nor impaired				
High grade	P1,069,093,682	P–	P–	P1,069,093,682
Standard grade	–	–	–	–
Past due but not impaired	–	–	–	–
Past due and impaired	–	–	–	–
Gross carrying amount	P1,069,093,682	P–	P–	P1,069,093,682



2019				
Financial assets at FVOCI	ECL Staging			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Neither past due nor impaired				
High grade	P901,886,290	P-	P-	P901,886,290
Standard grade	-	-	-	-
Past due but not impaired	-	-	-	-
Past due and impaired	-	-	-	-
<b>Gross carrying amount</b>	<b>P901,886,290</b>	<b>P-</b>	<b>P-</b>	<b>P901,886,290</b>

2020				
Financial assets at amortized cost	ECL Staging			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Neither past due nor impaired				
High grade	P853,218,810	P-	P-	P853,218,810
Standard grade	-	-	-	-
Past due but not impaired	-	-	-	-
Past due and impaired	-	-	-	-
<b>Gross carrying amount</b>	<b>P853,218,810</b>	<b>P-</b>	<b>P-</b>	<b>P853,218,810</b>

2019				
Financial assets at amortized cost	ECL Staging			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Neither past due nor impaired				
High grade	P744,940,616	P-	P-	P744,940,616
Standard grade	-	-	-	-
Past due but not impaired	-	-	-	-
Past due and impaired	-	-	-	-
<b>Gross carrying amount</b>	<b>P744,940,616</b>	<b>P-</b>	<b>P-</b>	<b>P744,940,616</b>

### Receivable from borrowers

2020				
Microfinance loans	ECL Staging			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Neither past due nor impaired				
High grade	P-	P-	P-	P-
Standard grade	7,342,530,472	-	-	7,342,530,472
Past due but not impaired	248,276,570	-	1,800,446,560	2,048,723,130
Past due and impaired	-	-	729,288,809	729,288,809
<b>Gross carrying amount</b>	<b>P7,590,807,042</b>	<b>P-</b>	<b>P2,529,735,369</b>	<b>P10,120,542,411</b>

2019				
Microfinance loans	ECL Staging			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Neither past due nor impaired				
High grade	P-	P-	P-	P-
Standard grade	9,213,989,288	-	-	9,213,989,288
Past due but not impaired	-	-	55,575,459	55,575,459
Past due and impaired	-	-	229,657,164	229,657,164
<b>Gross carrying amount</b>	<b>P9,213,989,288</b>	<b>P-</b>	<b>P285,232,623</b>	<b>P9,499,221,911</b>

2020				
Other loans	ECL Staging			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Neither past due nor impaired				
High grade	P2,066,986,363	P-	P-	P 2,066,986,363
Standard grade	-	3,199,842	-	3,199,842
Past due but not impaired	54,788,010	-	117,615,573	172,403,583
Past due and impaired	-	-	385,444,525	385,444,525
<b>Gross carrying amount</b>	<b>P2,121,774,373</b>	<b>P3,199,842</b>	<b>P503,060,098</b>	<b>P2,628,034,313</b>



2019				
Other loans	ECL Staging			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Neither past due nor impaired				
High grade	P2,201,089,571	P-	P-	P2,201,089,571
Standard grade	-	-	-	-
Past due but not impaired	222,542	904,320	11,644,016	12,770,878
Past due and impaired	-	-	25,496,835	25,496,835
<b>Gross carrying amount</b>	<b>P2,201,312,113</b>	<b>P904,320</b>	<b>P37,140,851</b>	<b>P2,239,357,284</b>

*Other receivables*

2020				
Accrued interest receivables	ECL Staging			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Neither past due nor impaired				
High grade	P15,976,483	P-	P-	P15,976,483
Standard grade	198,267,680	-	-	198,267,680
Past due but not impaired	-	-	-	-
Past due and impaired	-	-	-	-
<b>Gross carrying amount</b>	<b>P214,244,163</b>	<b>P-</b>	<b>P-</b>	<b>P214,244,163</b>

2019				
Accrued interest receivables	ECL Staging			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Neither past due nor impaired				
High grade	P19,404,684	P-	P-	P19,404,684
Standard grade	222,772,556	-	-	222,772,556
Past due but not impaired	-	-	-	-
Past due and impaired	-	-	-	-
<b>Gross carrying amount</b>	<b>P242,177,240</b>	<b>P-</b>	<b>P-</b>	<b>P242,177,240</b>

2020				
Accounts receivables	ECL Staging			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Neither past due nor impaired				
High grade	P-	P-	P-	P-
Standard grade	18,551,551	-	-	18,551,551
Past due but not impaired	-	-	-	-
Past due and impaired	-	-	-	-
<b>Gross carrying amount</b>	<b>P18,551,551</b>	<b>P-</b>	<b>P-</b>	<b>P18,551,551</b>

2019				
Accounts receivables	ECL Staging			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Neither past due nor impaired				
High grade	P-	P-	P-	P-
Standard grade	7,384,529	-	-	7,384,529
Past due but not impaired	-	-	-	-
Past due and impaired	-	-	-	-
<b>Gross carrying amount</b>	<b>P7,384,529</b>	<b>P-</b>	<b>P-</b>	<b>P7,384,529</b>

2020				
Security deposits	ECL Staging			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Neither past due nor impaired				
High grade	P33,396,846	P-	P-	P33,396,846
Standard grade	-	-	-	-
Past due but not impaired	-	-	-	-
Past due and impaired	-	-	-	-
<b>Gross carrying amount</b>	<b>P33,396,846</b>	<b>P-</b>	<b>P-</b>	<b>P33,396,846</b>



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

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, 2020 and 2019, the Bank's receivables that are past due for more than 90 days are considered impaired.

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

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

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

As at December 31, 2020 and 2019, the Bank's outstanding restructured receivables tagged as impaired account amounting to ₱328.9 million and ₱0.3 million, respectively.

*Individually assessed impairment*

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

*Collectively assessed impairment*

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

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no objective evidence of impairment yet in an individual assessment. Impairment losses are estimated by taking the following information into consideration: historical



losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

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

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

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

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

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

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

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

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

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

#### *Default and Cure*

As a part of a qualitative assessment of whether a customer is in default, the Bank considers a variety of instances that may indicate unlikeliness to pay. The Bank's definition of default is aligned with the non-performing loan criteria as prescribed in BSP Circular No. 941. Defaults refer to loans, investments, receivables, or any financial asset, even without missed contractual payments, that satisfy any of the following conditions (1) impaired under existing accounting standards, (2) classified as doubtful or loss, (3) in litigation, (4) and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are (5)



unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement. (6) Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due. (7) Restructured loans shall be considered nonperforming. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained. Defaults are characterized by financial assets that have objective evidence of impairment at the reporting date and as such classified under Stage 3 ECL treatment.

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

#### *Exposure at Default (EAD)*

The Bank defines EAD as the principal and interests that would not be collected assuming the borrower's defaults during a future point in time. The Bank computes for a financial asset's EAD using the expected contractual cash flows during the contractual life of the financial instrument less the savings retention required for the loan. The bank believes that the savings retention decreases the exposure from non-collection since the bank has the contractual right to deduct the savings retention from any unpaid amount in the event of customer default. A financial asset's EAD is defined as the sum of EAD from principal and EAD from interest less the savings retention.

#### *Probability of default (PD)*

The Bank uses forward-looking PD estimates that are unbiased and probability-weighted using a range of possible outcomes. The PD for each individual instrument is modelled based on historical data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The Bank segmented its credit exposures based on homogenous risk characteristics and developed a corresponding PD methodology for each portfolio. The PD methodology for each relevant portfolio is determined based on the underlying nature or characteristic of the portfolio, behavior of the accounts and materiality of the segment as compared to the total portfolio segmenting each loan portfolio to PD score bands grouping with 1 as the highest grade and 6 as the lowest grade. The Bank's PDs are mainly categorized into the following: (a) microfinance loans (b) small and medium-size enterprise financing; and (c) personal and consumption loans.

#### *Loss given default (LGD)*

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

#### *Economic Overlays*

The Bank's incorporates economic overlays into the measurement of ECL to add a forward-looking risk measure parallel to the expected future macroeconomic atmosphere. A broad range of economic indicators were considered for the economic inputs. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To address this, quantitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. The Bank's loans and receivables consist of different portfolios, such as corporate and commercial loans and consumer loans, as well as other receivables (e.g., sales contract receivables). In compliance with PFRS 9, the Bank developed ECL



parameters and methodologies for each portfolio, using historical data as well as forward-looking inputs and assumptions. In addition, to further reflect the effect of COVID-19 pandemic, additional overly related to number of cases was added in the model to have a multiplier effect on the PD rate.

### 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):

	2020					Total
	On Demand	Less than 30 days	30 to 90 days	91 to 360 days	More than 360 days	
<b>Financial Assets</b>						
Cash and other cash items	P212,450	P-	P-	P-	P-	P212,450
Due from BSP	271,319	-	-	-	-	271,319
Due from other banks*	469,166	775,209	1,484,954	-	-	2,729,329
Financial assets at FVOCI*	-	123,674	-	33,608	915,634	1,072,916
Financial assets at amortized Cost	-	81,109	-	15,203	767,425	863,737
Loans and receivables*						
Microfinance	2,048,723	260,791	1,425,721	9,195,667	-	12,930,902
Others	440,233	115,529	501,511	2,211,664	25,867	3,294,804
<b>Total Financial Assets</b>	<b>3,441,891</b>	<b>1,356,312</b>	<b>3,412,186</b>	<b>11,456,142</b>	<b>1,708,926</b>	<b>21,375,457</b>
<b>Financial Liabilities</b>						
Deposit liabilities						
Demand	262,352	-	-	-	-	262,352
Savings	11,372,860	48,470	21,098	317,004	932,662	12,692,094
Bills payable	-	-	225,000	608,160	82,620	915,780
Other liabilities	303,163	9,509	26,912	60,967	100,219	500,770
<b>Total Financial Liabilities</b>	<b>11,938,375</b>	<b>57,979</b>	<b>273,010</b>	<b>986,131</b>	<b>1,115,501</b>	<b>14,370,996</b>
<b>Net</b>	<b>(P8,496,484)</b>	<b>P1,298,333</b>	<b>P3,139,176</b>	<b>P10,470,011</b>	<b>P593,425</b>	<b>P7,004,461</b>

\*includes future interest





	2019					Total
	On Demand	Less than 30 days	30 to 90 days	91 to 360 days	More than 360 days	
Financial Assets						
Cash and other cash items	P175,850	P–	P–	P–	P–	P175,850
Due from BSP	375,395	–	–	–	–	375,395
Due from other banks*	430,981	1,477,225	757,456	–	–	2,665,662
Financial assets at FVOCI*	–	–	–	–	906,358	906,358
Loans and receivables*						
Microfinance	220,696	163,783	1,463,640	7,651,103	–	9,499,222
Others	25,315	105,020	494,328	1,594,840	19,854	2,239,357
Total Financial Assets	1,228,237	1,746,028	2,715,424	9,245,943	926,212	15,861,844
Financial Liabilities						
Deposit liabilities						
Demand	206,328	–	–	–	–	206,328
Savings	11,037,873	66,587	35,933	48,931	602,806	11,792,130
Bills payable	–	236	149,391	232,113	165,071	546,811
Other liabilities	558,186	9,566	15,931	67,196	117,584	768,463
Total Financial Liabilities	11,802,387	76,389	201,255	348,240	885,461	13,313,732
Net	(P10,574,150)	P1,669,639	P2,514,169	P8,897,703	P40,751	P2,548,112

\*includes future interest

### Market Risk

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

### Interest rate risk

The Bank's receivables earn fixed interest rates ranging from 12.0% to 28.0% per annum with equivalent EIR ranging from 16.0% to 52.0% in 2020 and 2019. 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 2020 and 2019. Special savings deposits have interest rates of 2.0% to 4.3% in 2020 and 2019.

The Bank pays fixed interest rates on its bills payables from and 4.2% to 6.5% per annum in 2020 and 2019, respectively, and payable within 6 months to 7 years in 2020 and 2019.

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

### Fair value interest rate risk

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

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

	Changes in interest rates (in basis points)			
	2020		2019	
	+10.0	-10.0	+10.0	-10.0
Sensitivity of equity	P71,503,957	P71,814,921	(P11,370,908)	P11,248,945



*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, 2020 and 2019, the Bank has no FVOCI, AFS investments, financial assets at amortized cost, HTM investments, and financial liabilities that have floating interest rates, therefore no exposure to cash flow interest risk.

*Foreign currency risk*

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

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

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

The Bank's policy is to maintain foreign currency exposure within existing regulations and within acceptable risk limits. The Bank believes in ensuring its foreign currency exposure is, at all times, within limits presented for a financial institution engaged in the type of business in which the Bank is engaged in. As at December 31, 2020 and 2019, the Bank has no significant foreign currency exposure since its transactions and balances in FCDU are only minimal.

Operational Risk Management Policies and Procedures

Operational risk is the probability of risk to capital or earnings, or potential loss arising from fraud, unauthorized activities, errors, omissions, system failures or from external events. This is the broadest risk type encompassing product development and delivery, operational processing, systems development, computing systems, complexity of products and services, and the internal control environment.

Operational risk management is considered a critical element in the Bank's commitment to sound management and corporate governance. Under the Bank's operational risk management framework and operational risk manual, a risk-based approach is used in mapping operational risks along critical/key business processes, addressing any deficiencies/weaknesses through the proactive process of identifying, assessing and limiting impact of risk in every business/operational area.

Bank policies on internal control, information security, and other operational risk aspects have been established. Key risk indicators and risk assessment guidelines have been implemented and disseminated to different sectors of the Bank to provide alerts for operational risk vulnerabilities. The Bank has instituted a risk and control assessment process, as well as an issue escalation procedure to ensure that issues or incidents where lapses in controls occur are captured, evaluated and elevated for correction. The bank has an established a business continuity plan to ensure continued bank operations in the face of potential disruptions to operations as well as fraud management framework for the prevention, detection, investigation and recovery strategies to manage fraud, both internal and external.



## 6. Cash and Cash Equivalents

The composition of this account follows:

	2020	2019
Cash and other cash items	<b>₱212,449,582</b>	₱175,850,046
Due from BSP	<b>271,318,653</b>	375,395,257
Due from other banks	<b>2,725,483,554</b>	2,657,500,639
	<b>₱3,209,251,789</b>	₱3,208,745,942

Cash includes cash in vault and in automated teller machines.

'Due from BSP' account represents the aggregate balance of noninterest-bearing peso deposit account with the BSP which the Bank maintains primarily to meet reserve requirements and to serve as a clearing account for interbank claims (Note 13).

Due from other banks represent funds deposited with domestic banks which are used as part of the Bank's operating funds.

Due from other banks consists of:

	2020	2019
Demand deposit	<b>₱385,391,345</b>	₱345,146,771
Savings deposit	<b>83,774,869</b>	85,834,701
Time deposit	<b>2,256,317,340</b>	2,226,519,167
	<b>₱2,725,483,554</b>	₱2,657,500,639

As at December 31, 2020 and 2019, due from other banks include dollar-denominated deposits amounting to \$0.6 million (₱30.0 million) and \$0.3 million (₱15.6 million), respectively.

Peso-denominated deposits pertain to demand, savings, and time deposit accounts that earn interest at annual rates ranging from nil to 1.5% and nil to 4.0% in 2020 and 2019, respectively. Dollar-denominated deposits earn interest at annual rates ranging from 0.1% to 0.3% in 2020 and 2019.

Total interest income earned on deposits from other banks amounted to ₱53.8 million and ₱114.7 million in 2020 and 2019, respectively. Of these amounts, ₱13,959 and ₱17,163 pertain to interest income from dollar deposits in 2020 and 2019, respectively. Foreign exchange gain recognized under miscellaneous income amounted to ₱28,978 and ₱21,654 in 2020 and 2019, respectively.



## 7. Financial Assets at Fair Value through Other Comprehensive Income

Debt securities at FVOCI consist of quoted government debt securities amounting to ₱1,069.1 million and ₱901.9 million as of December 31, 2020 and 2019, respectively, that earn nominal interest rates ranging from 3.5% to 6.5% in 2020 and 2019, respectively. Effective interest rates range from 3.4% to 7.0% and 3.4% to 8.6% in 2020 and 2019, respectively.

Interest income on Financial asset at FVOCI investments amounted to ₱44.8 million and ₱43.1 million in 2020 and 2019, respectively. Amortized premium on FVOCI investments amounted to ₱4.2 million and ₱2.5 million in 2020 and 2019, respectively.

The movements in the net unrealized losses on financial assets at FVOCI investments of the Bank follow:

	2020	2019
Balance at January 1	<b>₱11,717,913</b>	(₱47,530,915)
Fair value changes during the year	<b>43,002,587</b>	84,641,183
Income tax effects	<b>(12,900,776)</b>	(25,392,355)
	<b>30,101,811</b>	59,248,828
Balance at December 31	<b>₱41,819,724</b>	₱11,717,913

## 8. Financial Assets at Amortized Cost

This account consists of:

	2020	2019
Quoted debt securities	<b>₱733,545,342</b>	₱581,506,279
Unquoted debt securities	<b>119,673,468</b>	163,434,337
	<b>₱853,218,810</b>	₱744,940,616

### Quoted debt securities

Government debt securities have fixed annual interest rates ranging from 3.3% to 5.8% in 2020 and 2019, and EIR ranging from 3.5% to 5.8% in 2020 and 2019.

The terms of these investments range from 3 to 10 years in 2020 and 2019.

### Unquoted debt securities

Unquoted debt securities consist of short-term non-negotiable Micro, Small and Medium Enterprise (MSME) notes issued by Small Business Corporation and long-term certificates of Agrarian Reform (AR) bonds issued by the National Government.

As at December 31, 2020 and 2019, MSME notes amounted to ₱17.2 million in 2020 and ₱42.2 million 2019 with a term of one (1) to five (5) years. These notes bear annual interest rates of 2% in 2020 and 2019. Income earned from this account amounted to ₱1.6 million in 2020 and ₱1.4 million in 2019.



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 ₱3.5 million in 2020 and ₱8.0 million in 2019, and amortized discount amounted to ₱0.6 million in 2020 and ₱1.1 million in 2019.

These instruments are acquired in compliance with the requirements set by Republic Act 9501 and Agri Agra Reform Credit Act of 2000 (Republic Act 10000) that lending institutions or any party otherwise required to make a mandatory allocation of credit resources to MSMEs and Agri Agra, shall be deemed as compliance with the mandated loan portfolio allocation percentage.

Interest income on investment securities at amortized cost follows:

	2020	2019
Quoted debt securities	<b>₱33,412,701</b>	₱26,457,587
Unquoted debt securities	<b>4,108,964</b>	9,359,538
Balance at end of year	<b>₱37,521,665</b>	₱35,817,125

## 9. Loans and Receivables

This account consists of:

	2020	2019
Receivables from borrowers		
Microfinance loans* (Note 14)	<b>₱10,120,542,411</b>	₱9,499,221,910
Regular loans	<b>1,867,636,678</b>	1,468,661,055
Agricultural-agrarian loans	<b>760,397,639</b>	770,696,229
	<b>12,748,576,728</b>	11,738,579,194
Other receivables:		
Accrued interest receivables		
Receivable from borrowers	<b>198,267,675</b>	222,772,556
FVOCI investments	<b>7,223,665</b>	7,199,775
Investments at amortized cost	<b>7,097,570</b>	6,889,471
Cash and cash equivalents	<b>1,655,253</b>	5,315,438
Accounts receivable (Note 22)	<b>18,551,551</b>	7,384,529
	<b>12,981,372,442</b>	11,988,140,963
Less: Allowance for credit losses	<b>826,610,881</b>	344,925,255
Unamortized discount on loan modification	<b>42,492,972</b>	-
	<b>₱12,112,268,589</b>	₱11,643,215,708

\*Include microfinance loans used to secure bills payable amounting to ₱1.2 billion and ₱0.3 billion as at December 31, 2020 and 2019, respectively.

Regular loans include salary loans granted to the Bank's employees and officers and government and schools employees amounting to ₱5.2 million and ₱20.9 million as at December 31, 2020 and 2019, respectively, and earning fixed annual interest rates ranging from 6.0% to 28.0% in 2020 and 2019 (see Note 22).



Interest income on receivables from borrowers amounted to ₱3.6 billion and ₱5.5 billion in 2020 and 2019, respectively. Receivables from borrowers earn interest with effective interest rates ranging from 33.5% to 57.9% in 2020 and 2019. Nominal interest rates of these receivables range from % to % and 12.0% to 28.0% in 2020 and 2019, respectively.

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

	2020	2019
Balance at beginning of year	<b>₱343,119,123</b>	₱149,092,757
Provision for credit losses	<b>510,080,293</b>	222,515,534
Written-off loans	<b>(29,886,416)</b>	(28,489,168)
Balance at end of year	<b>₱823,313,000</b>	₱343,119,123

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

	2020	2019
Balance at beginning of year	<b>₱1,806,132</b>	₱1,638,720
Provision for (Recovery from) credit losses	<b>1,772,817</b>	195,960
Written-off loans	<b>(281,068)</b>	(28,548)
Balance at end of year	<b>₱3,297,881</b>	₱1,806,132

#### *Modification of Loans and Receivables*

On March 25, 2020, Republic Act No. 11469, otherwise known as the Bayanihan to Heal as One Act (“Bayanihan 1 Act”) was enacted. Bayanihan 1 Act provides that all covered institutions shall implement a 30-day grace period for all loans with principal and/or interest and lease amortization falling due within the enhanced community quarantine (ECQ) period without incurring interest on interest, penalties, fees and other charges. Subsequently, on September 11, 2020, Republic Act No. 11494, otherwise known as the Bayanihan to Recover as One Act (“Bayanihan 2 Act”), was enacted.

Under Bayanihan 2 Act, a one-time 60-day grace period is granted for the payment of all existing, current and outstanding loans falling due, or any part thereof, on or before December 31, 2020, without incurring interest on interests, penalties, fees, or other charges and thereby extending the maturity of the said loans. Furthermore, a minimum 30-day grace period shall also be granted by covered institutions to all payments due within the period of community quarantine on rent and utility-related expenditures without incurring penalties, interest and other charges.

Apart from the above-mentioned, the Bank did not offer any additional reliefs to its borrowers/counterparties as a response to the effect of the COVID-19 pandemic.

The total modification losses resulting from Bayanihan 1 Act and Bayanihan 2 Act recognized in the statement of comprehensive income under “Interest Income” amounted to ₱191.37 million. The net impact of the loan modification after subsequent accretion of the modified loans amounted to a net loss of ₱42.49 million.

#### 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, 2020 and 2019, the Bank’s PAR amounted to ₱3.0 billion and ₱0.3 billion, respectively.



### *Performing and non-performing loans*

According to BSP Circular 941 *Amendments to the Regulations on Past Due and Non-Performing Loans* effective January 1, 2018, loans shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any.

All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.

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

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

In the case of loans that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered nonperforming at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches ten percent (10.00%) of the total receivable balance.

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

Information on the amounts of performing and non-performing loans (NPLs) and receivables (gross of allowance for impairment and credit losses) of the Bank are as follows:

	2020			2019		
	Performing	Non-Performing	Total	Performing	Non-Performing	Total
Loans and receivables						
Microfinance loans	<b>₱7,752,426,414</b>	<b>₱2,529,735,369</b>	<b>₱10,282,161,783</b>	<b>₱9,472,478,742</b>	<b>₱229,657,164</b>	<b>₱9,702,135,906</b>
Regular loans	<b>1,502,571,144</b>	<b>367,934,715</b>	<b>1,870,505,859</b>	<b>1,448,766,690</b>	<b>19,947,880</b>	<b>1,468,714,570</b>
Agricultural-agrarian loans	<b>655,851,537</b>	<b>138,325,224</b>	<b>794,176,761</b>	<b>784,952,320</b>	<b>5,548,955</b>	<b>790,501,275</b>
	<b>₱9,910,849,095</b>	<b>₱3,035,995,308</b>	<b>₱12,946,844,403</b>	<b>₱11,706,197,751</b>	<b>₱255,153,999</b>	<b>₱11,961,351,750</b>

As of December 31, 2020 and 2019, secured and unsecured NPLs of the Bank follow:

	2020	2019
Secured	<b>₱3,031,739,430</b>	<b>₱253,522,399</b>
Unsecured	<b>4,255,879</b>	<b>1,631,600</b>
	<b>₱3,035,995,309</b>	<b>₱255,153,999</b>

Restructured loans as of December 31, 2020 and 2019 amounted to ₱129.37 million and nil, respectively. The Bank's loan portfolio includes non-risk loans as defined under BSP regulations totaling ₱9.7 billion and ₱11.44 billion as of December 31, 2020 and 2019, respectively.



*Secured and unsecured portion of loans*

The following table shows the secured and unsecured portions of receivables from borrowers as at December 31, 2020 and 2019:

	2020		2019	
	Amount	%	Amount	%
Secured portion				
Deposit hold-out (Note 13)	<b>₱12,730,519,888</b>	<b>99.9%</b>	₱11,940,007,883	99.8%
Unsecured portion	<b>18,056,835</b>	<b>0.1%</b>	21,343,867	0.2%
	<b>₱12,946,844,403</b>	<b>100.0%</b>	₱11,961,351,750	100.0%

*Industry concentration of loans*

As at December 31, 2020 and 2019, information on the concentration of gross loans and receivables as to industry follows (amounts in thousands):

	2020		2019	
	Amount	%	Amount	%
Wholesale and retail trade	<b>₱10,850,490</b>	<b>85.1%</b>	₱10,157,679	86.5%
Other community, social and personal service activities	<b>1,689,792</b>	<b>13.3%</b>	21,154	0.2%
Agriculture, hunting and forestry	<b>163,514</b>	<b>1.3%</b>	177,374	1.5%
Education	<b>25,689</b>	<b>0.2%</b>	56,515	0.5%
Manufacturing	<b>16,461</b>	<b>0.1%</b>	16,839	0.1%
Real estate renting and business activities	<b>2,630</b>	<b>0.0%</b>	1,309,018	11.2%
Government	—	—	—	0.0%
Financial institutions	—	—	—	0.0%
	<b>₱12,748,576</b>	<b>100%</b>	₱11,738,579	100%

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

*Transfers of allowance for ECLs between stages*

The tables below illustrate the movements of the allowance for impairment and credit losses during the year (effect of movements in ECL due to transfers between stages are shown in the total column) for the Bank's portfolio of microfinance loans:

	2020			
	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
<b>Loss allowance at January 1, 2019</b>	<b>₱177,697,107</b>	<b>₱74,163</b>	<b>₱165,347,853</b>	<b>₱343,119,123</b>
<b>Movements with P&amp;L impact</b>				
Transfers:				
Transfer from Stage 1 to Stage 2	(504,176)	504,176	—	—
Transfer from Stage 1 to Stage 3	(656,165,488)	—	656,165,488	—
Transfer from Stage 2 to Stage 1	9,846	(9,846)	—	—
Transfer from Stage 2 to Stage 3	—	(126,251)	126,251	—
Transfer from Stage 3 to Stage 1	48,793	—	(48,793)	—
Transfer from Stage 3 to Stage 2	—	82,394	(82,394)	—
New financial assets originated or purchased	698,015,770	—	—	698,015,770
Changes in PDs/LGDs/EADs	58,242,425	83,666	(75,282,012)	(16,955,921)
Financial assets derecognized during the period	(141,859,319)	—	(29,120,237)	(170,979,556)
<b>Total movements with P&amp;L impact</b>	<b>(42,212,149)</b>	<b>534,139</b>	<b>551,758,303</b>	<b>510,080,293</b>
<b>Total net P&amp;L charge during the period</b>	<b>135,484,958</b>	<b>608,302</b>	<b>717,106,156</b>	<b>853,199,416</b>
<b>Other movements without P&amp;L impact</b>				
Write-offs and other movements	—	—	(29,886,416)	(29,886,416)
<b>Total movements without P&amp;L impact</b>	<b>—</b>	<b>—</b>	<b>(29,886,416)</b>	<b>(29,886,416)</b>
<b>Loss allowance at December 31, 2019</b>	<b>₱135,484,958</b>	<b>₱608,302</b>	<b>₱687,219,740</b>	<b>₱823,313,000</b>





	2019			
	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Loss allowance at January 1, 2019	₱65,412,783	₱312,359	₱83,367,615	₱149,092,757
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(74,163)	74,163	—	—
Transfer from Stage 1 to Stage 3	(81,232,350)	—	81,232,350	—
Transfer from Stage 2 to Stage 1	177,010	(177,010)	—	—
Transfer from Stage 2 to Stage 3	—	(83,128)	83,128	—
Transfer from Stage 3 to Stage 1	1,649,284	—	(1,649,284)	—
New financial assets originated or purchased	₱888,037,143	—	—	₱888,037,143
Changes in PDs/LGDs/EADs	(631,923,539)	—	65,799,218	(566,124,321)
Financial assets derecognized during the period	(64,349,061)	(52,221)	(63,485,173)	(127,886,455)
Total movements with P&L impact	112,284,324	(238,196)	81,980,238	194,026,366
Total net P&L charge during the period	177,697,107	74,163	165,347,853	343,119,123
Other movements without P&L impact				
Write-offs and other movements	—	—	—	—
Total movements without P&L impact	—	—	—	—
Loss allowance at December 31, 2019	₱177,697,107	₱74,163	₱165,347,853	₱343,119,123

### Transfers of gross outstanding loans between stages

The movements in gross carrying amount of microfinance loan receivables from customers between stages follow:

	2020			
	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Gross carrying amount as at January 1, 2020	₱11,635,834,859	₱910,878	₱324,606,013	₱11,961,351,750
Transfers:				
Transfer from Stage 1 to Stage 2	(4,269,242)	4,269,242	—	—
Transfer from Stage 1 to Stage 3	(3,047,599,734)	—	3,047,599,734	—
Transfer from Stage 2 to Stage 1	407,743	(407,743)	—	—
Transfer from Stage 2 to Stage 3	—	(284,164)	284,164	—
Transfer from Stage 3 to Stage 1	2,315,741	—	(2,315,741)	—
Transfer from Stage 3 to Stage 2	—	348,916	(348,916)	—
New financial assets originated or purchased	21,384,935,096	—	—	21,384,935,096
Collections of principal and interest	(12,300,841,135)	(120,672)	(256,441,530)	(12,557,403,337)
Financial assets derecognized during the period	(7,764,650,692)	—	(47,501,999)	(7,812,152,691)
Write-offs and other movements	—	—	(29,886,416)	—
Gross carrying amount as at December 31, 2020	₱9,779,613,389	₱4,716,457	₱3,035,995,309	₱12,946,844,403

	2019			
	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Gross carrying amount as at January 1, 2019	₱10,320,030,421	₱1,104,386	₱211,470,664	₱10,532,605,471
Transfers:				
Transfer from Stage 1 to Stage 2	(904,320)	904,320	—	—
Transfer from Stage 1 to Stage 3	(206,109,629)	—	206,109,629	—
Transfer from Stage 2 to Stage 1	482,353	(482,353)	—	—
Transfer from Stage 2 to Stage 3	—	(248,853)	248,853	—
Transfer from Stage 3 to Stage 1	1,649,284	—	(1,649,284)	—
New financial assets originated or purchased	11,694,355,655	—	—	11,694,355,655
Collections of principal and interest	(7,198,416,929)	(10,567)	(60,539,823)	(7,258,967,319)
Financial assets derecognized during the period	(2,975,251,976)	(356,055)	(31,034,026)	(3,006,642,057)
Write-offs and other movements	—	—	—	—
Gross carrying amount as at December 31, 2019	₱11,635,834,859	₱910,878	₱324,606,013	₱11,961,351,750



While the Bank recognizes through the statements of income the movements in the expected credit losses computed using the models, the Bank also complies with BSP's regulatory requirement to appropriate a portion of its surplus at an amount necessary to bring at least the allowance for credit losses to 1% of all outstanding Stage 1 loan accounts. The amount of surplus reserve for this purpose has no movement in 2020 and decreased by ₱2.4 million in 2019.

#### 10. Investment in Associates

This account consists of:

	2020	2019
<b>Acquisition cost</b>		
Balance at beginning of year, as previously reported	₱132,296,581	₱108,750,000
Additional investments during the year (Note 22)	74,232,360	23,546,580
	<b>206,528,941</b>	132,296,580
<b>Accumulated equity in net earnings</b>		
Balance at beginning of year	500,450,162	349,067,814
Share in net income of an associate	2,333,925	151,382,349
	<b>502,784,087</b>	500,450,163
<b>Accumulated equity in other comprehensive income (loss)</b>		
Balance at beginning of year	2,159,596	6,707,174
Share in other comprehensive income of an associate	(2,717,602)	(4,547,578)
	<b>(558,006)</b>	2,159,596
<b>Dividends</b>		
Balance at beginning of year	(241,450,000)	(140,650,000)
Dividends	(24,000,000)	(100,800,000)
	<b>(265,450,000)</b>	(241,450,000)
Investment in CARD MRI Rizal Bank, Inc.	442,495,382	392,943,242
Investment in MIDAS	809,640	513,098
	<b>₱443,305,022</b>	₱393,456,340

#### Investment in CMRBI

The Bank's investment in an associate represents the carrying value of its 40.0% interest in CARD MRI Rizal Bank, Inc. (CMRBI), formerly Rizal Bank, Inc. CMRBI is involved in the business of rural banking as defined in and authorized under Republic Act No. 3779, as amended. CMRBI's primary activities include granting loans to small farmers and to deserving rural enterprises, as well as receiving deposits in accordance with the law. The primary place of business of CMRBI is at P. Guevarra St., Cor. Aguirre St., Brgy. Poblacion 2, Sta. Cruz, Laguna.



The following table illustrates the summarized financial information in the statements of financial position, statements of income and statements of comprehensive income and a net asset reconciliation of investment in CMRBI (amounts in millions):

	2020	2019
<i>Statements of Comprehensive Income</i>		
Revenues	<b>₱1,083.4</b>	₱1,671.3
Expenses	<b>1,077.7</b>	1,293.0
Net income	<b>5.7</b>	378.2
Other comprehensive income (loss)	<b>(6.8)</b>	(11.4)
Total comprehensive income	<b>(1.1)</b>	366.9
<i>Statements of Financial Position</i>		
Current assets	<b>4,806.9</b>	4,840.2
Noncurrent assets	<b>1,077.7</b>	340.8
Current liabilities	<b>(3,783.0)</b>	(3,447.0)
Noncurrent liabilities	<b>(1,492.5)</b>	(720.4)
Net assets	<b>1,124.4</b>	1,013.6
Bank's share in net assets in CMRBI	<b>₱442.5</b>	₱392.9

In 2020 and 2019, the Bank made additional investments to CMRBI amounting to ₱74.0 million and ₱23.5 million, respectively. The additional investments in CMRBI were sourced from the reclassification of Subscription to CMRBI shares in the prior year amounting to ₱50.0 million (Note 12) and additional share acquisitions amounting to ₱24.0 million in 2020.

Investment in Microfinance Information Data Sharing, Inc. (MIDAS, Inc.)

Investment in MIDAS represents the Bank's 10.7% ownership for interest in the Corporation.

The primary purposes of the Company are: (1) to engage in the business of collating, developing and analyzing credit information individuals, institutions and all types of business concerns; (2) develop and undertake the continuing exchange of credit information among its members and subscribers; (3) provide an impartial source of credit information for debtors, creditors and the public; (4) provide its members and subscribers credit reports and references covering, among others, company profiles, financial performance and conditions, management, debt record and operating data; (5) undertake industry and market studies and surveys in support of credit analysis, credit information generation and securities rating; and, (6) publish, print and distribute newsletters, journals, books, periodicals and other printed materials containing surveys, research, evaluation, data and other information useful to the business community. The primary place of business of MIDAS is at TSKI Corporate Office, National Highway, Brgy. Mali-ao, Pavia, Iloilo.

As at December 31, 2020 and 2019, there were no agreements entered into by the Bank and any of the associates that may restrict dividends and other capital distributions to be paid and the Bank has no share on commitments and contingencies of both associates. Both MIDAS and CMRBI are not listed on any public exchange and there are no quoted market prices available for their shares.



## 11. Property and Equipment

The composition of and movements in this account follow:

	Land	Building	Furniture, Fixtures and Equipment	Leasehold Improvements	Land Improvements	Transportation Equipment	Construction in Progress	Right-of-use Assets	Total
<b>December 31, 2020</b>									
<b>Cost</b>									
Balance at beginning of year	P197,662,431	P346,487,236	P413,771,882	P140,037,909	P6,591,245	P30,870,148	P9,584,917	P298,281,695	P1,443,287,463
Additions	-	3,708,821	35,491,647	10,972,342	-	5,998,248	5,968,303	96,901,865	159,041,226
Disposals	-	-	(1,073,101)	-	-	(165,389)	-	(525,111)	(1,763,601)
Reclassification (Note 12)	-	7,471,768	-	-	-	-	(7,471,768)	-	-
Balance at end of year	P197,662,431	P357,667,825	P448,190,428	P151,010,251	P6,591,245	P36,703,007	P8,081,452	P394,658,449	P1,600,565,088
<b>Accumulated Depreciation and Amortization</b>									
Balance at beginning of year	-	196,558,948	327,623,834	98,750,255	4,622,606	19,797,347	-	85,594,717	732,947,707
Depreciation and amortization	-	27,795,546	42,745,404	17,377,047	923,949	2,927,735	-	109,839,756	201,609,437
Disposals	-	-	(1,073,101)	-	-	(165,389)	-	-	(1,238,490)
Reclassification (Note 12)	-	-	-	-	-	-	-	-	-
Balance at end of year	-	224,354,494	369,296,137	116,127,302	5,546,555	22,559,693	-	195,434,473	933,318,654
<b>Net Book Value</b>	<b>P197,662,431</b>	<b>P133,313,331</b>	<b>P78,894,291</b>	<b>P34,882,949</b>	<b>P1,044,690</b>	<b>P14,143,314</b>	<b>P8,081,452</b>	<b>P199,223,976</b>	<b>P667,246,434</b>



	Land	Building	Furniture, Fixtures and Equipment	Leasehold Improvements	Land Improvements	Transportation Equipment	Construction In Progress	Right-of-use Assets	Total
<b>December 31, 2019</b>									
<b>Cost</b>									
Balance at beginning of year	197,662,431	330,304,468	360,396,371	123,552,767	6,591,245	19,821,189	4,762,104	180,863,168	1,223,953,743
Additions	-	2,584,832	54,092,168	4,646,033	-	11,785,024	30,898,012	117,418,527	221,424,596
Disposals	-	-	(716,657)	-	-	(736,065)	-	-	(1,452,722)
Reclassification (Note 12)	-	13,597,936	-	11,839,109	-	-	(26,075,199)	-	(638,154)
Balance at end of year	197,662,431	346,487,236	413,771,882	140,037,909	6,591,245	30,870,148	9,584,917	298,281,695	1,443,287,463
<b>Accumulated Depreciation and Amortization</b>									
Balance at beginning of year	-	169,117,405	285,313,539	83,817,653	3,304,357	19,820,179	-	-	561,373,133
Depreciation and amortization	-	27,480,221	43,167,564	15,358,582	1,318,249	713,230	-	85,594,717	173,632,563
Disposals	-	-	(716,657)	-	-	(736,062)	-	-	(1,452,719)
Reclassification (Note 12)	-	(38,678)	(140,612)	(425,980)	-	-	-	-	(605,270)
Balance at end of year	-	196,558,948	327,623,834	98,750,255	4,622,606	19,797,347	-	85,594,717	732,947,707
<b>Net Book Value</b>	<b>P197,662,431</b>	<b>P149,928,288</b>	<b>P86,148,048</b>	<b>P41,287,654</b>	<b>P1,968,639</b>	<b>P11,072,801</b>	<b>P9,584,917</b>	<b>P212,686,978</b>	<b>P710,339,756</b>



Depreciation and amortization presented in the statements of income follow:

	2020	2019
Property and equipment	<b>₱201,609,437</b>	<b>₱173,632,563</b>
Intangible assets (Note 12)	<b>7,671,290</b>	<b>14,722,257</b>
	<b>₱209,280,727</b>	<b>₱188,354,820</b>

Construction in progress represents the cost of materials, labor, and other capitalizable expenditures incurred in connection with leasehold improvements of bank premises under establishment or renovation. As of December 31, 2020, the leasehold improvements under construction pertain to the establishment of a branch and are estimated to be completed in July 2021. As of December 31, 2019, the leasehold improvements under construction pertain to the establishment of a branch and are estimated to be completed in February 2020.

There are no restrictions on the titles of the Bank's property and equipment and the Bank does not have any contractual commitments for the acquisition of property and equipment as of December 31, 2020 and 2019.

## 12. Other Assets

This account consists of:

	2020	2019
<b>Financial assets</b>		
Security deposits	<b>₱39,108,831</b>	₱37,925,065
Subscription to CMRBI shares	–	50,000,000
	<b>39,108,831</b>	87,925,065
<b>Nonfinancial assets</b>		
Stationeries and supplies	<b>73,687,438</b>	69,851,493
Intangible assets	<b>9,472,360</b>	8,587,226
Prepaid expenses	<b>38,408,522</b>	27,020,915
Others	<b>5,789,423</b>	5,089,005
	<b>127,357,743</b>	110,548,639
	<b>₱166,466,574</b>	<b>₱198,473,704</b>

Security deposits pertain to refundable deposits on the Bank's leased office spaces, and staff house premises and leased IT equipment with CLFC. Interest income in 2020 and 2019 amounted to ₱0.8 million.

Subscription to CMRBI shares pertains to deposit made by the Bank for future stock subscription of the CMRBI's proposed increase of capital stock which was approved by SEC on October 29, 2020. Shares were issued to the Bank last December 15, 2020 (Note 10).

Intangible assets include purchased licenses and software. Others pertain to artworks and paintings owned by the Bank.



The movements of intangible assets follow:

	2020	2019
<b>Cost</b>		
Balance at beginning of year	<b>₱44,387,248</b>	₱39,830,506
Additions	<b>8,556,424</b>	4,556,742
Balance at end of year	<b>52,943,672</b>	44,387,248
<b>Accumulated Amortization</b>		
Balance at beginning of year	<b>35,800,022</b>	21,077,765
Amortization (Note 11)	<b>7,671,290</b>	14,722,257
Balance at end of year	<b>43,471,312</b>	35,800,022
<b>Net Book Value</b>	<b>₱9,472,360</b>	₱8,587,226

### 13. Deposit Liabilities

The Bank's savings deposit liabilities include pledge savings amounting to ₱8.7 billion and ₱8.4 billion as at December 31, 2020 and 2019, 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 2020 and 2019. 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 2020 and 2019. Special savings deposits include "Tiwala" savings with annual interest rates ranging from 2.0% to 4.3% in 2020 and 2019. Interest expense on deposit liabilities amounted to ₱287.4 million and ₱255.8 million in 2020 and 2019, respectively.

BSP Circular No. 830 requires reserves against deposit liabilities. As at December 31, 2020 and 2019, due from BSP amounting to ₱271.3 million and ₱375.4 million, respectively, were set aside as reserves for deposit liabilities per latest report submitted by the Bank to the BSP. As at December 31, 2020 and 2019, 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:

	2020	2019
<b>Face Value</b>		
Balance at beginning of year	<b>₱548,940,000</b>	₱532,100,000
Availments	<b>1,200,000,000</b>	300,000,000
Principal payments	<b>(833,160,000)</b>	(283,160,000)
Balance at end of year	<b>915,780,000</b>	548,940,000
<b>Unamortized Transaction Costs</b>		

(Forward)



	2020	2019
Balance at beginning of year	(P2,128,651)	(P2,603,802)
Availments	(8,882,877)	(1,165,773)
Amortization	5,975,727	1,640,924
Balance at end of year	(5,035,801)	(2,128,651)
<b>Carrying Value</b>	<b>P910,744,199</b>	<b>P546,811,349</b>

#### Local banks

Bills payable of P447.7 million and P299.0 million as at December 31, 2020 and 2019, respectively, pertain to promissory notes obtained from various local banks for working capital requirements with a tenor of one (1) year in 2020 and six (6) months to one (1) year in 2019 and annual interest rates ranging from 3.1% to 3.8% and 4.2% in 2020 and 2019, respectively.

#### International Finance Corporation

On December 16, 2015, the Bank entered into a Loan Agreement (Agreement) with IFC for the availment of loan amounting to P540.0 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.

On December 18, 2020, the Bank availed additional loan from IFC amounting to P300.0 million which bears a fixed rate of 3.5% and has a tenor of one (1) year. The purpose of the Loan is to provide the Bank with funding to be used by exclusively to support or expand the Bank's working capital in response to COVID-19 pandemic.

As at December 31, 2020 and 2019, carrying value of the loan amounted to P463.1 million and P247.8 million, respectively.

Borrowings from IFC contain the following embedded derivatives:

- prepayment option which allows the Bank to redeem the Loan (or portion of the loan not less than P45.0 million) prior to the respective maturities; and
- cross currency swap which allows the parties to exchange interest payments and principals denominated in different currencies (in USD and Philippine Pesos).

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

#### Debt covenants

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

- 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.

Both loans have the same negative covenants but different financial covenants which are:

b. Financial covenants for loan availed on December 16, 2015

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%;



c. Financial covenants for loan availed on December 18, 2020

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 15.0%;
- equity to assets ratio of not less than 10.0%;
- economic group exposure ratio of not more than 15.0%;
- aggregate large exposure ratio of not more than 400.0%;
- related party exposure ratio of not more than 15.0%;
- open credit exposures ratio of not more than 25.0%;
- fixed assets plus equity participants ratio of not more than 35.0%;
- aggregate foreign exchange risk ratio of not more than 25.0%;
- single currency foreign exchange risk ratio of not more than 10.0%;
- interest rate risk ratio of not less than -10.0% and not more than 10.0%;
- aggregate interest rate risk ratio of not less than -20.0% and not more than 20.0%;
- foreign currency maturity gap ratio of not less than 150%;
- aggregate negative maturity gap ratio of not less than 300%
- minimum liquidity ratio of 20% commencing on and from the rollover date,
- its corporate and wholesale exposure is not more than 50% of total capital.

The period of compliance with the above covenants commenced on March 31, 2016. As at December 31, 2020 and 2019, the Bank is in compliance with the above covenants.

Receivable from borrowers, particularly microfinance loans amounting to ₱1.2 billion and ₱0.3 billion secure the above borrowings as at December 31, 2020 and 2019, respectively (Note 9).

The Bank has undrawn credit line amounting to ₱774.2 million and ₱1.0 billion in 2020 and 2019, respectively.

Interest expense recognized in the statements of income amounted to ₱41.8 million and ₱51.5 million in 2020 and 2019, respectively. Unpaid interest as at December 31, 2020 and 2019 amounted to ₱1.6 million and ₱1.5 million, respectively, is presented under 'Accrued expenses' (Note 15).

## 15. Other Liabilities

This account consists of:

	2020	2019
<b>Financial liabilities</b>		
Lease liabilities (Note 20)	<b>₱196,514,544</b>	₱208,766,138
Accrued interest on deposit liabilities (Note 22)	<b>129,033,898</b>	90,364,953
Accrued expenses	<b>79,457,638</b>	124,049,186
Dividends payable (Note 17)	<b>58,729,043</b>	63,370,446
Accounts payable (Note 22)	<b>34,228,657</b>	39,911,489

(Forward)



	2020	2019
Accrued interest on bills payable (Note 14)	<b>₱1,600,898</b>	₱1,477,657
Refundable deposits	<b>1,205,768</b>	1,205,768
	<b>500,770,446</b>	529,145,637
<b>Nonfinancial liabilities</b>		
Accrued taxes	<b>64,044,873</b>	73,090,164
Accrued vacation leaves	<b>25,330,489</b>	71,931,240
Withholding taxes payable	<b>21,178,681</b>	15,559,539
Deposit for future stock subscription (Notes 17 and 24)	–	239,318,420
	<b>110,554,043</b>	399,899,363
	<b>₱611,324,489</b>	₱929,045,000

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

Accrued taxes pertain to gross receipts taxes payable as of December 31, 2020.

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, 2020 and 2019 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):

	2020			2019		
	Within one year	Beyond one year	Total	Within one year	Beyond one year	Total
<b>Financial Assets</b>						
Cash and other cash items	<b>₱212,450</b>	₱–	<b>₱212,450</b>	₱175,850	₱–	₱175,850
Due from BSP	<b>271,319</b>	–	<b>271,319</b>	375,395	–	375,395
Due from other banks	<b>2,725,484</b>	–	<b>2,725,484</b>	2,657,501	–	2,657,501
Financial assets at FVOCI	<b>157,345</b>	<b>911,749</b>	<b>1,069,094</b>	–	901,886	901,886
Loans and receivables, net	<b>12,108,312</b>	<b>3,957</b>	<b>12,112,269</b>	11,628,312	14,904	11,643,216
Investment securities at amortized costs	<b>96,304</b>	<b>756,915</b>	<b>853,219</b>	–	744,941	744,941
Security deposits	–	<b>33,397</b>	<b>33,397</b>	–	37,925	37,925
<b>Nonfinancial Assets</b>						
Investments in associates	–	<b>443,305</b>	<b>443,305</b>	–	393,456	393,456
Property and equipment, net	–	<b>667,246</b>	<b>667,246</b>	–	710,340	710,340
Retirement asset	–	<b>199,405</b>	<b>199,405</b>	–	212,485	212,485
Deferred tax assets	–	<b>203,555</b>	<b>203,555</b>	–	56,422	56,422
Other assets	–	<b>133,069</b>	<b>133,069</b>	–	160,548	160,548
<b>Total Assets</b>	<b>₱15,571,214</b>	<b>₱3,352,598</b>	<b>₱18,923,812</b>	<b>₱14,837,058</b>	<b>₱3,232,907</b>	<b>₱18,069,965</b>



	2020			2019		
	Within one year	Beyond one year	Total	Within one year	Beyond one year	Total
<b>Financial liabilities</b>						
Deposit liabilities	12,021,784	932,662	12,954,446	P11,397,649	P600,809	P11,998,458
Bills payable, net	828,293	82,451	910,744	381,592	165,219	546,811
Other liabilities:						
Accrued expenses	79,458	—	79,458	123,744	305	124,049
Accrued interest	130,635	—	130,635	91,843	—	91,843
Dividends payable	58,729	—	58,729	63,370	—	63,370
Accounts payable	34,229	—	34,229	39,911	—	39,911
Finance lease liability	97,501	99,014	196,515	91,182	117,584	208,766
Refundable deposits	—	1,206	1,206	—	1,206	1,206
<b>Nonfinancial liabilities</b>						
Deposit for future stock subscription	—	—	—	239,318	—	239,318
Income tax payable	137,603	—	137,603	312,270	—	312,270
Other liabilities:						
Accrued vacation leaves	2,329	23,001	25,330	13,994	57,938	71,932
Accrued taxes	64,045	—	64,045	73,090	—	73,090
Withholding taxes payable	21,178	—	21,178	15,560	—	15,560
<b>Total Liabilities</b>	<b>P13,475,784</b>	<b>P1,138,334</b>	<b>P14,614,118</b>	<b>P12,843,523</b>	<b>P943,061</b>	<b>P13,786,584</b>

## 17. Equity

### Capital Stock

As at December 31, 2020 and 2019, the Bank's capital stock consists of:

	2020		2019	
	Shares	Amount	Shares	Amount
<b>Preferred stock - ₱200 par value, 7,500,000 authorized shares</b>				
Issued and outstanding				
Beginning of year	5,000,000	₱1,000,000,000	5,000,000	₱1,000,000,000
Application of deposit for future stock subscription to issued shares	614,590	122,918,040	—	—
Issuance of shares of stocks	103,285	20,656,960	—	—
Preferred stock at the end of the year	5,717,875	1,143,575,000	5,000,000	1,000,000,000
Subscribed	5,725,000	1,145,000,000	—	—
Subscription receivable	7,125	(1,425,000)	—	—
	5,717,975	₱1,143,575,000	5,000,000	₱1,000,000,000
<b>Common stock - ₱100 par value, 20,000,000 authorized shares</b>				
Issued and outstanding				
Beginning of year	10,000,000	₱1,000,000,000	10,000,000	₱1,000,000,000
Application of deposit for future stock subscription to issued shares	1,164,004	116,400,380	—	—
Issuance of shares of stocks	43,672	4,367,220	—	—
Stock dividends	5,000,000	500,000,000	—	—
Common stock at the end of the year	16,207,676	1,620,767,600	10,000,000	1,000,000,000
Subscribed	17,499,984	1,749,998,400	—	—
Subscription receivable	1,292,308	(129,380,000)	—	—
	16,207,676	₱1,620,767,600	10,000,000	₱1,000,000,000



#### Deposit for Future Stock Subscription

Deposit for future stock (DFS) subscription pertains to total consideration received in excess of the authorized capital of the Bank with the purpose of applying the same as payment for future issuance of shares.

Financial Reporting Bulletin No. 6, dated January 24, 2013 provides that a bank shall classify a contract to deliver its own equity instruments under equity as a separate account from capital stock if and only if, all of the following elements are present as of the reporting period:

1. The unissued authorized capital of the Bank is insufficient to cover the amount of shares indicated in the contract;
2. There is Board of Directors' approval on the proposed increase in authorized capital stock (for which a deposit was received by the Bank);
3. There is stockholders' approval of the said proposed increase; and
4. The application for the approval of the proposed increase has been filed with the SEC.

As of December 31, 2019, the application for approval of the proposed increase was not yet filed with the SEC. As such, the deposit for future stock subscriptions amounting to ₱239.3 million was classified under liabilities as of December 31, 2019 (see Note 15). The increase in authorized capital was filed on August 11, 2020 and was approved on October 16, 2020.

At December 31, 2020, the Bank had outstanding subscriptions amounting to ₱1.43 million and ₱129.38 million for preferred and common stocks, respectively. At December 31, 2019, outstanding subscriptions amounted to nil.

Preferred has the following features: (a) 8.0% cumulative dividends, (b) non-participating, (c) non-redeemable, and (d) non-voting. As at December 31, 2020 and 2019, dividends amounted to ₱920.0 million and ₱240.0 million, respectively.

#### Dividend Declaration

##### *2020 Cash Dividends*

On February 15, 2020, the BOD declared cash dividends of 8.0% and ₱15.0 per share to its preferred and common stockholders, respectively, to stockholders of record as at January 31, 2020 and December 31, 2019 respectively. Cash dividends declared amounting to ₱230.0 million were paid starting March 1, 2020 to preferred and common stockholders.

On November 21, 2020, the BOD declared cash dividends of 8.0% and ₱8.0 per share to its preferred and common stockholders, respectively, to stockholders of record as at December 31, 2019 and October 31, 2020 respectively. Cash dividends declared amounting to ₱190.0 million were paid starting December 1, 2020 to preferred and common stockholders.

##### *2020 Stock Dividends*

On November 21, 2020, the BOD declared stock dividends of 40.0% per share to its common stockholders of record as at December 31, 2019 and October 31, 2020 respectively. The Shareholders approved the declaration of stock dividend on November 28, 2020. Stock dividends declared amounting to ₱500.0 million were distributed starting December 1, 2020.

##### *2019 Cash Dividends*

On March 16, 2019, the BOD declared cash dividends of 10.0% and ₱20.0 per share to its preferred and common stockholders, respectively, to stockholders of record as at February 28, 2019. Cash dividends declared amounting to ₱300.0 million were paid starting April 2, 2019 to preferred and common stockholders.



On July 20, 2019, the BOD declared and approved another cash dividend of 8.0% and ₱20.0 per share to its preferred and common stockholders, respectively to stockholder of record as at June 30, 2019. Cash dividends declared amounting to ₱280.0 million were paid starting September 26, 2019 to preferred and common stockholders.

On November 16, 2019, the BOD declared and approved another cash dividend of 6.0% and ₱15.0 per share to its preferred and common stockholders, respectively, to its stockholders of record as at October 31, 2019. Cash dividends declared amounting to ₱210.0 million were paid starting December 20, 2019 to preferred and common stockholders.

#### 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.

As of December 31, 2020 and 2019, the Bank issues two classes of capital stock, preferred and common stocks. The Bank considers its paid-up capital as capital as of year-end.

#### 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, 2020 and 2019, 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, 2020 and 2019, as reported to the BSP, is shown in the table below (amounts in millions):

	<b>2020</b>	<b>2019</b>
Tier 1 capital	<b>₱2,844.4</b>	₱3,102.6
Tier 2 capital	<b>944.2</b>	844.0
Total qualifying capital	<b>₱3,788.6</b>	₱3,946.6
Risk weighted assets	<b>₱22,875.6</b>	₱19,681.4
Tier 1 capital ratio	<b>12.43%</b>	15.8%
Tier 2 capital ratio	<b>4.13%</b>	4.3%
Total CAR	<b>16.56%</b>	20.1%

As at December 31, 2020 and 2019, the Bank's CAR and capital is in compliance with the regulatory requirements.

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

#### Minimum Liquidity Ratio (MLR)

The Minimum Liquidity Ratio is expressed as a percentage of a covered institution's eligible stock of liquid assets to its total qualifying liabilities. The stock of liquid assets is required to be unencumbered and readily liquefiable, while the qualifying liabilities include both on-balance sheet and off-balance sheet commitments.

The Liquidity Coverage Ratio (LCR) for universal and commercial banks, which also applies to their subsidiary and affiliate thrift banks (TBs), rural banks (RBs), cooperative banks (CBs) and quasi-banks (QBs), is 90% beginning January 1, 2018 and 100% beginning January 1, 2019 onwards. Meanwhile, stand-alone TBs, RBs, CBs and QBs will be subject to a Minimum Liquidity Ratio of 20% starting January 1, 2019.



The Bank's MLR as at December 31, 2020 and 2019, as reported to the BSP is shown in the table below (amount in millions):

	2020	2019
Stock of liquid assets	5,005.7	4,692.2
Qualifying liabilities	8,514.5	8,136.6
MLR	58.8%	57.7%

As at December 31, 2020 and 2019, the Bank's MLR is in compliance with the regulatory requirements.

#### Financial Performance

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

	2020	2019
Return on average equity	3.3%	34.0%
Return on average assets	0.8%	8.2%
Net interest margin	20.5%	36.6%

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

### **18. Miscellaneous Income and Expenses**

Miscellaneous income consists of:

	2020	2019
Deposit-related fees and other charges	₱11,556,392	₱4,886,953
Rental income (Note 20)	6,315,713	5,807,378
Recoveries of written-off account	1,779,346	822,995
Commission income	1,575,058	1,111,522
Gain on disposal of property and equipment	62,346	147,211
Others (Note 22)	2,707,943	2,952,486
	<b>₱23,996,798</b>	<b>₱15,728,545</b>

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

Miscellaneous expense consists of the following:

	2020	2019
COVID-19 related expenses	₱9,555,973	₱
Medical and other related expenses	7,204,365	14,430,243
Representation and entertainment (Note 21)	1,577,913	1,749,138
Other donations and charitable expenses (Note 22)	1,460,550	67,996,362
Advertising and promotions	868,602	2,060,953
Penalties and other service charges	-	65,498,197
Others	23,180,680	20,851,581
	<b>₱43,848,083</b>	<b>₱172,586,474</b>





In 2019, penalties and other service charges include the Bank's settlement of BIR tax assessments for the taxable year 2016 amounting to ₱60.3 million and payment of penalties to the BSP for the non-compliance to the Agri-Agra Law amounting to ₱5.2 million.

COVID-19 expenses include reimbursable gratuity allowances granted to employees working on-site, disinfectants purchased, and other cleaning expenses of the Bank.

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

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#### 19. Retirement Benefits

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

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

Hybrid Plan provides a retirement benefit equal to 100.00% of the member's employer accumulated value (the Bank's contributions of 8.0% plan salary to Fund A plus credited earnings) and 100.00% of the Member's Employee accumulated value (member's own contributions up to 10.0% of plan salary to Fund B plus credited earnings), if any. Provided that in no case shall 100.00% of the Employee Accumulated Value in Fund A be less than 100.00% of plan salary for every year of credited service.

The latest actuarial valuation report covers reporting period as of December 31, 2020 and 2019.



Changes in net retirement asset in 2020 and 2019 are as follows:

2020													
Net benefit cost in statements of income*			Remeasurements in other comprehensive income										
January 1	Current service cost	Net interest	Subtotal	Transfer to the plan	Benefits paid	Return on plan assets (excluding amount included in net interest)	Experience adjustments	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Effect of asset ceiling	Subtotal	Contribution by employer	December 31
P67,487,828	P-	P372,404,466	P372,404,466	P2,025,903	(P7,361,943)	(P12,000,895)	P-	P-	P-	P-	(P12,000,895)	P-	P694,781,696
Fair value of plan assets	(423,818,902)	(44,601,682)	(23,479,567)	(68,081,249)	7,361,943	-	(14,987,159)	3,231,874	26,941,886	-	15,186,601	-	(471,377,410)
Present value of defined benefit obligation	(38,574,789)	-	(2,137,043)	(2,137,043)	-	-	-	-	-	16,713,016	16,713,016	-	(23,998,816)
Effect of asset ceiling	-	-	-	-	-	-	-	-	-	-	-	-	-
Net retirement asset	P212,584,594	P44,601,682	P11,623,836	P32,977,846	P-	P-	(P12,000,895)	P3,231,874	P26,941,886	P16,713,016	P19,898,722	P-	P199,405,670
*The net benefit cost is included in 'Compensation and benefits' in the statements of income													
2019													
Net benefit cost in statements of income*			Remeasurements in other comprehensive income										
January 1	Current service cost	Net interest	Subtotal	Transfer to the plan	Benefits paid	Return on plan assets (excluding amount included in net interest)	Experience adjustments	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Effect of asset ceiling	Subtotal	Contribution by employer	December 31
P644,948,891	P-	P49,834,519	P49,834,519	(P764,466)	(P12,316,766)	(P24,410,438)	P-	P-	P-	P-	(P24,410,438)	P17,586,545	P674,878,285
Fair value of plan assets	(268,360,084)	(30,000,474)	(20,663,726)	(50,664,200)	12,316,766	-	(13,863,059)	(3,626,612)	(100,386,179)	-	(117,875,850)	-	(423,818,902)
Present value of defined benefit obligation	(127,805,400)	-	(9,841,016)	(9,841,016)	-	-	-	-	-	99,071,627	99,071,627	-	(38,574,789)
Effect of asset ceiling	-	-	-	-	-	-	-	-	-	-	-	-	-
Net retirement asset	P248,783,407	P30,000,474	P19,129,777	P16,569,697	P-	P-	(P13,863,059)	(P3,626,612)	(P100,386,179)	P99,071,627	(P43,214,661)	P17,586,545	P212,484,594
*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:

	2020	2019
Cash and other cash items	<b>₱321,544,969</b>	₱295,484,512
Government securities	<b>285,207,886</b>	298,403,369
Mutual funds	<b>3,404,430</b>	3,377,197
Other bonds	<b>10,630,160</b>	10,143,383
Loans and receivables	—	55,599,449
Other assets	<b>73,994,251</b>	11,870,375
<b>Fair value of plan assets</b>	<b>₱694,781,696</b>	<b>₱674,878,285</b>

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

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

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

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

	2020	2019
Discount rates		
January 1	<b>5.5%</b>	7.7%
December 31	<b>3.9%</b>	5.5%
Future salary increases	<b>3.0%</b>	5.0%

The sensitivity analysis below has been determined based on reasonably possible changes (in basis points) 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:

	2020		2019	
	+100	-100	+100	-100
Discount rates	(₱54,806,430)	₱66,232,453	(₱51,494,380)	₱62,484,130
Future salary increases	66,204,423	(55,763,770)	62,185,356	(52,186,285)

As at December 31, 2020, the average duration of defined benefit obligations is 12.8 years.

Expected fund contribution in 2021 amounts to ₱20.0 million.



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

	2020	2019
Less than 1 year	<b>₱25,931,395</b>	₱21,082,639
More than 1 year to 5 years	<b>124,716,979</b>	109,319,038
More than 5 years to 10 years	<b>205,095,807</b>	202,785,619
More than 10 years to 15 years	<b>287,905,563</b>	318,545,803
More than 15 years to 20 years	<b>376,813,369</b>	491,874,798
More than 20 years to 25 years	<b>465,076,720</b>	663,806,223
More than 25 years	<b>851,088,272</b>	1,670,020,187

## 20. Leases

### *Bank as a lessee*

#### *Office spaces and staff house*

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

#### *Transportation and IT equipment*

The Bank leases transportation and IT equipment from CLFC. The lease contracts have a term of eighteen (18) months to twenty-four (24) months and eighteen months in 2020 and 2019, respectively.

The following are the amounts recognized in the statement of income:

	2020	2019
Depreciation expense of ROU assets	<b>₱109,839,756</b>	₱85,594,717
Interest expense on lease liabilities	<b>12,173,750</b>	12,883,049
Expenses relating to short-term leases and leases of low-value assets (included in general and administrative expenses)	<b>75,800,213</b>	11,692,517
<b>Total amount recognized in statement of income</b>	<b>197,813,719</b>	<b>₱110,170,283</b>

The rollforward analysis of lease liabilities follows:

	2020	2019
Balance at beginning of year	<b>208,766,138</b>	176,490,128
Addition	<b>94,541,533</b>	113,710,246
Interest expense	<b>12,173,750</b>	12,883,049
Principal payments	<b>(118,966,877)</b>	(94,317,285)
<b>Balance at end of year</b>	<b>₱196,514,544</b>	<b>₱208,766,138</b>



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

	2020	2019
1 year	<b>₱106,171,693</b>	₱102,903,706
more than 1 years to 2 years	<b>63,104,690</b>	72,303,097
more than 2 years to 3 years	<b>27,543,526</b>	32,446,194
more than 3 years to 4 years	<b>5,669,075</b>	11,985,836
more than 4 to 5 years	<b>3,672,942</b>	3,811,878
more than 5 years	<b>6,825,150</b>	9,035,476

*Bank as a lessor*

The Bank earns income from leased office spaces to CARD MRI Information Technology (CMIT) and CARD MRI Property Management, Inc. (CMPMI). As of December 31, 2020 and 2019, rental income recognized under “Miscellaneous Income” in the Statements of Comprehensive Income amounted to ₱6.3 million and ₱5.8 million, respectively (Note 18).

## 21. Income Taxes

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

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

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

An optional standard deduction (OSD) equivalent to 40.0% of gross income may be claimed as an alternative deduction in computing for the RCIT. For the 2020 and 2019 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:

	2020	2019
Current:		
RCIT	<b>₱179,336,062</b>	₱552,825,677
Final tax	<b>26,380,535</b>	37,577,853
	<b>205,716,597</b>	590,403,530
Deferred	<b>(166,003,257)</b>	(68,322,148)
	<b>₱39,713,340</b>	₱522,081,382



Components of net deferred tax assets are as follows:

	2020	2019
<i>Deferred tax asset</i>		
Allowance for credit and impairment losses	<b>₱260,731,154</b>	₱103,477,545
Finance lease liability	<b>58,954,363</b>	62,629,841
Losses on loan modifications	<b>12,737,432</b>	—
Accrued rent and vacation leave	<b>7,690,757</b>	21,718,421
Unamortized past service cost	<b>853,067</b>	1,160,528
Unrealized foreign exchange loss	<b>84,068</b>	—
	<b>341,050,841</b>	188,986,335
<i>Deferred tax liability</i>		
Retirement asset	<b>(59,821,641)</b>	(63,745,378)
Right-of-use assets	<b>(59,767,193)</b>	(63,806,094)
Unrealized gain on financial assets at FVOCI	<b>(17,906,661)</b>	(5,005,886)
Unrealized foreign exchange gain	—	(6,496)
	<b>(137,495,495)</b>	(132,563,854)
	<b>₱203,555,346</b>	₱56,422,481

The income tax effect arising from retirement asset recognized in 2020 and 2019 in other comprehensive income amounted to a provision of ₱6.0 million and ₱13.0 million, respectively.

The income tax effect arising from unrealized losses on financial assets at FVOCI investments recognized in statements of other comprehensive income amounted to a benefit of ₱12.9 million and ₱25.4 million in 2020 and 2019, respectively.

As at December 31, 2020 and 2019, the Bank has no unrecognized deferred tax assets.

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

	2020	2019
Statutory income tax	<b>₱54,111,131</b>	₱563,737,562
Income tax effects of:		
Interest income subject to final tax	<b>(40,818,489)</b>	(45,419,852)
Nontaxable income	<b>(12,777,594)</b>	(19,639,529)
Nondeductible interest expense and other expenses	<b>39,198,292</b>	23,403,201
Provision for income tax	<b>₱39,713,340</b>	₱522,081,382

## 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, 2020 and 2019, 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):

	2020	2019
Short-term employee benefits	<b>P4.9</b>	<b>P24.3</b>
Post-employment benefits	<b>12.2</b>	<b>13.0</b>
	<b>P17.1</b>	<b>P37.3</b>

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, 2020 and 2019 follow:

December 31, 2020			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
<b>Key Management Personnel</b>			
Deposit liabilities		<b>P9,580,315</b>	
Deposits	<b>P25,436,483</b>		These are demand and savings accounts with annual interest rates ranging from 1.5% to 6.0%.
Withdrawals	<b>70,602,084</b>		
Dividends paid	<b>4,934,686</b>		Relates to common and preference shares of the Bank held by key management personnel
<b>Shareholders</b>			
Deposit liabilities		<b>1,711,869,051</b>	
Deposits	<b>9,309,843,349</b>		These are demand and savings accounts maintained by shareholders with the Bank with annual interest rates ranging from nil to 4.3%.
Withdrawals	<b>7,995,696,508</b>		
Accounts receivable		<b>4,744,962</b>	This amount represents the shareholders' share in expenses still payable to the Bank.
Share in expenses	<b>7,975,113</b>		
Collections	<b>3,621,269</b>		

(Forward)



December 31, 2020			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Accounts payable		<b>₱10,167</b>	This amount represents the Bank's share in expenses still payable to its shareholders.
Share in expenses	<b>₱40,041,918</b>		
Remittances	<b>43,633,656</b>		
Dividends paid	<b>204,853,981</b>		Pertains to dividends on common and preference shares of the Bank held by its shareholders
Dividends payable		<b>10,951,700</b>	Pertains to unpaid dividends on common and preference shares of the Bank held by its shareholders
Rent expense	<b>13,873,327</b>		Certain establishments are being owned by shareholders leased to the Bank. The lease contracts have a three-year term with no escalation clause and five to six-year term with escalation clause of 10% every after 2 years.
<b>Associates</b>			
Additional investments	<b>74,000,000</b>		Pertains to additional investments of the Bank in RBI
	<b>232,359</b>		Pertains to additional investments of the Bank in MIDAS
Dividend income	<b>95,400,000</b>		Pertains to income received by the Bank from RBI as an associate
December 31, 2019			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
<b>Key Management Personnel</b>			
Deposit liabilities		<b>₱54,745,916</b>	These are demand and savings accounts with annual interest rates ranging from 1.5% to 6.0%.
Deposits	<b>₱116,273,072</b>		
Withdrawals	<b>108,244,898</b>		
Dividends paid	<b>64,478,755</b>		Relates to common and preference shares of the Bank held by key management personnel
<b>Shareholders</b>			
Deposit liabilities		<b>397,722,211</b>	These are demand and savings accounts maintained by shareholders with the Bank with annual interest rates ranging from nil to 4.3%.
Deposits	<b>7,381,012,307</b>		
Withdrawals	<b>7,740,393,266</b>		
Accounts receivable		<b>391,117</b>	This amount represents the shareholders' share in expenses still payable to the Bank.
Share in expenses	<b>2,899,408</b>		
Collections	<b>2,899,408</b>		
Accounts payable		<b>3,601,905</b>	This amount represents the Bank's share in expenses still payable to its shareholders.
Share in expenses	<b>41,937,288</b>		
Remittances	<b>39,065,151</b>		
Dividends paid	<b>728,969,888</b>		Pertains to dividends on common and preference shares of the Bank held by its shareholders
Dividends payable		<b>63,370,446</b>	Pertains to unpaid dividends on common and preference shares of the Bank held by its shareholders
Rent expense	<b>8,188,217</b>		Certain establishments are being owned by shareholders leased to the Bank. The lease contracts have a three-year term with no escalation clause and five to six-year term with escalation clause of 10% every after 2 years.
<b>Associates</b>			
Additional investments	<b>23,500,000</b>		Pertains to additional investments of the Bank in RBI
	<b>46,581</b>		Pertains to additional investments of the Bank in MIDAS
Dividend income	<b>100,800,000</b>		Pertains to income received by the Bank from RBI as an associate

Transitioned units from CARD, Inc. to the Bank were nil and 31 in 2020 and 2019, respectively. The BOD passed a resolution for the transition of the units from CARD, Inc. after receipt of approval from the BSP to establish additional microfinance-oriented branches on June 13, 2019 with 3 branches to be opened within one (1) year from date of approval.





Below is the percentage of total exposures to related parties as against capital:

Category	2020		2019	
	Net exposure	Ratio	Net exposure	Ratio
Key management personnel	<b>₱9,580,315</b>	<b>0.2%</b>	<b>₱54,745,916</b>	1.3%
Shareholders	<b>1,711,869,051</b>	<b>9.0%</b>	<b>397,722,211</b>	9.3%

#### 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, 2020 and 2019, 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, 2020 and 2019, DOSRI accounts under the existing regulations are shown in the table below (as reported to BSP):

	2020	2019
	DOSRI Loans	DOSRI Loans
Total outstanding DOSRI loans	<b>₱1,077,255</b>	<b>₱781,357</b>
Percent of DOSRI/Related Party loans to total loan portfolio	<b>0.0%</b>	<b>0.0%</b>
Percent of unsecured DOSRI/Related Party loans to total loan portfolio	<b>0.0%</b>	<b>0.0%</b>
Percent of past due DOSRI/Related Party loans to total loan portfolio	<b>0.0%</b>	<b>0.0%</b>
Percent of non-performing DOSRI/Related Party loans to total loan portfolio	<b>0.0%</b>	<b>0.0%</b>

As of December 31, 2020 and 2019, there were no outstanding loans to related parties.

BSP Circular No. 560 provides that the total outstanding loans, other credit accommodation and guarantees to each of the bank's/quasi-bank's subsidiaries and affiliates shall not exceed 10.00% of the net worth of the lending bank/quasi-bank, provided that the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank/quasi-bank; and the subsidiaries and affiliates of the lending bank/quasi-bank are not related interest of any director, officer and/or stockholder of the lending institution, except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as representative of the bank/quasi-bank.

On May 12, 2009, BSP issued Circular No. 654 allowing a separate individual limit of twenty-five (25.00%) of the net worth of the lending bank/quasi-bank to loans of banks/quasi-banks to their subsidiaries and affiliates engaged in energy and power generation.



## 23. Notes to Statements of Cash Flows

The following is the summary of noncash activities in 2020 and 2019:

	2020	2019
<b>Non-cash investing activity:</b>		
Additions to property and equipment through lease contracts (Note 11)	<b>₱96,901,865</b>	₱212,686,978
<b>Non-cash financing activities:</b>		
Stock dividends paid – common stock	<b>500,000,000</b>	—
Application of deposit for future stock subscriptions		
Common stock	<b>122,918,040</b>	—
Preferred stock	<b>116,400,380</b>	—

The following table shows the reconciliation analysis of liabilities arising from financing activities for the year ended December 31, 2020 and 2019, respectively:

	2020					Total
	Bills payable (Note 14)	Lease liabilities (Notes 15 and 20)	Deposit for future stock subscription (Notes 15 and 17)	Dividends payable (Notes 15 and 17)	Capital stock (Note 17)	
<b>Balances as of January 1, 2020, as reported</b>	<b>₱546,811,349</b>	<b>₱208,766,138</b>	<b>₱239,318,420</b>	<b>₱63,370,446</b>	<b>2,000,000,000</b>	<b>₱1,058,266,353</b>
Cash flows	357,957,123	(118,966,877)	—	(424,641,403)	25,024,180	(91,109,624)
Non-cash items						
Cash dividend declaration	—	—	—	420,000,000	—	420,000,000
Application of deposit for future stock subscription	—	—	(239,318,420)	—	239,318,420	—
New lease contracts entered during the year	—	94,541,533	—	—	—	—
Amortization of discount of bills payables	5,975,727	—	—	—	—	—
Amortization on interest expenses of lease liabilities	—	12,173,750	—	—	—	—
Stock dividend declaration	—	—	—	—	500,000,000	—
<b>Balances as of December 31, 2019</b>	<b>₱910,744,199</b>	<b>₱196,514,544</b>	<b>₱—</b>	<b>₱58,729,043</b>	<b>₱2,764,342,600</b>	<b>₱1,405,306,206</b>

	2019					Total liabilities from financing activities
	Bills payable (Note 14)	Lease liabilities (Notes 15 and 20)	Deposit for future stock subscription (Notes 15 and 17)	Dividends payable (Notes 15 and 17)	Capital stock (Note 17)	
Balances as at January 1, 2019, as reported	₱529,496,198	—	₱—	₱—	₱66,818,789	₱596,314,987
Adoption of PFRS 16	—	176,490,128	—	—	—	176,490,128
Balances as of January 1, 2019, as restated	529,496,198	176,490,128	—	66,818,789	—	772,805,115
Cash flows	15,674,227	(94,317,285)	239,318,420	(793,448,343)	—	(632,772,981)
Non-cash items						
Dividend declaration	—	—	—	790,000,000	—	790,000,000
New lease contracts entered during the year	—	113,710,246	—	—	—	113,710,246
Amortization of discount of bills payables	₱1,640,924	—	—	—	—	1,640,924
Amortization on interest expenses of lease liabilities	—	12,883,049	—	—	—	12,883,049
<b>Balances as of December 31, 2019</b>	<b>₱546,811,349</b>	<b>₱208,766,138</b>	<b>₱239,318,420</b>	<b>₱63,370,446</b>	<b>—</b>	<b>₱1,058,266,353</b>



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## 24. Events After the Reporting Date

### *CREATE Law*

President Rodrigo Duterte signed into law on March 26, 2021 the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act to attract more investments and maintain fiscal prudence and stability in the Philippines. Republic Act (RA) 11534 or the CREATE Act introduces reforms to the corporate income tax and incentives systems. It took effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or April 11, 2021.

The following are the key changes to the Philippine tax law pursuant to the CREATE Act which have an impact on the Bank.

- Effective July 1, 2020, RCIT rate is reduced from 30% to 25% for domestic and resident foreign corporations. For domestic corporations with net taxable income not exceeding Php5 million and with total assets not exceeding Php100 million (excluding land on which the business entity's office, plant and equipment are situated) during the taxable year, the RCIT rate is reduced to 20%.
- Minimum corporate income tax (MCIT) rate reduced from 2% to 1% of gross income effective July 1, 2020 to June 30, 2023.

As clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretations Committee Q&A No. 2020-07, the CREATE Act was not considered substantively enacted as of December 31, 2020 even though some of the provisions have retroactive effect to July 1, 2020. The passage of the CREATE Act into law on March 26, 2021 is considered as a non-adjusting subsequent event. Accordingly, current and deferred taxes as of and for the year ended December 31, 2020 continued to be computed and measured using the applicable income tax rates as of December 31, 2020 (i.e., 30% RCIT / 2% MCIT) for financial reporting purposes.

Applying the provisions of the CREATE Act, the Bank would have been subjected to lower regular corporate income tax rate of 25% and MCIT rate of 1% effective July 1, 2020.

- Based on the regulations (RR) No. 5-2021 dated April 8, 2021 issued by the BIR, the prorated CIT rate of the Bank is 25%. This will result in lower provision for current income tax for the year ended December 31, 2020 and lower income tax payable as of December 31, 2020, amounting to ₱179.3 million and ₱161.9 million, respectively, or a reduction of ₱17.3 million. The reduced amounts will be reflected in the Company's 2020 annual income tax return. However, for financial reporting purposes, the changes will only be recognized in the 2021 financial statements.
- This will result in lower deferred tax assets and liabilities as of December 31, 2020 and provision for deferred tax for the year then ended by ₱158.9 million and ₱13.9 million respectively. These reductions will be recognized in the 2021 financial statements.

### *Continuing COVID-19 pandemic*

Because of the Coronavirus Disease 2019 (COVID-19) pandemic, the Bank is exposed to a number of trends and uncertainties which can affect its financial performance. This include levels of general economic activity and its effect on the disposable income of households in the Philippines.

Various levels of community quarantine throughout the country have caused disruptions to businesses and economic activities, and its impact on the businesses continue to evolve.



The scale and duration of these developments continue to be uncertain as of the report date. The Bank observed declines in its revenues. However, it is not possible to estimate the possible impact of the pandemic's near-term and long-term effects. The Bank has incurred and will continue to incur costs as it continues to mitigate the adverse effects of the pandemic on its operations. The pandemic could have a material impact on the Bank's financial results for the rest of 2021 and even periods thereafter. Considering the evolving nature of the pandemic, the Bank will continue to monitor the situation.

## 25. Approval of the Issuance of the Financial Statements

The accompanying financial statements of the Bank were approved and authorized for issue by the Bank's BOD on April 29, 2021.

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

The components of 'Taxes and licenses' recognized in the statement of income for the year ended December 31, 2020, follow:

Gross receipt tax (GRT)	P194,767,617
Business permits and licenses	14,435,352
Documentary stamp (DST)	42,568,924
Real property tax	2,311,356
Others	49,673,117
	<b>P303,756,366</b>

GRT in 2020 consists of taxes on:

Interest income on loans	P183,343,659
Other income	11,423,958
	<b>P194,767,617</b>

DST in 2020 consists of taxes on special savings account, loans, and capital increase.

Withholding taxes in 2020 are categorized into:

Paid:	
Expanded withholding tax	P21,013,856
Withholding taxes on compensation and benefits	6,276,491
Final withholding tax on interest expense and dividends declared	78,792,044
Donors Tax	48,900
	<b>106,131,291</b>
Accrued:	
Expanded withholding tax	1,932,371
Withholding taxes on compensation and benefits	
Final withholding tax on interest expense	9,282,267
Documentary stamp tax	9,964,043
	<b>21,178,682</b>
	<b>P127,309,973</b>



#### Tax Assessment and Cases

On October 11, 2019, the BIR has rendered a letter of authority to examine the books of accounts and other accounting records for all internal revenue taxes including documentary stamp taxes and other taxes for the taxable period January 1, 2017 to December 31, 2017. The data request letter sent on October 18, 2019 requires the Bank to reproduce all listed master and transaction files in electronic form within 5 days pursuant to Sec. 4 of Revenue Regulations (RR) No. 16-2006. The Bank submitted the requested data files on January 21, 2020. Due to the implementation of the ECQ in Luzon, the BIR has yet to follow through the status of the inspection of the Bank's books. On February 10, 2021, a Notice of Discrepancy (NOD) was issued by the BIR and the Bank replied during an informal discussion on March 3, 2021. As of April 29, 2021, the BIR has not issued any formal assessments to the Bank.

On February 6, 2020, the BIR has rendered a letter of authority to examine the books of accounts and other accounting records of the Bank for the taxable period January 1, 2018 to December 31, 2018. The Bank acknowledged receipt of the LOA on February 12, 2020 and submitted the initial data requests on February 19, 2020 along with the waiver to submit other requirements on a later date due to the ECQ protocols implemented. As of April 29, 2021, the BIR is currently inspecting the information submitted by the Bank and has not issued any formal assessments to the Bank.







*Bukas, para sa lahat.*

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