



COMPLIANCE RATING: A MONITORING AND EVALUATION TOOL FOR CARD BANK INC.

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List of Symbols, Abbreviations and Nomenclature

ADB	Asian Development bank
AMLA	Anti-Money Laundering Law
ATM	Automated Teller Machine
BIR	Bureau of Internal Revenue
BMBE	Barangay Micro-Business Enterprise
BSP	Bangko Sentral ng Pilipinas
CARD	Center for Agriculture and Rural Development
CAMELS	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Sensitivity to Market Risk.
FCDU	Foreign Currency Denominated Unit
FGDs	Focus group discussions
KYC	Know Your Customer
LCDPs	Loan Collection and Disbursement Points
MDIC	Maximum Deposit Insurance Coverage
MRI	Mutually Reinforcing Institution
MSME	Micro, Small and Medium Enterprise
MSP	Money, Security and Payroll
NGO	Non-government organization
OBO	Other banking offices
PD	Presidential Decree
PDIC	Philippine Deposit Insurance Commission
RA	Republic Act
SBL	Single Borrowers Limit
SEC	Securities and Exchange Commission
WRRAR	Weekly Report on Required and Available Reserve

Abstract

Evaluation tool has been a very effective mechanism in assessing performance and creating accountability in any organization. Internal audit rating has been very effective in assessing internal control for the entire CARD Mutually Reinforcing Institution's (CARD MRI) operation. However, for regulated institution like in the case of CARD bank Inc, overall operation is not limited to strong internal control alone. This includes compliance with laws, rules and regulations; information not fully captured by the existing audit rating system.

This project is designed as another evaluation tool in assessing CARD Bank Inc's performance giving emphasis on the compliance issues to ensure its sustainability. This project also sought to identify the level of awareness and familiarity on the following: 1) Philippine laws, rules and regulations, 2) Compliance and reportorial reports and requirements and 3) Effect of non-compliance with the laws, rules and regulations for future management plan. As a result, this tool will help increase awareness among staff and will create accountability for better CARD Bank's operation.

1. BACKGROUND

1.1 Environmental Analysis

Microfinance has been a part of the financial mainstream in the Philippines and a microfinance-oriented bank continues to grow overtime. From the BSP year end report of 2005, there were eight (8) microfinance-oriented rural banks serving around 65, 606 clients with Php.322 million loans outstanding. And, base on the BSP First Annual Global Microfinance index, 2009, this has grown to a total of two hundred fourteen (214) banks excluding universal and commercial banks actively engaged in microfinance sector with outstanding portfolio of Php6.4 billion granted to around 894, 885 clients. Moreover, microfinance industries have established a visible contribution in developing micro-entrepreneurs that serves as the channel in developing their respective communities.

Continuous growth and recognition of the impact of microfinance on the community contributed to the emergence of full support of the government to the microfinance industry specifically for the banking industry. Bangko Sentral ng Pilipinas (BSP); the central bank of the republic of the Philippines's recognition of the microfinance services as legitimate banking activity contributed more on its growth. This also creates windows for new aspirants which further the growth of the microfinance industry in the Philippines. Microfinance has been an ideal vehicle also for the Non Government Organizations (NGOs) who are interested in transforming into formal financial institution. Thus, currently, banks are considered one of the main players in the Philippines microfinance industry. This tremendous growth of the microfinance sector leads to a

stronger monitoring on the part of the regulators to ensure that bank's clients are protected while maintaining its focus of freeing Filipinos out of poverty.

1.2 ORGANIZATIONAL ANALYSIS

“Only by creating a vehicle for asset ownership, can we ensure that the poor will gain control over their own resources and over their own destiny.” (Dr. Jaime Aristotle B. Alip Ph d.- Founding Chairman and President of CARD Bank Inc).

This vision led to the establishment of the Center for Agriculture and Rural Development Bank Inc. The bank became operational on September 1, 1997 and begun servicing the public in the city of San Pablo where head office is located. The issuance of the BSP circular 505 dated December 22, 2005 fueled the rapid expansion of CARD Bank Inc. From its nine (9) branches as of the first quarter of 2006, it increased to as high as thirty six (36) branches and two hundred forty eight (248) other banking offices (OBO)¹ as of April 30, 2010. Number of savers were recorded at 429, 168 while reaching around 296, 950 borrowers with total loan outstanding of Php1.358 billion. CARD Bank Inc's total assets amounted to Php2.182 billion with recorded operational self sufficiency and financial sufficiency at 103.44% and 101.94% respectively with total manpower of one thousand two hundred ninety three (1, 293).

¹ *Per BSP circular 505 as amended by circular 624 “refer to any office or place of business in the Philippines other than the head office branch or extension office, which primarily engages in banking activities other than the acceptance of deposits and/or servicing withdrawals thru tellers or authorized personnel. It shall include loan collection and disbursement points (LCDPs) of microfinance oriented banks and microfinance/Barangay Micro business enterprise (BMBE)-oriented branches of bank which may accept deposit solely from existing microfinance/BMBE borrowers; provided that account openings and other banking transactions of said microfinance/BMBE borrowers shall be done only at the head office/branch/extension offices or thru automated teller machines (ATMs), as may be applicable”.*

On January 3, 2008, pursuant to Monetary Board's resolution no 8, amending the Manual of regulation for Banks, BSP issued circular 598. This mandated banks with more than Php500 million total assets to appoint an independent full time compliance officer to monitor the implementation of the compliance program. Thus, on January 2009, separate compliance unit was set up.

2. THE PROBLEM

Along with this tremendous growth of microfinance industry, is the continuous and rapid expansion of CARD bank Inc. Pushes by its organizational targets of reaching around three million financially challenged families by 2014 branching and establishment of the other banking offices (OBO) has been its one major strategy. However, expanding banking operation is coupled with increased complexities and expanding compliance transactions that need to be addressed. CARD Bank Inc began to encounter several compliance issues such as reportorial and regulatory requirements, competency training for staff and information dissemination that needs to be given attention. Along with this problem is the increase cost brought about by penalties for late or non compliance with the regulatory requirements. Moreover, the consolidation issues faced by widely dispersed bank branches operating all over the Philippine started to come out. This only shows that strong internal control needs a counter part to deal with the management compliance system towards CARD Bank Inc.'s growth and sustainability.

Prior to the setting up of the independent compliance unit to focus on the compliance concern, CARD Bank head office handles the compliance transactions for the entire operation of head office including its thirty two (32) branches as of December 2009. Branch administrative and operation staff relied fully in head office for compliance matter. In a continuously expanding operation of the bank, effects of the complexities of the compliance functions started to be a major concern. Three (3) major issues were identified as a result of the evaluation conducted: efficiency, regulator's evaluation result and restrictions and risks implications of lack of knowledge on the Philippine laws, rules and regulations.

2.1 Efficiency

Efficiency matters in microfinance operation. This means providing services at many clients as possible at the lowest possible cost. Indicators consist of administrative efficiency, operational self-sufficiency and productivity. However, late or non-submission of required reports to the regulatory agencies lead to additional cost to the bank such as increased personnel cost as a result of staff overtime. This increasing personnel cost is also accompanied by other related expenses such as utilities, supplies and communication expenses. Increasing bank charges as penalties also contributed to the increase administrative cost that in effect lowers CARD Bank Inc's efficiency. Base on CARD bank's demand deposit account statement with the BSP, penalties for late submission of report alone for the period 2008 to 2010 amounted to Php 412, 720 of which, Php193, 900 incurred in 2008, Php218, 820 in 2009 and Php15, 220 for the period January to March 2010. These figures pertains to BSP imposed penalties and exclude penalties from other regulators such as PDIC, BIR, SEC and other government agencies regulating banking operation.

2.2 Regulator's evaluation and restrictions

Government agencies such as BSP, SEC PDIC, BIR and other government institution supervising a bank are termed as regulators. Among these agencies, BSP has the well known evaluation tool; CAMELS rating². A tool with six components namely; Capital adequacy, Asset management, Earnings, Liquidity, and Sensitivity to market risks use in evaluating a bank's

² Per BSP Supervision guideline No. 2004-36 "The composite rating shall be the sum of the equivalent ratings for each of the six factors/components (Capital, Asset Quality, Management, Earnings, Liquidity and Sensitivity to Market) as discussed under Supervision Guidelines No. 1998-7 wherein the examiner is encouraged to exercise his sound judgments and flexibility in assigning a component weight which to a large extent depends on the size, complexity of activities and risk profile of the institution being rated. The final rating shall be rounded off to the nearest whole number.

performance. This powerful tool is not just being used in evaluating the performance of a given bank rather this is also use as basis in approving bank's application concerning its operation. Bank's incentives, programs and other products or services such as establishment of branch or loan collection and disbursement points (LCDPs), electronic banking services, operation of foreign currency denominated unit (FCDU), rediscounting facility, accepting deposit from government agencies and many more which the bank can offer are highly dependent on this CAMELS rating. Since CARD bank is continuously expanding its operation, maintaining an average CAMELS rating of at least "3" is a challenge.

2.3 Risks implications of lack of knowledge with Philippines laws, rules and regulations

Implications on the bank's operation as a result of lack of knowledge on Philippine laws, rules and regulations are not clear to most of the staff. Innocence of the law subjects the bank to higher risks as effect of non-compliance and/or violation of it.

Currently, CARD Bank Inc has a well defined management tool; the internal audit ratings use in assessing and monitoring whether the control procedures are in place and are being implemented in all branches. This audit rating tool also captures assessment of the operational targets set by the management. It also helps in assessing which areas does CARD Bank Inc. did well and which areas need to be addressed further in terms of internal control and operational targets. This has been a very effective tool not only for CARD Bank Inc but for the entire CARD MRI in creating awareness and accountability among CARD staff thereby establishing collective effort towards strengthening the organization's internal control. However, for regulated institution

like in the case of CARD Bank Inc.; overall operation includes compliance with laws, rules and regulations; information not fully captured by the existing internal audit rating system.

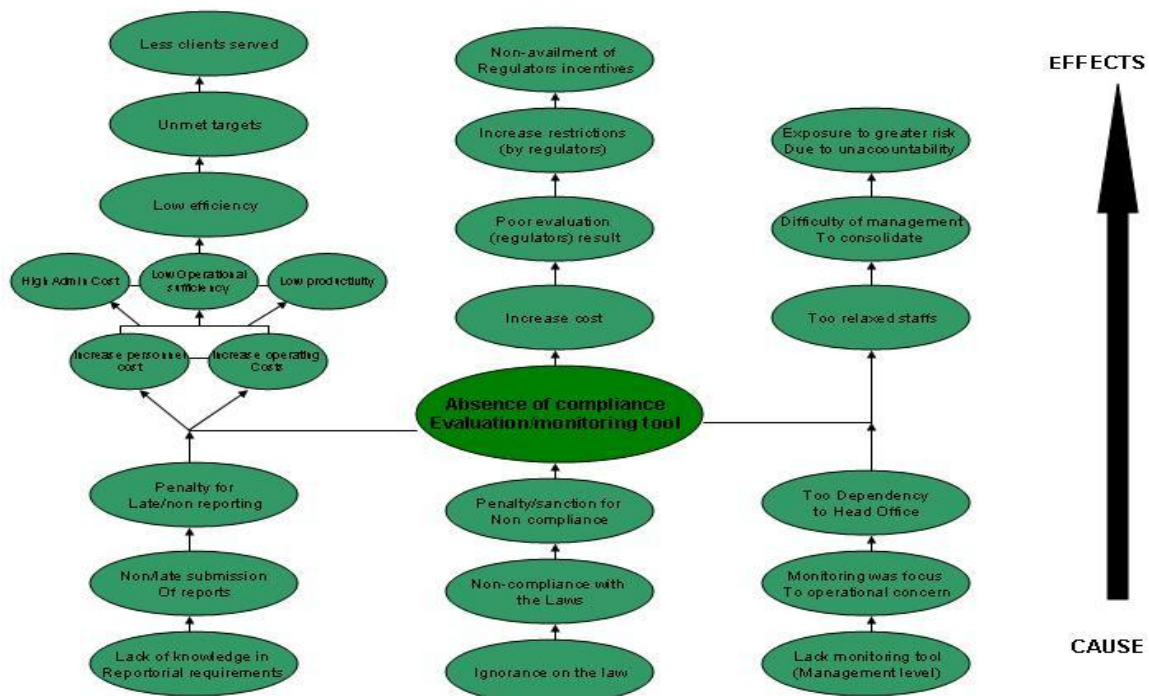
Base on the assessment conducted, two major causes of the problems were identified: lack of knowledge and lack of sense of accountability among staff. Out of ninety respondents, seventy percent has low level of awareness or no idea at all on the compliance transaction and reports. Fifty two percent of these respondents are directly handling the compliance transactions and reports for regulators. However, sixty one percent of them are direct users and are not familiar on the compliance transaction they are handling. Fifty eight percent are not aware of the implication of non-compliance with these regulations. Detailed level of awareness on transactions, reports and sample laws, rules and regulations on compliance are shown in figure 4. Moreover, this lack of awareness was also reflected on the number of transaction—queries on basic compliance policies and procedures—being handled by the compliance unit daily.

Apart from the lack of knowledge, sense of accountability is another factor. Most of the time branches relied to head office on the compliance transaction and reports. Likewise, head office borne all the implications and penalties for non-compliance with the regulators. Thus, staff from branches did not feel the pressure of meeting high standards and avoiding penalties paid due to non compliance.

Problems identified have overall effect on the institution's aims of continuous growth and sustainability specifically for continuously expanding CARD Bank Inc's operation. Thus, having an effective compliance management system—including board and management oversight, compliance program and compliance audit—is now a major challenge. Evaluating the current set up of CARD Bank Inc, two of these elements were already in place: fully set up compliance unit to do the compliance audit and a well define compliance program. There are two (2) manpower

compliments assign to handle the compliance transaction and a well defined compliance program which is continuously being updated annually or as the need arises. The focus now should be on the oversight function to ensure the effectiveness of the compliance system. One way to achieve this oversight function is the creation of management tool that will evaluate branch performance and will establish accountability among staff towards the achievement of sustainability objective of CARD Bank Inc.

Figure 1: The Problem tree



3. THE LITERATURE REVIEW

3.1 Overview

Per BSP's 2005 year end report on Microfinance Initiative, BSP was mandated by the General Banking Law to recognize microfinance as a legitimate banking activity and to set the rules and regulations for its practice within the banking sector. In the same year, the BSP declared microfinance as its flagship program for poverty alleviation. Since 2000, the BSP has been proactive in the development of microfinance using a three pronged approach: I) to provide the enabling policy and regulatory environment, II) to increase the capacity of the BSP and banking sector on microfinance operations, and III) to promote and advocate for the development of sound and sustainable microfinance operations.

The Bangko Sentral ng Pilipinas works to create an environment that will allow banks to have a wider scope and outreach for their microfinance operations, at the same time maintain soundness and sustainability in their operations. Building on the various policy and regulatory issuances of the BSP in the past years, 2005 further demonstrated BSP's continuous support for microfinance and the responsiveness to the changing demands of its practice. This support of the regulators opened the windows for the rapid and continuous growth of microfinance-rural bank in the Philippines.

3.2 Purpose

Rapid expansion of the microfinance operation was fueled by the virtue of BSP circular 505 dated December 2005, revised Branching Guidelines - In late 2005, the Monetary Board

approved the revised branching guidelines to enhance competition in the banking system and maximize the delivery of financial services especially in underserved areas. These guidelines further provide a significant boost for the microfinance industry by creating the enabling environment for banks with microfinance operations to expand the reach and scope of their operations. Geographical restrictions were addressed which will allow sound and well managed banks to serve large demand for microfinance services in cities and urban centers. Another significant benefit for microfinance is the provision which allows for the servicing of deposits outside the bank premises. Under the new guidelines, as long as the capital requirements are met, the safety and soundness of the bank is ensured, and that the area of operation is within one hour normal travel time to the head office or branch, the bank may now be authorized to solicit and accept deposits outside their banking premises. This is once again a big advantage for microfinance institutions whose loan officers typically go out into the towns and cities to service their clients.

In “The more timely failure intervention” the proposed solution for the bank failure must go into two opposite direction. One direction focuses on **increase regulatory and legislative discipline** to limit institution’s potential risk exposure. The other direction attempts to rely on market mechanism to achieve result more efficiently (George Kaufman pp 575-576). This increase regulatory and legislative discipline pushes each bank to have stricter monitoring to have positive evaluation result from the regulators.

In the Philippines context, BSP is using evaluation tool named as CAMELS rating to evaluate bank’s operation and risks exposure. This is consistent with the Siems, Bar and Seiford, wherein federal regulators used an early warning system to identify bank that are in danger of

failure. This system also uses the acronym CAMEL, capital adequacy, asset quality, management quality, earning ability and liquidity. Bank examiners score bank in each CAMEL category on a scale of 1 to 5 with 1 being the strongest in rating. The overall CAMEL rating emerges from underlying factor scores. The examiner can find ample information from the bank balance sheet and income statement. Examiners must rely on more subjective factors (Siems 1992), Bar and Siems (1993), Bar, Seiford and Siems (1993) suggest the use of data envelop analysis (DEA) to measure management quality.

3.3 Evaluation tool

Compliance examiners play a crucial role in the supervisory process. The compliance examination, and follow-up supervisory attention to an institution's compliance program deficiencies and violations, helps to ensure that consumers and businesses obtain the benefits and protections afforded them under the law. To this end, an examiner's efforts should help the financial institution improve its compliance posture and prevent future violations.

Compliance evaluation or compliance examinations start with orientation process, comprehensive review and analysis of an institution's compliance management system. The compliance examiner considers the following; the knowledge level and attitude of management and personnel; management's responsiveness to emerging issues and past or self-identified compliance deficiencies; compliance organizational structure such as reporting relationships and recent experiences with staff turnover; management information systems; policies and procedures; training; and monitoring and audit programs.

Based on the results of this review, the examiner may conclude that weaknesses in the institution's compliance management system may result in current or future noncompliance with consumer protection laws, regulations, or policy statements. The examiner must determine, based on this analysis, whether transaction testing is warranted to further study particular risk in an entire operational area or regulation, or only a limited aspect of an area or regulation. Generally, the more confidence an examiner has in an institution's compliance management system, the less transaction testing an examiner may do.

When all elements are strong and working together, an institution will be successful at managing its compliance responsibilities and risks now and in the future. This is the reason why designing tool for the compliance will greatly help achieved banks sustainability.

Implications of having lower rating were also discussed in the article of the Edcomm Group Banker's Academy. Having a lower rating as a result of the evaluation will subject the bank to administrative penalties. For instance, if the bank receives a poor CRA rating, regulatory agencies can deny applications for federal charters, mergers, acquisitions, etc. In addition, public disclosures of any bank's poor CRA rating can lead to undesirable publicity. Thus in order to maintain compliance with the CRA, the bank must; help meet community credit needs, undergo regulatory agencies' evaluations which rate the bank's efforts to fulfill the requirements of the CRA, maintain a public record of the CRA information and provide up-to-date and continuous training to educate bank employees on the CRA requirements.

Financial institutions are required to comply with federal consumer protection laws and regulations. Noncompliance can result in monetary penalties, litigation, and formal enforcement actions. The responsibility for ensuring an institution is in compliance appropriately rests with the

Board of Directors and management of the institution. Therefore, the FDIC expects every FDIC-supervised institution to have an effective compliance management system.

An effective compliance management system is commonly comprised of three interdependent elements: Board and management oversight; Compliance program; and Compliance audit.

Compliance policies and procedures are the means to ensure consistent operating guidelines that support the institution in complying with applicable federal consumer protection laws and regulations. Also, these criteria will provide standards by which compliance officers and line managers may review business operations.

Information dissemination also plays a very important role in the success of any compliance system set up. Enhancing the capacities of all level must be considered. Education of a financial institution's Board of Directors, management, and staff is essential to maintaining an effective compliance program. Line management and staff should receive specific, comprehensive training in laws and regulations, and internal policies and procedures that directly affect their jobs.

The compliance officer should be responsible for compliance training and establish a regular training schedule for Directors, management, and staff, as well as for third-party service providers. Training can be conducted in-house or through external training programs or seminars. Once personnel have been trained on a particular subject, a compliance officer should periodically assess employees on their knowledge and comprehension of the subject matter.

An effective compliance training program is frequently updated with current, complete, and accurate information on products and services and business operations of the institution, consumer protection laws and regulations, internal policies and procedures, and emerging issues in the public domain. For example, loan officers, as well as other front-line personnel regularly interacting with

loan applicants, should be fully informed about the loan products and services offered by the institution and thoroughly knowledgeable about all aspects of the consumer credit protection laws and regulations that apply.

Monitoring is a proactive approach by the institution to identify procedural or training weaknesses in an effort to preclude regulatory violations. Institutions that include a compliance officer in the planning, development, and implementation of business propositions increase the likelihood of success of its compliance monitoring function.

4 The Client Need Assessment (CNA)

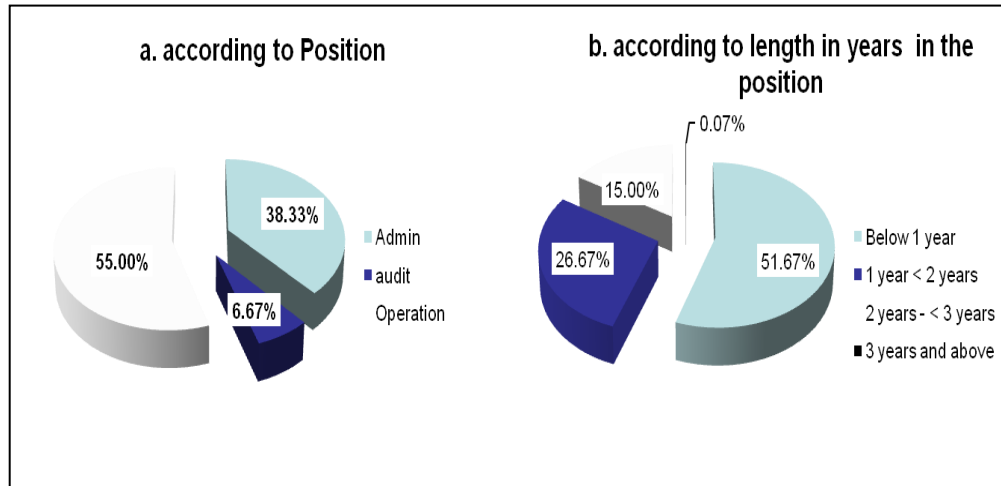
Pursuant to the monetary board resolution number 8 and BSP circular 598, dated January 3, 2008, compliance unit was set up. Along with the setting up of the compliance unit, assessment of the current compliance system was conducted. This is to identify the level of knowledge and awareness on the compliance issues of each staff. Three methods were used in assessing the needs of CARD Bank Inc. Focus group discussions (FGDs) were done to regional heads. This is to evaluate the knowledge of mid-managers on the compliance policies and procedures. Set of questionnaire was also sent to randomly selected branches distributed as follows; 50 percent newly established branches; 50 percent old branches. Newly established branches are describes as those operating for less than two years and old branches are those operating for more than two years. Targeted respondents are Area Managers, Unit Managers assigned in main branch, bookkeepers, cashiers, head office-finance and auditors. Consolidating responses from different areas and staff levels will give a consolidation of how far does the staff knew about compliance for the entire CARD Bank Inc.

4.1 THE DEMOGRAPHICS

Sixty (60) respondents were gathered from the 32 CARD Bank Inc's branches including head office. A set of questionnaire reflecting basic information of the respondents and several compliance policies, procedures, laws and regulation was issued as shown in figure 2. Respondents are classified according to the position they are handling and the length of service in years in handling such current position. Out of the sixty respondents almost 52 percent are less than one year, 27 percent is 1 year but less than 2 years, 15 percent constitute staff handling their position for 2-3 years and 7 percent are those in the position for more than 3 years as shown in

figure 1. Note also that 52 percent below 1 year, 55 percent of whom are those directly handling compliance transaction and report to regulators.

Figure 2: Demographics of respondents



4. *Results and Analysis*

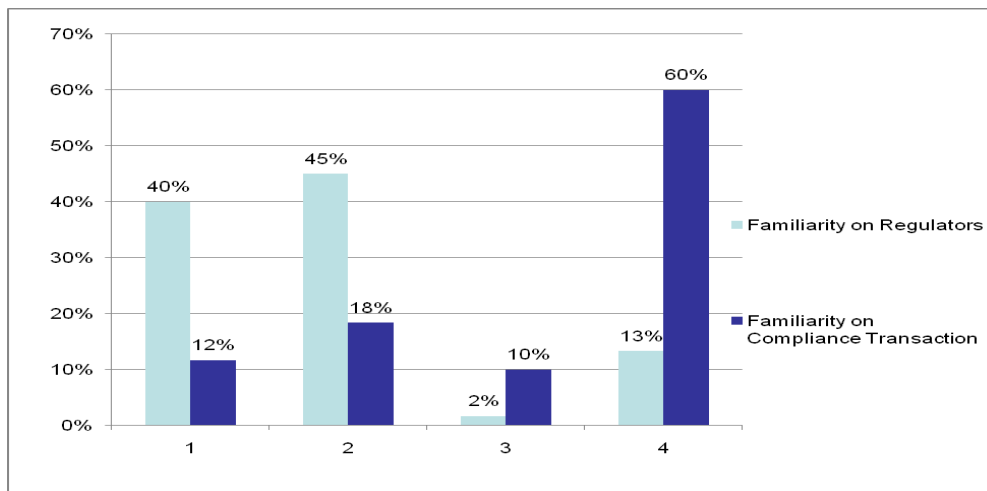
In order to assess the level of awareness of each respondent in each compliance issue, responses are classified into four (4) categories assigning numerals 1-4. Responses are clustered depending on the level of awareness or knowledge of the respondent in each question asked. Detailed description of each cluster is explained in table 1. Design of the questions was outlined summing up the extent of knowledge on the four (4) key areas of operations: staff duties and responsibilities; compliance transactions and reports; implications of non-compliance and policies, laws and regulations.

Table 1: Numerical and descriptive classification of level of awareness

NUMERAL	DESCRIPTION	DETAILED DESCRIPTION
1	Knowledgeable	Most of the concept /response expected were clearly discussed.
2	Not so knowledgeable	Two or three principles/answer expected but not all
3	Not familiar/not knowledgeable	with response but not that clear to come up with the expected output
4	No idea at all	Concept never heard, with answer but too far from the expected output.

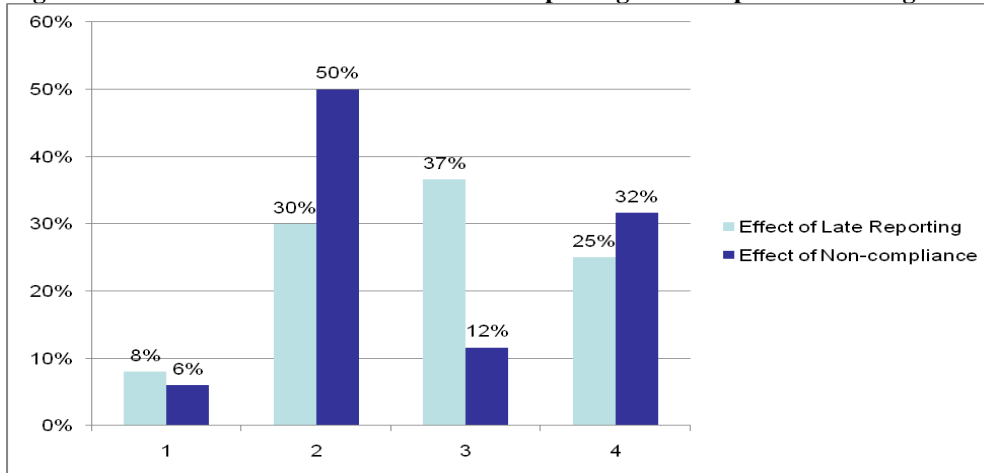
4.2.1 Level of Awareness and familiarity on the compliance transaction

Seventy percent of the sixty respondents are not aware and familiar on the compliance transaction they are actually handling. This may also be attributable to the demographics of the respondents wherein 51 percent are those handling the position for less than a year of whom, 55 percent are directly handling compliance report for the regulators.

Figure 3: Level of awareness on the regulators and compliance transactions

4.2.2 Level of awareness on effect of late reporting/non-compliance with regulators

Apart from the level of familiarization of staff on compliance transaction and reports, respondents were also assessed on how far they know about the implications to the bank of the effect of late submission of reports or non-compliance with the regulators. Base on the result, as shown in figure 4, familiarization of the staff on the consequence of late submission of report on time and effect of non-compliance with the regulators is low. Those who are knowledgeable and the not so knowledgeable on the consequences of these two (2) key issues of compliance represent only 8 percent and 6 percent respectively. This has a direct effect on how staff behaves and handles their daily transaction. Awareness on the implications of non-compliance, specifically involving monetary value will creates higher level of accountability among staff that will be later on translated into action. Moreover, apart from the monetary value, since any compliance lapses or exception arising in the branches have no direct effect or bearing on the staff performance, this are sometimes ignored and not given appropriate attention. This is also reflected on the increasing penalties paid by the bank mostly as a result of the late submission and non-compliance with the reportorial requirements. This has been noted also on the compliance transaction being handled by the compliance unit that is normally submitted to regulatory agencies.

Figure 4: Level of awareness on effect of late reporting/non compliance with regulations

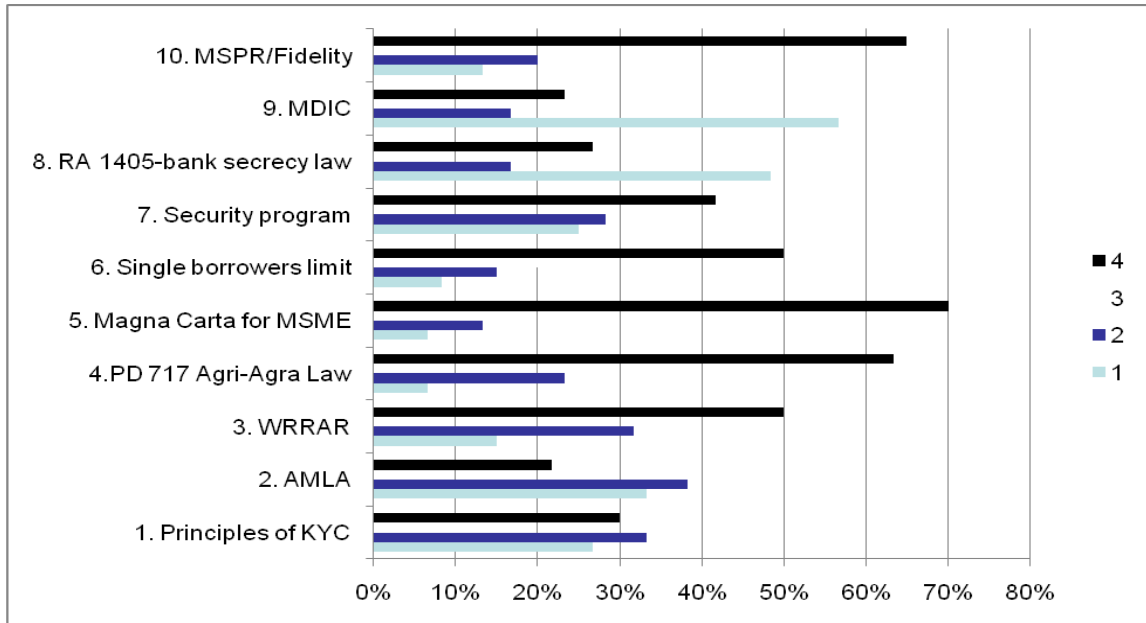
4.2.3 Level of Awareness on the Laws, Rules and Regulations

Lastly, selected laws, rules and regulations governing banking operation were included as part of the questionnaire. This is to assess staff level of understanding on each cited samples of laws, rules and regulations. As a result, it shows that most of the staffs are not familiar with these laws, rules and regulations. As a consequence, bank is being penalized for non-compliance with those. Moreover, head office solely borne the penalties charged as a consequence. This was no longer relayed to the respective branches. It was also noted that full reliance to head office is too high. In effect initiative from the staff to understand and apply banking laws, rules and regulations are sometime given less priority.

Base on compliance unit transaction, increasing and recurrent query regarding banking laws, rules and regulations despite regular orientation conducted in the branch is another evidence of the lack of awareness and low motivation to sustain what was taught and given during training and orientation. Note also that six major laws and regulations wherein staff are not fully aware of—MSPR/Fidelity, Magna Carta for MSME, PD 717-Agri-Agra Law, WRRAR, SBL and

security program—are those wherein bank is being penalized for late reporting and having difficulty complying with it.

Figure 5: Level of awareness with the laws, rules and regulations



Given the above results, bank's current compliance problems encountered are attributable to the two (2) major issues identified; Lack of awareness of the majority of the respondents and lack of accountability among the key staffs and officers handling compliance transactions

4.3 STAKEHOLDERS ANALYSIS

4.3.1 The board of directors and the management

The board of directors and management will be very supportive on this project since they will directly benefit on this system. This will help the board and management further in the carrying out their oversight function and duties towards effective and proper observance of the banks principles and guidelines.

4.3.2 Mid-level management and staff level

These levels might be quite resistant to this project initially since this may mean another tool in evaluating their performance however the proactive behavior of the staff and orientation and discussion on the uses and advantages of this tool will greatly help them understand and support when implemented.

4.3.3 Human resource

This level will be more willing to support this project though the human resource unit will indirectly benefited on this. Results of the evaluation will also help them identify the staff needs in terms of their competencies and capacities in handling their specific duties and responsibilities.

4.3.4 Regulatory agencies BSP, PDIC, SEC and other regulatory agencies

Regulators will be more supportive and influential on this project for this will directly help them more in carrying out their duties. Managing the risk by its own will mean lesser detailed checking and evaluation on their part thereby ensuring public protection and organizational growth.

4.3.5 Partner institutions

Partner institution will also be willing to have partnership with the bank equipped with the necessary system and tools to protect their interests and assets.

4.3.6 Clients

Though client will benefit on this tool indirectly, a well designed system and tool mean protection of their interests. Continued access as a well stable financial institution can be assured. Though they have limited influence in the creation and approval of this tool, they will be very supportive on this if properly explained.

5 THE PROJECT DESCRIPTION

5.1 GOAL

The project focuses on the establishment of a compliance rating; an internal management tool for CARD Bank Inc. Compliance ratings which will serve as evaluation and monitoring tool for the management to ensure CARD Bank's sustainability through strong compliance management system.

5.2 OBJECTIVES

This tool is internally designed for CARD Bank Inc. for the purpose of achieving two major objectives as follows;

- 5.2.1 Create change in the level of awareness of the staff on the compliance system/program.
- 5.2.2 Establish accountability among staff to ensure consistent compliance with the set policies and guidelines.

5.3 THE PROJECT (RATINGS)

Compliance rating concept was patterned to the concept of the CAMELS rating³ being use by the BSP and internal audit ratings being implemented in CARD MRI. Two

³ Per BSP Supervision guideline No. 2004-36 *"The composite rating shall be the sum of the equivalent ratings for each of the six factors/components (Capital, Asset Quality, Management, Earnings, Liquidity and Sensitivity to Market) as discussed under Supervision Guidelines No. 1998-7 wherein the examiner is encouraged to exercise his sound judgments and flexibility in assigning a component weight which to a large extent depends on the size, complexity of activities*

sets of rating were designed: one specifically for head office —consolidated— and another for bank branch operation. This is because some factor of the compliance ratings which are taken into account is base on the overall performance of a bank and cannot be captured on branch financial reports such as capital structure.

The rating will captured both financial and non-financial performance of CARD Bank Inc. and will guide management for their oversight function and responsibilities.

5.3.1 Head Office Rating

This will cover two components: quantitative—financial reports and ratios— and qualitative —compliance with the laws, rules, regulations and compliance policies— as measures of its performance. These components are divided into six (6) categories: Capital Adequacy, Asset management, Management, Earnings, Liquidity and Sensitivity to market risks. This will represents CARD Bank Inc's overall performance which can be use as benchmark in preparation for the regular BSP evaluation.

5.3.2 Branch office rating

Branch rating will comprise qualitative data—compliance with the laws, rules, regulations and compliance policies—and compliance audit covering actions taken on the directives of the internal audit unit from its recent examination result. The idea of including status of the recommendation was driven by the management policies and

and risk profile of the institution being rated. The final rating shall be rounded off to the nearest whole number.

aims to close all audit findings/exceptions immediately to avoid recurrent findings and un-addressed issues in the branches.

5.3.3 THE MECHANICS

One compliance rating will be given in each branch annually. Seven components will comprise the ratings total score of 100 percent. These components—which includes Capital adequacy, Asset management, Management, Earnings, Liquidity, Sensitivity to market risks and result of compliance audit⁴—will be given respective weight base on the 100 percent perfect scores. Each of the components will consist of both qualitative and quantitative data to reflect the bank performance in each branch.

Quantitative data – this will measures the financial performance of each branch or head office. This includes balance sheet and income statement data that will show bank’s efficiency on dealing with the five (5) of the seven (7) components excluding management and the result of the compliance audit. Quantitative data will represent 50 percent of the total 100 percent perfect performance of a given branch or head office.

Capital adequacy – This will measures compliance with the minimum capital requirements per BSP regulation, evaluate adequacy of the existing capital with the bank’s risk exposure and the bank’s ability to support additional capital requirements to sustain its planned growth. This will be measures by some ratios as follows;

⁴ This will be done to assess whether directives from the internal audit unit every after audit is being complied into. This is to ensure that exceptions were corrected accordingly to avoid recurrent findings.

5.3.3.1	Capital to Risk weighted assets
5.3.3.2	Capital adequacy ratio to industry
5.3.3.3	Classified loans to net worth
5.3.3.4	Valuation reserves for loans
5.3.3.5	Deposit and borrowings to net worth

Asset Quality – This will measures quality of the major assets of the bank such as loans, investments and other assets. However, since one of the major assets of CARD Bank Inc is the loan, evaluation of the branch will generally focus on the loan quality using the following ratios;

5.3.3.6	Past due loan to total loan outstanding
5.3.3.7	Past due ratio to industry
5.3.3.8	Unsecured loan to capital/total loans
5.3.3.9	Classified loans and other risk assets to total loans and other risk assets
5.3.3.10	DOSRI loans to total loan/capital
5.3.3.11	Valuation reserves

Earnings - This pertains to the bank's financial position. This will measure the bank's continuity of earning capacity towards its stability. The following ratios will be use to assess bank's earnings performance;

5.3.3.12	Net income to average assets
5.3.3.13	Net income to net worth
5.3.3.14	Interest expense to average assets
5.3.3.15	Interest expense to operating income
5.3.3.16	Interest income to total income
5.3.3.17	Personnel cost to operating expense

Liquidity – This measures compliance of the bank in the reserve and liquidity requirements using the following ratios;

5.3.3.18	Primary reserve to demand deposit and other liability
5.3.3.19	Net worth to total assets
5.3.3.20	Core deposit to total assets

5.3.3.21	Volatile deposit to total assets
5.3.3.22	Net loans to total assets
5.3.3.23	Liquid asset to total assets
5.3.3.24	Borrowing to adjusted net worth
5.3.3.25	Non-performing loan

Sensitivity to market risk – This measures how bank's earnings and capital are affected by market forces such as interest rate, foreign exchange rate or equity prices.

Quantitative data is comprised of financial ratios per component categorized which will be given respective weight from 1-5 depending on standard ratios in each specific item. Detailed standard ratios are shown in appendix 12.

Qualitative data – this will measure the branch compliance with the laws and regulations and the result of the compliance audit which was not included in the quantitative data. Set of questions covering different policies, laws and regulations applicable to banking operation will be captured by this data.

Quantitative data - will represent the remaining 50% of the total performance of a given branch or head office to complete the 100 percent perfect score which will includes management and the result of the compliance audit.

Management – this will measure the adequacy of CARD Bank Inc's policies, procedures, audit review, compliance of the staff in the set guidelines and compliance with the applicable laws and regulations.

Compliance Audit – this will evaluate compliance of each branch with the directives of the internal audit from its previous results of the examination. This will further ensure that all findings and lapses are corrected and acted upon.

Detailed procedure/guidelines on the process of accomplishing the ratings are stated in appendix 4 together with the complete appendices as support.

5.3.4 THE LOGIC MODEL

Figure 6: The logical framework of action

	PROJECT STRATEGY	OBJECTIVELY VERIFIABLE DATA	SOURCES OF VERIFICATION	ASSUMPTIONS
DEVELOPMENT OBJECTIVE	Established evaluation and monitoring tool to enhance staff knowledge and set up accountability thereby ensures CARD Bank Inc sustainability for the clients	Strong compliance management system Reward and penalty system	CARD Bank's performance Regulator's result of examination	
IMMEDIATE OBJECTIVE	Identification of compliance issue/topic not complied and its effect on the bank's performance, Creation of tool that will create further awareness among staffs.	List of compliance issues and training needs identified/topic summarized and the respective weight	Feedbacks and comments from the head office monitoring team. Commented list of issues	Compliance issues are weighted and summarized.
OUTPUT	Well establish compliance unit with well defined compliance program Summary of the regulators exceptions Branch performance in relation to compliance	Staffing of compliance unit. Categorized list of exceptions (BSP, SEC, PDIC, etc) Internal Audit rating CAMELS rating (BSP)	Executive and Management committee BSP/BIR/SEC/PDIC and the rest of regulatory agencies Internal Audit department	Full support from staff and management Availability of budget to support compliance unit
ACTIVITIES	Setting up and strengthening compliance unit List of exceptions per latest regulators examination result. List down and categorized compliance issues/exceptions Evaluate compliance of each bank branch and identify key areas needing immediate action.	Well set up Compliance unit Summary of BSP/PDIC/SEC result of examination Summary of Exceptions Internal Audit report	BSP General examination result Regulators (BSP, SEC, PDIC, BIR and others) communication pertaining to bank's compliance Monitoring checklist of HO and compliance unit report	Additional staff for the compliance Availability of regulator's result of examinations. Availability of communications from regulatory agencies (BSP, PDIC, SEC and BIR).
			Pre-conditions	Compliance unit was established separate to the Internal Audit unit in compliance to BSP circular 598.

5.4 MONITORING AND EVALUATION

5.4.1 IMPLEMENTATION PLAN

The project is divided into four (4) phases from the conceptualization up to monitoring and evaluation. The first three phases run for one year period. Detailed activities in each phase are described below with corresponding time allotted to complete the full phase of the project.

Phase 1: Data Gathering - initial phase includes data gathering across bank branches including head office up to analysis of the significant findings that will lead to the needs of CARD bank Inc towards achievement of the main goal of the project. This phase will run for three (3) to four (4) months.

Phase 2: Project Design – includes conceptualization of the project that will address the problems identified in first phase. This will include framing up of the project design using the significant findings and analysis done on the initial stage and will run for three (3) months period. Identification of compliance issues that will constitute the content of the rating were identified in this phase.

Phase 3: Implementation – starts from the approval of the management on the designed tool up to the actual implementation. Orientation to staff and officers on how the system will work is also part of this stage up to its pilot testing to branches which will run for seven (7) months.

Phase 4: Monitoring and Evaluation – covers the evaluation of the pilot testing done for the period of six (6) months. This is to see the effectiveness of the tool and the necessary adjustment for further improvement before its full implementation.

5.4.2 BUGET PLAN

The project was divided into four (4) phases: data gathering; project design, implementation, monitoring and evaluation. Budgetary requirements from the initial phase until its final stage are presented in the table 3 below.

6 Monitoring and Evaluation

The project is currently on its third phase; implementation stage. Initial activity on this phase is the presentation to the management for approval of the tool prior to its next activity of orientation to bank officers and staff. The tool is planned to be presented to the management on the middle of third quarter of 2010. Orientation on how the system will work is also part of the implementation plan and will be done from the approval date up to its actual initial implementation as shown in table 1. Actual initial implementation will take five (5) banking days targeting two (2) branches in a month. Monitoring and evaluation of results will be done after three months. Evaluation describing how the project creates change towards CARD Bank Inc's compliance management system is expected to be delivered on the second quarter of 2011. Detailed monitoring plan is shown in table 3 while evaluation plan and its key indicators are described in table 4.

6.1 Monitoring Plan

The project is currently approaching to its third phase: the implementation stage, thus it is critical to note that orientation that will be conducted among staff—as its first activity—is another way of framing staff behavior and attitude towards appreciation of this tool. For such reason, apart from monitoring the result of the first and second stage which includes applicability of the identified compliance issues as element of the tool, close monitoring of the third phase is vital. It is also expected that creating change on the level of awareness of the staff in terms of compliance policies and procedures started to build up from this stage: from the orientation up to adoption of the designed tool. In such case, any input as a result of it can be use as adjustment after the pilot test of its actual rating tool adoption.

After the third and fourth phases were concluded, monitoring of the result of its implementation and its impact will be done after six (6) months. The compliance unit will be in-charge of its evaluation using two methods: First is the result of the branch operations using the evaluation tool. This will be compared to the results of their operation prior to the implementation of this tool. In such case, you will know how the orientation and training together with the implementation of the rating tool affects their performance. Second is distributing the same questionnaire among the staff and comparing it with the result of the client need assessment data as its baseline information. One hundred percent of the branches audited will be evaluated.

6.2 Evaluation Plan

Evaluation, as part of the final phase is one of the critical phases of the project. Evaluation will determine the effectiveness of the project towards achieving the set goal for CARD Bank Inc': sustainability. This phase is expected to start on the second quarter of 2011. Impact of the project as stated in figure 7 is expected to materialize towards the end of 2011. Similar with the impact of the audit ratings and the management action of giving recognition to the performing branches, evaluation will be done annually. One hundred percent of the branches will be evaluated to see to it which branch performs well and which branch need further supervision and monitoring from the management. The compliance unit will be in-charge for the evaluation and providing data to the management for future reference. Thus, in assessing the impact of the project, following indicators were set and must be evaluated;

6.2.1 Internal

Financial indicators – this will be measured by favorable trend in the following financial figures.

6.1.1.1 Operational Self Sufficiency and Financial Self Sufficiency ratios

6.1.1.2 Capital adequacy ratio in relation to regulatory standards

6.1.1.3 Asset Quality for selected account specifically major assets of the bank such as loans, investments, and other assets.

6.1.1.4 Profitability as a result of reduced cost on penalty for late or non-compliance with regulators. This can be measured by the amount of expenses incurred for penalty.

Non-Financial

6.1.1.5 More competent staff which can be measured by minimal queries from branches concerning compliance policies and procedures

6.1.1.6 Stronger management oversight function

6.1.1.7 Improved audit ratings as a result of reduced findings/exceptions

6.1.1.8 Reduced monetary penalty paid by the staff due to lapses

6.2.2. External

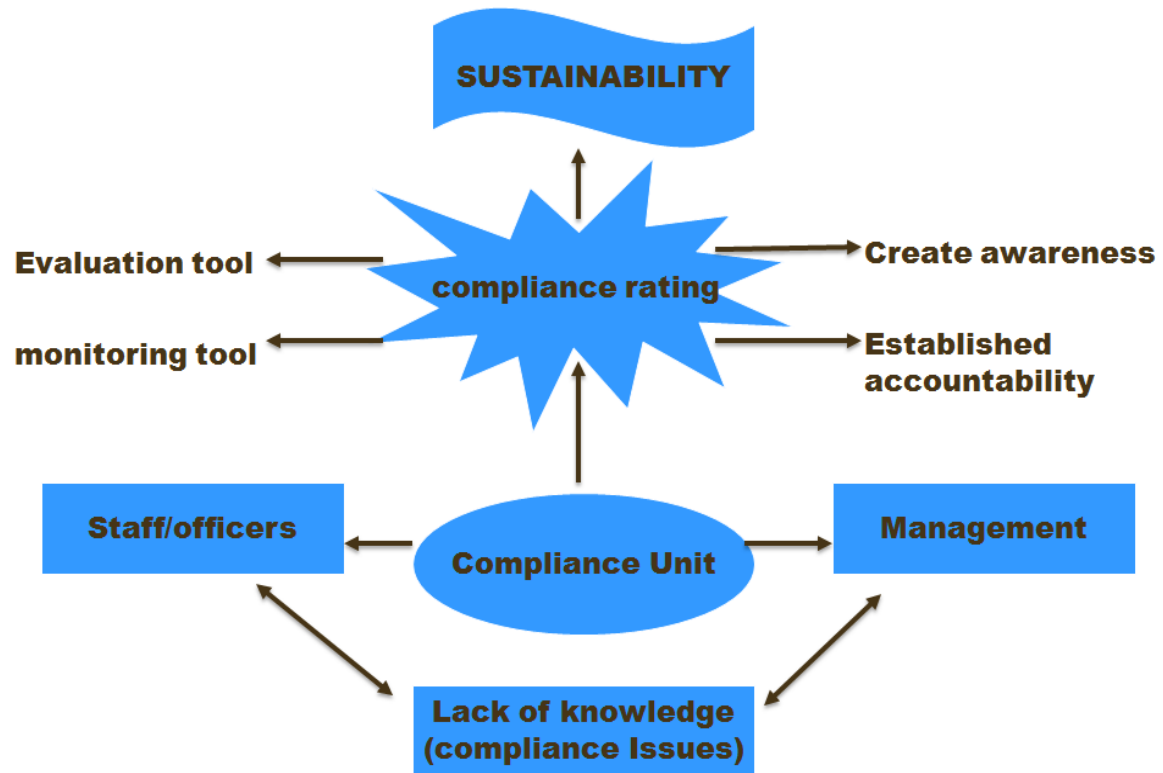
6.1.2 High or favorable CAMELS rating from BSP.

6.1.3 Reduce violations/exceptions noted by Regulators.

6.1.4 Less regulators restrictions

6.1.5 Continuous expansion and client growth

Figure 7 : The theory of change



7 LESSONS LEARNT

From the data gathering up to the project design, several issues came out that has a direct impact on the level of awareness on the compliance policies, rules and regulations among the staff: dependency of branch staff to head office on the compliance issues and rapid or frequent staff movement either promotion or reshuffling. Staff depends on head office that makes them complacent towards compliance issues. Thus, all compliance concerns are being verified and relayed to head office adding communication cost to the branch. Another issue that came out is the frequent staff movement. Despite giving all the training and orientation on the compliance policies and procedure, the gap on the knowledge on the compliance issues still continue since staff trained will be pulled-out and new staff which was not yet trained is being posted to the position.

The whole process of this project from the data gathering up to the actual implementation has thought the author so much not only in the conceptualization of the project itself but the interaction of two factors towards achieving institutional objectives. Increasing knowledge/competencies of staff along with establishing accountability among them created positive result. The creation of this internal management tool—compliance rating: a monitoring and evaluation tool—is one way of framing up staff behavior. This will not just push the staff to increase their competency rather this will also help establish accountability among them. Moreover, this tool will help management and the compliance in identifying training needs in order to enhance the staff knowledge and competencies. Thus, summarizing the result and analysis “knowledge” “awareness” plus “accountability” is equal to institution’s sustainability.

8 RECOMMENDATIONS

Although the project is still in its third phase, the author is confident towards the achievement of the objectives of this project. However, this will not be possible without the full support of all the people concern and involved in this project. Thus, in order for this project to be more successful as expected and looking at it on a wider perspective, the following are recommended:

8.1 Manpower complement for the Compliance Unit

CARD bank Inc is continuously expanding and increasing its volume of transactions. Currently, compliance unit consist of two (2) staff handling the entire thirty nine (39) branches plus head office. Regular monitoring alone with the existing branches is one of the key challenges they are facing. Thus, existing manpower in the unit would not be enough to cover the planned bank expansion and planned implementation of the compliance rating tool.

8.2 Staff competency training

Compliance orientation is regularly conducted in all bank branches to fully increase the staff and officers' knowledge on policies, laws, rules and regulations. However, due to expanding bank operation, promotions are so fast that those who are not yet fully equipped with knowledge on banking laws, rules and regulations were being posted to bank branches. Out of sixty respondents, 51 percent or a total of 31 staffs are those newly promoted to the position. Fifty-five percent or 17 of them are those with low level of knowledge in terms of banking regulations. Thus, to sustain the existing knowledge and

awareness for new laws and regulations issuances among the staff, continuous training and orientation shall be conducted.

However, to fully ensure that the knowledge gap between those newly promoted staff will be fill in, basic compliance policies, laws and regulations shall be part of the module for Area Manager and Bank Manager ready to go training by CMDI.

8.3 Reward and penalties

To maximize the impact of the evaluation tool to the staff, incorporating the compliance ratings into their regular performance evaluation shall be considered.

8.4 Centralization of the Compliance Unit

Since compliance function is not just limited to the banking operation and other institutions have their own compliance regulations that need to be complied into in addition to the compliance with the policies, management may consider setting up individual compliance officer to other MRI institutions.

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10. Appendices

Appendix 1

Table 2: Stockholders analysis

STAKEHOLDERS	ATT		INF		ACTION
	E	C	E	C	
1. CARD Bank Board of Directos	++	/	H	/	
2. CARD Bank Management	++	/	H	/	
3. Mid level Managers (Regional Heads)	+	/	M	?	Orientation will be done to fully discuss the importance of this tool in the overall bank's performance and its impact.
4. Staffs level	+	/	M	?	
5. Human resource unit	++	/	M	/	
6. Regulatory bodies	++	/	H	/	
7. Partner institutions	++	/	L	/	
8. Clients	+	/	L	/	

ATT: attitude**E: estimate**

++	Strongly in favor
+	Weakly in favor
0	Undecided
-	Weakly oppose
--	strongly oppose

C: confidence

/	fully confident
?	Reasonably confident
??	informed guess
???	wild guess

INF: influence**E: estimate**

H	high
M	medium
L	low

C: confidence

/	fully confident
?	Reasonably confident
??	Informed guess
???	Wild guess

Appendix 2

Table 3: the budget plan for the full phase of the project

Phase	TASK/ACTIVITY	DURATION	Cost per month	TOTAL COST
Phase 1: Data gathering	Includes activities from the distribution of the questionnaire and conduct of focus group discussion on the target respondents up to the analysis of the results.	3.8 months	Php1, 000	Php3, 800.00
Phase 2: Project Design	Includes conceptualization of the project base on the result of the analysis up to finalization of the tool.	3.3 months	Php500	Php1, 650.00
Phase 3: Implementation	Includes presentation of the tool to the management, orientation to branches and initial actual implementation.	7.4 months	Php8, 000*	Php59, 000
Phase 4: Monitoring and Evaluation	Includes monitoring of the initial implementation and possible adjustment/enhancement.	24 days	Php7, 000**	Php 7, 000
TOTAL				Php71, 650.00

**Actual implementation cost covers 2 branches per month with average transportation cost of Php 7, 000 (average) for island and Php1, 000 for inland areas plus allowances.*

*** Same as phase 3 except that number of days was reduced.*

Appendix 3

Table 4: Detailed Monitoring Plan

OUTPUT	INDICATOR	Data source	Collection method	Frequency
Well established compliance unit	Compliance program & compliance unit staffing	CARD Bank Inc' compliance program and personnel unit	Review of manual	Annually
Knowledgeable staff	Number of calls and communication from branches concerning their queries	Daily transactions handled by the compliance unit	Observation and logbook of concern	Monthly
Early correction of exceptions	Number of findings (Internal and external audit and monitoring findings)	Internal Audit Report and General examination result	Review of report	Quarterly
High regulators evaluation result	Reduced Monetary penalties and CAMELS rating	Income Statement and GE result	Review of reports	Quarterly for the penalty, annually for ratings

Appendix 4

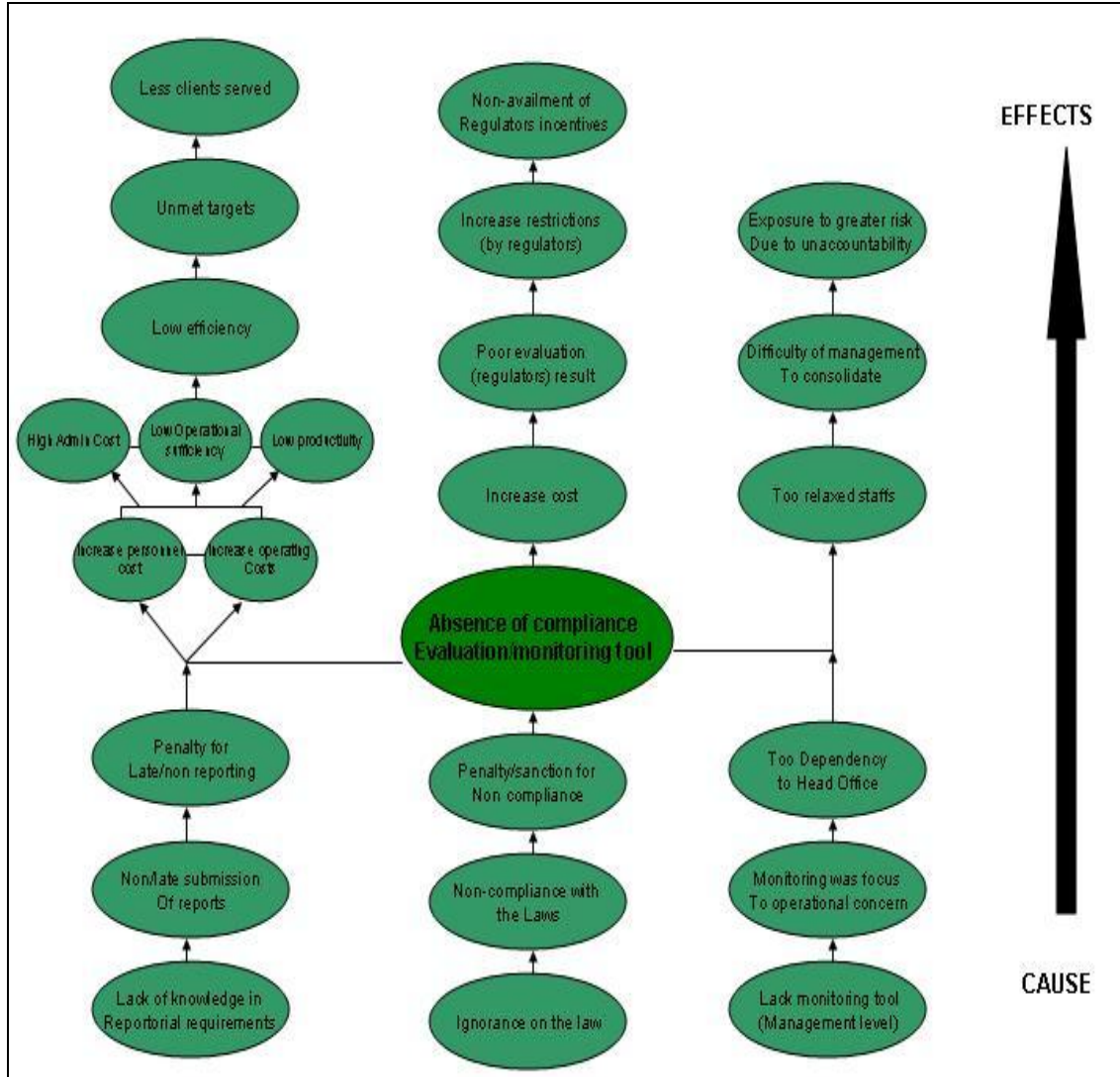
RESULTS	INDICATORS	SOURCES OF DATA	COLLECTION METHOD	FREQUENCY	PERSON IN-CHARGE
Impact: CARD bank Inc's sustainability for the benefit of the institution and clients thru establishment of monitoring tool.	<ul style="list-style-type: none"> Financial ratios (profitability, efficiency and sustainability). Number of clients served. 	Bank's Financial statements (Balance Sheet and Income Statement). <ul style="list-style-type: none"> Operations update 	Review of financial report Review of actual with the plans	Monthly Monthly	Finance Unit Operations unit
Outcomes: 1. Identified compliance issues (laws, regulations, policies and procedures) staff are not familiar with 2. Increase level of awareness and set up accountability. 1. Increase staff competencies	Content of the monitoring tool <ul style="list-style-type: none"> Numbers of query/concern handle by the unit. Number of reports submitted late Amount of penalty CAMELS and internal audit ratings <ul style="list-style-type: none"> More knowledgeable staff Number of findings/lapses 	Accomplished questionnaire/new laws, regulations and amendments <ul style="list-style-type: none"> Compliance record Compliance record <ul style="list-style-type: none"> BSP communication General examination report and internal audit report Compliance transaction/communications received Monitoring report 	Questionnaire/regulators website/circular/memorandums <ul style="list-style-type: none"> Review of report/monitoring Review of compliance record/monitoring Review record Review record/report Monitoring of concerns/questions received Interview/comments from heads 	Annually/as arise Daily Monthly Monthly Semi-Annual/Annual Daily/Monthly Semi-annual/every monitoring	Compliance Compliance Unit Compliance unit Finance Compliance Compliance Compliance
Output: 1. Compliance rating tool was established. 2. Training needs identified 3. Compliance orientation content identified.	<ul style="list-style-type: none"> Compliance rating template <ul style="list-style-type: none"> Training program design Compliance orientation delivered 	Compliance rating per branch monitored <ul style="list-style-type: none"> CARD CMDI training conducted and CARD Bank Management record. Compliance orientation materials	Compliance program/manuals Review report of CMDI Evaluation of the materials used	Quarterly Bi-annual	Compliance Compliance Compliance

Appendix 5

General information:	
Name: _____ Area/branch: _____	
Position: _____ years of service in current position: _____	
1. Describe your main responsibility.	
2. How many of you are working in the unit/department?	
3. What are the reports you regularly do?	
4. Who are the direct users of the reports you prepared?	
5. What is the frequency of the report you are preparing? (daily/weekly/monthly/quarterly)?	
6. Who is responsible in checking your report prior to its submission?	
7. Have you experience any problem in doing these reports?	
8. How did you handle the problem you encountered?	
9. Have you ever experience late submission of these reports?	
10. What happen if you are unable to submit the report on time?	
11. Are you familiar with the regulatory agencies? Please name all regulatory agencies you know.	
11. Have you experience handling transaction dealing with these regulatory agencies?	
12. What are the transactions/reports you handled/being handle concerning compliance transaction with the regulatory agencies?	

13. How did you know that the transaction/report needs to be prepared?	
14. Who guide you doing that report and who do you report such?	
15. What do you think would be the effect of non-compliance with these regulators?	
<p>16. Are you familiar with the following term and its content. (Put on check (/) if the answers to both questions are yes and cross (x) if you are familiar with the term but does not know its content. If you put on check, briefly discuss each.</p> <ol style="list-style-type: none"> 1. Principles of Know Your Customer (KYC) 2. Anti-money laundering law 3. Weekly Report on Required and Available Reserve 4. PD 717 Agri-Agra Law 5. Magna Carta for Micro and Small and Medium Enterprise 6. Single borrowers limit 7. Security program 8. Republic Act 1405 (bank secrecy law) 9. Deposit Insurance Coverage 10. MSPR/Fidelity 	

Appendix 6



Appendix 7

Detailed Procedures/Instructions

1. Compliance system will be evaluated once annually. This will include head office and branch operation.
2. Branch will be evaluated for a period of 5 days while 15 days for the head office.
3. Head office and branch performance will be evaluated using the designed compliance ratings.
4. Compliance rating will be divided into two major components with its respective weight;
 - a. Results of operation 85%
 - b. Compliance audit 15%
5. Results of operation were divided further into two categories; financial and non-financial.
6. Financial and non-financial results are given 50-50 percent weight each.
 - a. Financial – includes data from the bank financial report; balance sheet and income statement. Financial performance is measured using selected ratios as reflected in appendix 8.
 - b. Non-financial – includes compliance of the bank in the Philippines laws, rules and regulations using questionnaires as reflected in the appendix 11-15.
7. Financial results of operations will be evaluated based on the standard ratios reflected in appendix 9.
8. Non-financial results of operation will be evaluated using the guide reflected in appendix 10.
9. Compliance audit will includes branch action on the result of the recent internal audit examination.

[illegible]

Appendix 9

<u>CARD BANK INC.</u>			
FINANCIAL STATUS			
As of: _____			
	HEAD OFFICE AND BRANCHES		
STATEMENT OF CONDITION	As of		
	_____	CURRENT YEAR	PREVIOUS YEAR
	(a)	(b)	
TOTAL ASSETS			
Cash and Due from Bank			
Loan Portfolio (Net)			
Investments (Net)			
Bank Premises, Equipments (Net)			
Other Assets			
TOTAL LIABILITIES & CAPITAL			
TOTAL LIABILITIES			
Deposit Liabilities			
Non-reserve Deposits			
Borrowings			
Other Liabilities			
TOTAL CAPITAL			
Paid-In/Assigned Capital			
Net Due to HO			
Surplus, Reserves & Und. Profits			
Appraisal Increment Reserve			
NOTE:	a/ Based on CSOC		
	b/ Based on consolidated financial statements required under Subsection X161.13 of the MORB.		
	* adjusted balances		

Appendix 10

<u>CARD BANK INC.</u>			
RESULTS OF OPERATION			
For the period: _____			
	For the period:		
INCOME STATEMENT	_____	Current Year	Previous Year
OPERATING INCOME			
Interest Income			
Fees & Commission			
Trading Gains/(Losses)			
Foreign Exchange Gains/(Losses)			
Profit/Loss from Assets Sold/Exchanged			
Other Operating Income			
OPERATING EXPENSES			
Interest Expense - Deposits			
Interest Expense - Borrowings			
Compensation/Fringe Benefits			
Bad Debts Expense			
Other Operating Expenses			
NET OPERATING INCOME/(LOSS)			
EXTRAORDINARY CREDITS/(CHARGES)			
Recovery on Charged-Off Assets			
Income from Assets Acquired			
NET INCOME/(LOSS) BEFORE TAX			
PROVISION FOR INCOME TAX			
NET INCOME/(LOSS) AFTER TAX			
* <i>adjusted balances</i>			

Appendix 11

CARD BANK INC.
PERFORMANCE ASSESSMENT

As of: _____

A. CAPITAL ADEQUACY

#	Particular	Ratio	Weight
1	Qualifying capital to net risk weighted assets		
2	Capital adequacy ratio to industry ratio		
3	Classified loans to adjusted net worth		
4	Classified assets to adjusted net worth and valuation reserves		
5	Loans to single borrower/family group to adjusted net worth		
6	Recommended valuation reserves to adjusted net worth		
7	Booked valuation reserves (loans) to total loans		
8	Aggregate deposits & borrowings to adjusted net worth		
9	Borrowings to adjusted net worth		

Total for Capital Adequacy

B.	ASSET QUALITY	Ratio	Weight
1	Past due loans to total loans (per G/L)		
2	Past due loan ratio to industry ratio		
3	Unsecured loans to total loans		
4	Classified loans to Capital		
5	Classified loans to total loans		
6	Classified loans and other risk assets to total loans and other risks assets		
7	Classified accounts to capital and recommended valuation reserve		
8	Loans to single borrower/family group (largest) to		
9	Recommended specific valuation reserves (loans) to total loans		
10	Total recommended specific valuation reserves to total loans and other risk assets		
11	Recommended specific valuation reserves (loans) to classified loans		
12	Recommended specific valuation reserves (loans) to non-performing loans RVR should exclude "loss"		
13	Booked specific valuation reserves (loans) to non-performing loans		
14	Booked total valuation reserves (loans) to total loans		
15	Booked specific valuation reserves (loans) to recommended specific valuation reserves (loans)		
16	Booked total valuation reserves (loans) to total recommended valuation reserves (loans)		
17	Total booked valuation reserves to total recommended valuation reserves		
18	Risk-weighted assets to total assets (TA is gross of GLL		
19	Non-earning assets to total assets (TA is gross of val res)		
20	Investment portfolio to total assets		

21	Outstanding balance of microfinance loans with delinquent payments over total microfinance loans		
----	--	--	--

Total for Asset Quality

CARD BANK INC.
PERFORMANCE ASSESSMENT
As of: _____

C.	Earnings	Ratio	Weight
1	Net income (after tax) to average assets		
2	Net operating income (after tax) to average assets		
3	Net income (after tax) to average net worth		
4	Net interest income to average earning assets		
5	Total non-interest expense to average assets		
6	Total interest expense to total operating income		
7	Interest income to total operating income		
8	Compensation/fringe benefits to total operating expenses		

Total for Earning

D.	LIQUIDITY	Ratio	Weight
1	Primary reserves to demand deposits and other demand liabilities		
2	Primary & secondary reserves to deposits & other demand liabilities		
3	Adjusted net worth to total assets		
4	Core deposits to total assets		
5	Volatile deposits to total assets		
6	Net loans to total assets		
7	Liquid assets to total assets		
8	Borrowings to adjusted net worth		
9	Short-term securities to deposits		
10	Volatile deposits to total deposits		
11	Liquid assets less short-term borrowings to deposits		
12	Foreign currency assets to foreign currency liabilities		
13	Foreign currency loans to foreign currency deposits and borrowings		
14	Net loans to total deposits and borrowings		
15	Non-performing loans to:		
	1: Total loans		
	2. Total assets		
16	Non-performing assets to total assets		

Total for Liquidity

E.	SENSITIVITY TO MARKET RISK	Ratio	Weight
1	Rate sensitive assets to rate sensitive liabilities		

2	Rate sensitive assets to total assets (<i>TA is gross of valres</i>)		
3	Rate sensitive liabilities to total assets		
4	Rate sensitive liabilities to total liabilities		
5	Negative short-term gap to capital		

Total for Sensitivity to Market Risks

	SUMMARY ASSESSMENT:		
		TOTAL WEIGHT	*AVERAGE
1	CAPITAL ADEQUACY		
2	ASSET QUALITY		
3	EARNING		
4	LIQUIDITY		
5	SENSITIVITY TO MARKET RISKS		

** Total weight divide by the number of ratios measured. This will form part of the 50% of the total weight of this particular element in the ratings*

Appendix 12

CARD BANK INC. COMPLIANCE UNIT'					
STANDARD RATIOS					
	S T A N D A R D R A T I O S				
	<u>5</u>	<u>4</u>	<u>3</u>	<u>2</u>	<u>1</u>
A. CAPITAL ADEQUACY					
1 Qualifying capital to net risk weighted assets	14% & up	≥12% to <14%	≥10% to <12%	≥8% to <10%	Below 8%
2 Capital adequacy ratio to industry ratio	125% & up	≥100% to <125%	≥75% to <100%	≥50% to <75%	Below 50%
3 Classified loans to adjusted net worth	50% & below	>50% to ≤60%	>60% to ≤70%	>70% to ≤80%	Over 80%
4 Classified assets to adjusted net worth and valuation reserves	25% and below	>25% to <50%	≥50% to <75%	≥75% to 100%	over 100%
5 Loans to single borrower/family group to adjusted net worth	5% & below	>5% to ≤15%	>15% to ≤25%	>25% to ≤35%	Over 35%
6 Recommended valuation reserves to adjusted net worth	4% & below	>4% to ≤8%	>8% to ≤11%	>11% to ≤15%	Over 15%
7 Booked valuation reserves (loans) to total loans	10% & up	≥7% to <10%	≥4% to <7%	≥1% to <4%	Below 1%
8 Aggregate deposits & borrowings to adjusted net worth	500% & below	>500% to ≤800%	>800% to ≤1000%	>1000% to ≤1500%	Over 1500%
9 Borrowings to adjusted net worth	200% & below	>200% to ≤300%	>300% to ≤400%	>400% to ≤500%	Over 500%
B. ASSET QUALITY					
1 Past due loans to total loans (per G/L)	15% & below	>15% to 20%	>20% to 25%	>25% to 35%	Over 35%
2 Past due loan ratio to industry ratio	50% & below	>50% to 75%	>75% to 100%	>100% to 125%	Over 125%
3 Unsecured loans to total loans	10% & below	>10% to 15%	>15% to 20%	>20% to 25%	Over 25%
4 Classified loans to Capital	20% & below	>20% to 25%	>25% to 30%	>30% to 35%	Over 35%
5 Classified loans to total loans (15% & below	>15% to 20%	>20% to 25%	>25% to 35%	Over 35%
6 Classified loans to total capital	25% & below	>25% to 50%	>50% to 75%	>75% to 100%	Over 100%
7 Classified loans and other risk assets to total loans and other r	15% & below	>15% to 20%	>20% to 25%	>25% to 35%	Over 35%
8 Classified accounts to caoitak recommended valuation reserve	25% & below	>25% to 50%	>50% to 75%	>75% to 100%	Over 100%
9 Loans to single borrower/family group (largest) to	3% & below	>3% to 7%	>7% to 11%	>11% to 15%	Over 150%
10 Recommended specific valuation reserves (loans) to total loans	4% & below	>4% to 6%	>6% to 8%	>8% to 10%	Over 10%
11 Total recommended specific valuation reserves to total loans a	4% & below	>4% to 8%	>8% to 11%	>11% to 15%	Over 15%
12 Recommended specific valuation reserves (loans) to classified	15% & below	>15% to 20%	>20% to 25%	>25% to 30%	Over 30%
13 Recommended specific valuation reserves (loans) to non-perfo	20% & below	>20% to 25%	>25% to 30%	>30% to 35%	Over 35%
14 Booked specific valuation reserves (loans) to non-performing loans	20% & Up	15% to <20%	10% to <15%	5% to <10%	Below 5%
15 Booked total valuation reserves (loans) to total loans	10% & Up	7% to <10%	4% to <7%	1% to <4%	Below 1%
16 Booked specific valuation reserves (loans) to recommended specific valuation reserves (loans)	120% & up	110% to <120%	100% to <110%	90% to <100%	Below 90%
17 Booked total valuation reserves (loans) to total recommended valuation reserves (loans)	120% & up	110% to <120%	100% to <110%	90% to <100%	Below 90%
18 Total booked valuation reserves to total recommended valuation reserves	120% & up	110% to <120%	100% to <110%	90% to <100%	Below 90%
19 Risk-weighted assets to total assets (TA is gross of GLL	80% & Below	>80% to 85%	>85% to 90%	>90% to 95%	Over 95%
20 Non-earning assets to total assets (TA is gross of val res)	11% & Below	>11% to 14%	>14% to 17%	>17% to 20%	Over 20%

Appendix 13

CARD BANK INC.	
ADDITIONAL RULE	
1). CAPITAL ADEQUACY	
Score will be computed base on the number of positive and negative response.	
Number of questions: 11	
<u>Frequency of "NO"</u>	Score
0 to 2	5
3 to 4	4
6 to 8	3
9 to 10	2
over 11	1
a. If the answer in item 9 or 10 is "no", this will be equivalent to 2 "no".	
2. If the answer in number 3 is no, this will automatically gives "1" score.	
2). ASSET QUALITY	
Score will be computed base on the number of positive and negative response.	
Number of questions: 15	
<u>Frequency of "NO"</u>	Score
0 to 3	5
4 to 6	4
7 to 9	3
10 to 12	2
over 12	1
a) If the answer in item 6, 8 and 9 is no will mean 2 "no"	
3) MANAGEMENT	
Score will be computed base on the number of positive and negative response.	
Number of questions: 83	
<u>Frequency of "NO"</u>	Score
0 to 4	5
5 to 8	4
9 to 12	3
13 to 16	2
Over 16	1
a) If the answer in any of the following is "no" will mean an equivalent of 2 "no" answer.	
Particular	Item
Board of Directors	1
Management Performance	
Compliance with Laws and Regulations	3, 4, 5, 6, 9
Derivatives Activities	

Appendix 14

CARD BANK INC.
CAPITAL ADEQUACY ASSESSMENT
As of : _____

A. CAPITAL ADEQUACY**YES****NO**

1. Has an existing plan or methods of ensuring adequate capital/correcting deficiencies thereon

2. Do item in number 1
 a. ensure that capital adequacy is regularly monitored for risks assessment and future plans?

- b. provide for adequate capital overtime ?

3. Compliance with the following
 a. required capital/capital build-up program?

- b. statutory capital (Sec. 22 of RA337) ?

4. Is common voting stock a major component of capital?

5. Is capital increasing over time?

	Previous Year		Current Year		Increase(Decrease)	
	Amount	%	Amount	%	Amount	%
Total capital accounts					0.000	#DIV/0!
Capital Stock					0.000	#DIV/0!
Surplus/Reserves						
Undivided Profits					0.000	#DIV/0!

6. Are classified/non-performing assets decreasing? (% of total assets) _____

	Previous Year		Current Year		Increase(Decrease)	
	Amount	%	Amount	%	Amount	%
Total classified accounts			0.000		-	
Total non-performing assets					0.000	

7. Is planned growth of the institution reasonable based on growth from the previous years?

8 Are valuation reserves adequate ?

	SLL	other	Total
Booked valuation reserves			
Should be			
Excess(Deficiency)			

Is the general loan-loss provision requirement under Circular 164 (amended by Circular 313) being met?

10 Compare balance sheet data

a. There are more low-risk assets compare to high-risk assets ?

Low-risk Assets		High-risk Assets	
	Amount		Amount
1.		1.	
2.		2.	
3.		3.	
4.		4.	
5.		5.	
Total	-	To	0

b. Stability of deposits and short-term funding sources?

	Core depos	Unstable
Regular deposit		
Pledge savings (up to 15% of loan outstanding less 1st loan)		
Regular deposit (over 500T)		
Tagumpay account of more than 1 year term		
Special savings deposits with maturity of more than 1 year		
Demand deposit		
Total		

11 Is the asset/liability structure properly matched as to

a. rate ?

b. maturity ?

(refer to Annex E of the Report of Examination)

If no, is the mismatch not considered excessive ?

	Yes	No	Equivalent Score
Total			

Capital Adequacy Score:

Input reason and support for the score

	Score	% share	Rating
Equivalent Score (refer to additional rule)	0	50%	0
Add: Score in Ratios	0	50%	0
Total Score			0

Appendix 15

CARD BANK INC.						
ASSETS QUALITY ASSESSMENT						
As of : _____						
B. ASSET QUALITY						
					YES	NO
1.	Loans and other risk assets on a favorable trend (downward)					
	a. classified accounts ?					
	b. non-performing accounts ?					
2.	If item in number 1 on upward trend, are growths coupled with growth in capital?					
3.	Classified/non-performing loan accounts concentration					
	a. type of loan ?					
	b. industry ?					
	c. geographic area ?					
4.	Are there more accounts (in terms of amount) classified especially mentioned/substandard than doubtful/loss?					
		Amount	% to Total			
	Especially mentioned					
	Substandard					
	Doubtful					
	Loss					
	Total classified					
5.	Are there more low risk assets than high-risk assets?					
6.	Past due loan ratio on a favorable trend (downward)?					
		Previous	Current	Increase/decrease		
	Ratio of past due loans to total portfolio					
7.	Are the past due loan ratios lower than the industry averages?					
8.	Are recommended valuation reserves fully booked?					
9.	Is the general loan-loss provision being met ?					
10.	Is there a methodology for assessing the adequacy of the loan-loss reserves?					
	If yes, is such methodology appropriate and effective?					
11.	Are loan and investment portfolios diversified ?					
12.	Are the lending and investment policies, procedures and practices adequate?					
13.	Is there an internal loan review system in place ?					
	If yes, is the system effective?					
14.	Is there a credit risk management system in place?					
	If yes, is the system adequate?					
15.	Are risks inherent in off-balance sheet activities adequately monitored and controlled?					
Asset Quality Score:						
Input reason and support for the score						

Appendix 16

CARD BANK INC.			
MANAGEMENT ASSESSMENT			
As of : _____			
		YES	NO
C. MANAGEMENT			
Board of Directors			
1	Do the directors perform the duties and responsibilities prescribed under Circular 130? (Refer to Questionnaire)		
	If no, enumerate the areas where the directors fail to perform		
2	Does the Board hold regular meetings as provided in the by-laws? Schedule of regular meetings per by-laws - Monthly		
3	Is the number of directors constituting the present Board in accordance with the Articles of Incorporation?		
4	Are changes in the composition of the Board duly reported to and approved by BSP ?		
5	Is the Board actively involved in management ?		
6	Does the Board take immediate action on auditors/BSP's findings? Exceptions noted during the technical assistance were substantially corrected		
Internal Administration			
1.	Does the institution have a full-time personnel manager?		
2.	Does the institution utilize written personnel manuals?		
3.	Does the institution utilize a system of written job descriptions, including descriptions for supervisory personnel?		
4.	Does the institution perform background investigation of new employees?		
5.	Does the institution have a formal training program? Employees are scheduled for training once they have gained permanent status.		
6.	Are staff meetings held on a regular basis? Frequency of meetings -		
7.	Is the system of communication within the institution effective?		
8.	Is there a policy on succession of management and replacement of key personnel ?		
9.	Does the institution forecast manpower requirements?		
10.	Are qualified people advanced from within ?		
11.	Is management training given to those persons likely to assume higher level positions?		
12.	Are salaries competitive ? prescribed by law.		
13.	Are employee benefit programs competitive? <i>The bank has just started operations .</i>		
14.	Are there appropriate officer hiring policies to meet current and future needs?		
15.	Do directors, officers and employees appear to work in harmony?		

Management Supervision			
1.	Does management exhibit -		
	a. technical competence?		
	b. leadership?		
	c. administrative ability?		
2.	Does the hierarchy of the organization show functional responsibility levels of the various officers and lines of authority consistent with the organization chart? (Attach organization chart)		
3.	Does the management structure		
	a. establish accountability		
	b. allow for effective control and communication?		
4.	Are there written policies and procedures covering all areas of management?		
5.	Are these policies and procedures consistent with the objectives and direction set by the Board?		
6.	Are these policies and procedures properly implemented?		
7.	Are there no inconsistencies in these policies and procedures?		
8.	Does management address problems promptly and take corrective action in problem areas?		
9.	Does top management at least annually review lower management? Frequency of reviews -		
10.	Does top management receive:		
	a. a brief statement of condition daily?		
	b. a daily liquidity report?		
	c. a listing of assets subject to quality limitations at least monthly?		
	d. an earnings statement on a comparative basis at least monthly?		
Management Performance			
A.	Compliance with Laws and Regulations		
1.	Has the institution appointed a Compliance Officer (approved by BSP)?		
2.	Is there a Compliance Program in place?		
3.	Were there no violations of laws and regulations committed for which the institution/any director or officer was sanctioned?		
	If no, describe instances of violation and sanctions imposed		
4.	Was there no supervisory action imposed on the institution? If no, describe the supervisory action.		
5.	Has management satisfactorily explained/corrected all major violations and exceptions noted during previous on-site examinations? <i>First GE</i> If not, enumerate the findings still uncorrected -		
6.	Has management implemented/complied with BSP directives issued in connection with the off-site supervision of the institution?		
7.	Are transactions involving DOSRI in compliance with applicable laws, rules and regulations?		
8.	Are interlocking directorships/officerships duly approved by BSP?		
9.	Are there no violations noted in the current examination for which sanctions maybe recommended?		
B.	Overall Condition of the Institution		
1.	Has the institution been operating profitably during the past three years?		

C. Risk monitoring and Management Information Systems				
1. Do the risk monitoring practices and reports address all the material risks?				
2. Are the key assumptions, data sources, and procedures used in measuring and monitoring risk appropriate and adequately documented and tested for reliability on an on-going basis?				
3. Are reports and other forms of communication				
a. consistent with the institution's activities?				
b. structured to monitor exposures and compliance with established limits, goals, or objectives?				
4. Do reports compare actual versus expected performance?				
5. Are reports accurate and timely?				
6. Do reports to management/directors contain sufficient information for decision-makers to identify any adverse trends and to evaluate adequately the level of risk faced by the institution?				
D. Internal Controls				
1. Is the system of internal controls appropriate to the type and level of risks posed by the nature and scope of the organization's activities?				
2. Does the organizational structure establish clear lines of authority and responsibility for monitoring adherence to policies, procedures, and limits?				
3. Do reporting lines provide sufficient independence of the control areas from the business lines and adequate separation of duties throughout the organization?				
4. Do official organizational structures reflect actual operating practices?				
5. Are financial, operational, and regulatory reports				
a. reliable?				
b. accurate?				
c. timely?				
6. Are exceptions noted and promptly investigated?				
7. Are there adequate procedures for ensuring compliance with applicable laws and regulations?				
No compliance officer yet				
8. Do internal audits or other control review practices provide for independence and objectivity? No internal audit yet				
9. Are internal controls and information systems adequately tested and reviewed?				
10. Are the coverage procedures, findings, and responses to audits and review tests adequately documented?				
11. Are identified material weaknesses given appropriate and timely high level attention?				
12. Are management's actions to address material weaknesses objectively verified and reviewed?				
13. Does the institution's audit committee or board of directors review the effectiveness of internal audits and other control review activities on a regular basis?				
Frequency of review -				
Derivatives Activities				
1. Are the Risk Management Guidelines for Derivatives prescribed under Circular 102 complied with?				

Appendix 17

CARD BANK INC.							
MANAGEMENT ASSESSMENT							
As of : _____							
D.	EARNINGS					YES	No
1.	Does the earnings stream show consistently strong core earnings?						
	Type of Operating Income	Previous Year		Current Year			
		Amount	%	Amount	%		
	Interest income						
	Service fees/charges						
	Other Income						
	substantial income generated consistently over a period of time. (% - percentage of total income)						
2.	Is operating income on an upward trend?						
		Previous Year		Current Year			
		Amount	%	Amount	%		
	Operating Income						
3.	Is the net interest margin on an upward trend?						
		Previous Year		Current Year			
		Amount	%	Amount	%		
	Interest Income						
	Interest Expense						
	Interest Margin						
4.	Are the provisions for loan losses and other valuation reserves adequate? (Refer to items 9 and 10 of Annex A.)						
5.	Is there no mismatch in the asset/liability rate structure? (Refer to item 12 of Annex A)						
6.	Is the institution's exposure to market risk low/moderate?						
8.	Are expenses maintained at reasonable levels?						
		Previous Year	Current Year				
		Amount	Amount				
	Total Expense						
	% of Total Income						

Appendix 18

CARD BANK INC.				
LIQUIDITY ASSESSMENT				
As of : _____				
E. LIQUIDITY		YES	NO	
1.	Is there a board policy that defines the liquidity profile of the institution?			
2.	Is this policy supported by guidelines, limits, and procedures for management to follow?			
3.	Are there reports or controls provided to monitor compliance with these guidelines, limits, and procedures?			
4.	Are there tools used to measure liquidity? (daily cash position report)			
5.	Are the liquidity measurement tools			
	a. adequate?			
	b. timely?			
6.	Do they address the			
	a. board's policy?			
	b. cash flow liquidity?			
	c. diversification of funding and concentration guidelines?			
7.	Is there a contingency funding plan approved by the board?			
8.	Is the contingency funding plan well-developed and effective?			

[illegible]

Appendix 19

Appendix 1

CARD BANK INC.

LIQUIDITY ASSESSMENT

As of : _____

F.	SENSITIVITY TO MARKET RISK						Yes	No										
1.	Does the balance sheet structure show a reasonable balance between rate-sensitive assets and liabilities?																	
	<table><tr><td>Rate-sensitive Assets</td><td>Amount</td></tr><tr><td></td><td></td></tr><tr><td></td><td></td></tr><tr><td></td><td></td></tr><tr><td>Total</td><td>0.000</td></tr></table>	Rate-sensitive Assets	Amount							Total	0.000							
Rate-sensitive Assets	Amount																	
Total	0.000																	
	<table><tr><td>Rate-sensitive Liabilities</td><td>Amount</td></tr><tr><td></td><td></td></tr><tr><td></td><td></td></tr><tr><td></td><td></td></tr><tr><td>Total</td><td>0.000</td></tr></table>	Rate-sensitive Liabilities	Amount							Total	0.000							
Rate-sensitive Liabilities	Amount																	
Total	0.000																	
2.	Is there no negative asset-liability mismatch of the balance sheet on -																	
	a. peso accounts?																	
	b. foreign currency accounts?																	
	(Refer to Annex E of the Report of Examination)																	
	If there is, is the mismatched position short-term?																	
3.	Is there no negative gap on off-balance sheet accounts, e. g. forwards?																	
4.	Is the investment portfolio largely traditional?																	
	<table><tr><td>Type of Investment</td></tr><tr><td></td></tr><tr><td></td></tr><tr><td></td></tr><tr><td>Total</td></tr></table>	Type of Investment				Total												
Type of Investment																		
Total																		
5.	Do the portfolios show diversified holdings of rate-sensitive securities?																	
6.	Are earnings from rate-sensitive assets on an upward trend?																	
	</																	

