CITYSTATE SAVINGS BANK, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016
(Amounts in Philippine Pesos)

FOR APPROVAL
Signature: _______________
Position: _________________
Date: ____________________

	Notes		2017		2016
R E S O U R C E S					
CASH AND OTHER CASH ITEMS	2	**P**	**67,206,772**	P	100,187,703
DUE FROM BANGKO SENTRAL NG PILIPINAS	7		**586,867,698**		365,833,736
DUE FROM OTHER BANKS	8		**371,071,330**		185,888,730
LOANS AND RECEIVABLES ARISING FROM REVERSE REPURCHASE AGREEMENT	9		**237,908,872**		315,569,609
AVAILABLE-FOR-SALE SECURITIES	10		**419,726,370**		389,723,459
LOANS AND RECEIVABLES - Net	11		**1,987,097,705**		2,341,656,195
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	12		**201,448,001**		214,624,519
INVESTMENT PROPERTIES - Net	13		**82,050,971**		69,526,534
OTHER RESOURCES - Net	14		**182,613,430**		225,336,461
TOTAL RESOURCES		**P**	**4,135,991,149**	P	4,208,346,946
LIABILITIES AND EQUITY					
DEPOSIT LIABILITIES	15				
Demand		**P**	**432,122,000**	P	452,282,030
Savings			**2,576,117,384**		2,774,100,686
Time			**353,570,301**		168,578,738
Total Deposit Liabilities			**3,361,809,685**		3,394,961,454
OTHER LIABILITIES	16		**81,697,736**		120,614,172
Total Liabilities			**3,443,507,421**		3,515,575,626
EQUITY	17		**692,483,728**		692,771,320
TOTAL LIABILITIES AND EQUITY		**P**	**4,135,991,149**	P	4,208,346,946

See Notes to Financial Statements.

CITYSTATE SAVINGS BANK, INC.
STATEMENTS OF PROFIT OR LOSS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Philippine Pesos)

FOR APPROVAL
Signature: ______________
Position: ______________
Date: ______________

	Notes	2017	2016	2015
INTEREST INCOME				
Loans and receivables	11	**P 192,965,082**	P 187,748,571	P 173,419,493
Available-for-sale securities	10	**9,013,442**	12,945,719	7,476,081
Due from Banko Sentral ng Pilipinas, other banks and loans and receivables arising from reverse repurchase agreement	7, 8, 9	**14,274,375**	10,728,381	21,320,619
		216,252,899	211,422,671	202,216,193
INTEREST EXPENSE				
Deposit liabilities	15	**29,156,770**	38,995,234	39,283,897
Others		**1,424,923**	235,583	1,200,301
		30,581,693	39,230,817	40,484,198
NET INTEREST INCOME		**185,671,206**	172,191,854	161,731,995
IMPAIRMENT LOSSES (RECOVERIES) - Net	10, 11	**33,518,030**	32,725,903	(13,786,273)
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES (RECOVERIES)		**152,153,176**	139,465,951	175,518,268
OTHER OPERATING INCOME				
Service charges and fees	2	**13,362,001**	15,135,271	18,097,071
Miscellaneous	18	**57,350,542**	42,885,317	24,256,026
		70,712,543	58,020,588	42,353,097
OTHER OPERATING EXPENSES				
Salaries and employee benefit expense	19	**103,127,795**	104,758,350	99,864,930
Depreciation and amortization	12, 13, 14	**38,936,763**	32,958,428	31,096,712
Communication, light and water		**30,178,592**	28,792,348	24,710,447
Occupancy	25	**30,143,382**	28,730,420	29,600,007
Security, janitorial and messengerial services		**28,326,337**	29,563,353	37,465,355
Taxes and licenses	27	**17,582,025**	12,567,681	17,546,215
Insurance		**14,100,295**	19,823,832	15,756,861
Fuel and oil		**8,523,901**	9,555,275	10,409,975
Litigation and asset acquired expenses	13	**4,237,779**	2,545,489	1,639,827
Repairs and maintenance		**2,108,077**	2,147,088	3,263,590
Miscellaneous	18	**24,986,172**	23,268,752	26,942,086
		302,251,118	294,711,016	298,296,005
LOSS BEFORE TAX		**(79,385,399)**	(97,224,477)	(80,424,640)
TAX EXPENSE	20	**7,668,554**	3,619,637	6,229,647
NET LOSS		**(P 87,053,953)**	(P 100,844,114)	(P 86,654,287)
Loss Per Share – Basic and Diluted	23	**(P 1.20)**	(P 1.39)	(P 1.19)

See Notes to Financial Statements.

CITYSTATE SAVINGS BANK, INC.
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Philippine Pesos)

FOR APPROVAL
Signature: ______________
Position: ______________
Date: ______________

	Notes	2017	2016	2015
NET LOSS		**(P 87,053,953)**	(P 100,844,114)	(P 86,654,287)
OTHER COMPREHENSIVE INCOME				
Item that will not be reclassified subsequently to profit or loss				
Remeasurements of defined benefit post-employment plan	19	**7,600,655**	1,664,299	2,996,675
Tax expense	20	**(2,280,196)**	(499,290)	(899,003)
		5,320,459	1,165,009	2,097,672
Item that will be reclassified to profit or loss				
Fair valuation of available-for-sale (AFS) securities				
Fair value gains during the year	10	**4,947,901**	6,311,376	3,633,503
Fair value loss on impaired AFS financial assets reclassified to profit or loss	10	**340,000**	-	-
Fair value gains on disposed of AFS financial assets reclassified to profit or loss	10	**(1,283,303)**	(3,021,890)	(171,568)
Tax expense	20	**(558,695)**	(315,645)	(557,230)
		3,445,903	2,973,841	2,904,705
Total Other Comprehensive Income - net of tax		**8,766,362**	4,138,850	5,002,377
TOTAL COMPREHENSIVE LOSS		**(P 78,287,591)**	(P 96,705,264)	(P 81,651,910)

See Notes to Financial Statements.

FOR APPROVAL
Signature: ______________
Position: ______________
Date: ______________

CITYSTATE SAVINGS BANK, INC.
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Philippine Pesos)

	Notes	Capital Stock	Additional Paid-in Capital	Deposit on Subscription of Shares	Revaluation Reserves	Surplus Reserves	Deficit	Total
Balance as of January 1, 2017		P 727,649,980	P 2,222,444	P 180,000,000	P 13,428,462	P 1,454,772	(P 231,984,338)	P 692,771,320
Deposit on subscription of shares during the year	17	-	-	78,000,000	-	-	-	78,000,000
Transfer to reserves	21	-	-	-	-	463,459	(463,459)	-
Total comprehensive income (loss) for the year	17	-	-	-	8,766,362	-	(87,053,953)	(78,287,591)
Balance as of December 31, 2017	17	**P 727,649,980**	**P 2,222,444**	**P 258,000,000**	**P 22,194,824**	**P 1,918,231**	**(P 319,501,750)**	**P 692,483,728**
Balance as of January 1, 2016		P 727,649,980	P 2,222,444	P -	P 9,289,612	P 1,069,924	(P 130,755,376)	P 609,476,584
Deposit on subscription of shares during the year	17	-	-	180,000,000	-	-	-	180,000,000
Transfer to reserves	21	-	-	-	-	384,848	(384,848)	-
Total comprehensive income (loss) for the year	17	-	-	-	4,138,850	-	(100,844,114)	(96,705,264)
Balance as of December 31, 2016	17	P 727,649,980	P 2,222,444	P 180,000,000	P 13,428,462	P 1,454,772	(P 231,984,338)	P 692,771,320
Balance as of January 1, 2015		P 727,649,980	P 2,222,444	P -	P 4,287,235	P 813,500	(P 43,844,665)	P 691,128,494
Transfer to reserves	21	-	-	-	-	256,424	(256,424)	-
Total comprehensive income (loss) for the year	17	-	-	-	5,002,377	-	(86,654,287)	(81,651,910)
Balance as of December 31, 2015	17	P 727,649,980	P 2,222,444	P -	P 9,289,612	P 1,069,924	(P 130,755,376)	P 609,476,584

See Notes to Financial Statements.

FOR APPROVAL
Signature: ______________
Position: ______________
Date: ______________

CITYSTATE SAVINGS BANK, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Philippine Pesos)

	Notes	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss before tax		**(P 79,385,399)**	(P 97,224,477)	(P 80,424,640)
Adjustments for:				
Interest income	7, 8, 9, 10, 11	**(216,252,899)**	(211,422,671)	(202,216,193)
Interest received		**269,645,834**	207,535,332	196,948,077
Depreciation and amortization	12, 13, 14	**38,936,763**	32,958,428	31,096,712
Impairment losses (recoveries) - net	10, 11	**33,518,030**	32,725,903	(13,786,273)
Interest paid		**(33,151,769)**	(48,241,097)	(38,510,077)
Interest expense	15	**30,581,692**	39,230,817	40,484,198
Gains from assets acquired or exchanged	18	**(13,958,370)**	(6,952,270)	(384,976)
Dividend income	18	**(12,868,001)**	(11,095,627)	(2,272,418)
Trading gains	18	**(1,283,303)**	(3,021,890)	(171,568)
Loss (gain) on sale or retirement of bank premises - net	18	**(408,172)**	27,286	51,214
Unrealized foreign currency exchange gains	18	**(43,376)**	(478,148)	(216,862)
Loss on sale of acquired assets	18	**-**	133,650	2,942,680
Operating loss before working capital changes		**15,331,030**	(65,824,764)	(66,460,126)
Decrease (increase) in loans and receivables		**399,460,103**	115,523,325	(309,767,908)
Decrease in other resources		**60,392,562**	46,550,728	47,584,753
Increase (decrease) in deposit liabilities		**(29,156,769)**	(739,605,334)	743,592,888
Decrease in investment properties		**9,500,000**	1,430,032	100,000
Decrease (increase) in other liabilities		**(178,559,558)**	(36,564,465)	19,730,201
Cash generated from (used in) operations		**276,967,368**	(678,490,479)	434,779,808
Cash paid for income taxes		**(8,835,917)**	(3,650,149)	(17,699,217)
Net Cash From (Used in) Operating Activities		**268,131,451**	(682,140,628)	417,080,591
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of available-for-sale (AFS) financial assets	10	**(104,075,924)**	(131,000,000)	(349,261,514)
Proceeds from disposal or maturity of AFS financial assets	10	**69,878,797**	170,345,886	16,228,852
Dividends received		**12,868,001**	11,095,627	2,272,418
Acquisitions of bank premises, furniture, fixtures and equipment	12	**(11,605,549)**	(13,734,945)	(23,319,796)
Acquisitions of computer software	14	**(6,216,372)**	(7,489,461)	(7,993,009)
Net Cash From (Used in) Investing Activities		**(39,151,047)**	29,217,107	(362,073,049)
CASH FLOWS FROM A FINANCING ACTIVITY				
Proceeds from deposit on capital subscription	17	**78,000,000**	180,000,000	-
Effect of Foreign Currency Exchange Rate Changes in Cash and Cash Equivalents		**43,376**	478,148	216,862
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**307,023,780**	(472,445,373)	55,224,404
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
Cash and other cash items		**100,187,703**	99,154,882	152,246,760
Due from Bangko Sentral ng Pilipinas	7	**365,833,736**	1,118,494,957	1,037,862,022
Due from other banks	8, 26	**156,291,352**	192,677,934	164,994,587
Loans and receivables arising from reverse repurchase agreement	9	**315,569,609**	-	-
		937,882,400	1,410,327,773	1,355,103,369
CASH AND CASH EQUIVALENTS AT END OF YEAR				
Cash and other cash items		**67,206,772**	100,187,703	99,154,882
Due from Bangko Sentral ng Pilipinas	7	**586,867,698**	365,833,736	1,118,494,957
Due from other banks	8, 26	**352,922,838**	156,291,352	192,677,934
Loans and receivables arising from reverse repurchase agreement	9	**237,908,872**	315,569,609	-
		P 1,244,906,180	P 937,882,400	P 1,410,327,773

Supplemental Information on Noncash Investing Activity –

The Bank acquired investment properties and other resources amounting to P55,675,286 in 2017, P83,177,667 in 2016 and P30,578,893 in 2015 through foreclosure (see Notes 13, 14.1 and 26).

See Notes to Financial Statements.

FOR APPROVAL
Signature: ______________
Position: ______________
Date: ______________

CITYSTATE SAVINGS BANK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Incorporation and Operations

Citystate Savings Bank, Inc. (the Bank) was incorporated in the Philippines on May 20, 1997. The Bank obtained a thrift bank license from the Bangko Sentral ng Pilipinas (BSP) on August 7, 1997 and started operations on August 8, 1997.

The Bank's common shares were listed in the Philippine Stock Exchange (PSE) on November 28, 2001. On March 4, 2004, the Bank was authorized by the BSP to engage in quasi-banking functions. On July 13, 2006, the Bank was granted license to operate foreign currency deposit unit (FCDU) and trust function. The Bank's FCDU started operations in November 2006, while its trust operations started in February 2007. At the end of 2017, the Bank has 30 branches, and 31 on-site and six off-site automated teller machines (ATMs) strategically located in key cities and municipalities within Metro Manila and provincial areas.

The Bank's operations include commercial banking, retail banking and treasury services, however, management does not view the Bank's business operations, activities and components separately but rather they view the Bank as a whole. Accordingly, no business segment information is presented in its financial statements.

As a banking institution, the Bank's operations are regulated and supervised by the BSP. As such, the Bank is required to comply with banking rules and regulations such as those relating to maintenance of reserve requirements on deposit liabilities and deposit substitutes and those relating to the adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. The Bank's activities are subject to the provisions of the General Banking Law of 2000 [Republic Act (RA) No. 8791] and other related banking laws.

The Bank's registered address, which is also its principal place of business, is located at 2nd Floor, Citystate Centre, 709 Shaw Boulevard, Pasig City.

1.2 Approval of Financial Statements

The financial statements of the Bank as of and for the year ended December 31, 2017 (including the comparative financial statements as of December 31, 2016 and for the years ended December 31, 2016 and 2015) were authorized for issue by the Bank's Board of Directors (BOD) on April 3, 2018.

FOR APPROVAL
Signature: _______________
Position: ________________
Date: ___________________

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. The policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are issued by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board and approved by the Philippine Board of Accountancy.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Bank presents all items of income and expenses in two statements: a "statement of profit or loss" and a "statement of comprehensive income".

The Bank presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

(c) Functional and Presentation Currency

These financial statements are presented in Philippine pesos, the Bank's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Bank are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Bank operates (see Note 2.14).

2.2 Adoption of New and Amended PFRS

(a) Effective in 2017 that are Relevant to the Bank

The Bank adopted for the first time the following amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2017:

PAS 7 (Amendments)	:	Statement of Cash Flows – Disclosure Initiative
PAS 12 (Amendments)	:	Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses

Discussed below are the relevant information about these amendments.

(i) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative*. The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's related cash flows. It requires an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, it suggests a number of specific disclosures that may be necessary in order to satisfy the above requirement, including: (a) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and, (b) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

This amendment has no significant impact to the Bank as it has no other financing activities during the years presented, except for the proceeds received from the deposit on capital subscriptions in 2017 and 2016 (see Note 17).

(ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses*. The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, (d) combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference. The application of this amendment has no impact on the Bank's financial statements.

(b) *Effective in 2017 that is not Relevant to the Bank*

The only improvement to existing standards effective for annual periods beginning on or after January 1, 2017, is the annual improvement to PFRS (2014-2016 Cycle) – PFRS 12 (Amendment), *Disclosure of Interest in Other Entities*, in relation to scope clarification on disclosure of summarized financial information for interests classified as held for sale, which is not relevant to the Bank.

(c) *Effective Subsequent to 2017 but not Adopted Early*

There are new PFRS, amendments, interpretation and annual improvements to existing standards effective for annual periods subsequent to 2017, which are adopted by the FRSC. 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:

(i) PAS 40 (Amendment), *Investment Property – Reclassification to and from Investment Property* (effective from January 1, 2018). The amendment states that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendment provided a non-exhaustive list of examples constituting change in use.

(ii) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will replace PAS 39, *Financial Instruments: Recognition and Measurement*, and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;

- an expected credit loss (ECL) model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and

- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income (FVTOCI) if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

Based on an assessment of the Bank's financial assets and liabilities as at December 31, 2017, which has been limited to the facts and circumstances existing at that date, management has identified the following areas that are expected to be most affected by the application of PFRS 9 (2014):

- Loans and other receivables are composed of receivables from customers and other receivables which is held to collect contractual cash flows representing SPPI (see Note 11). These financial assets will continue to be measured at amortized cost upon application of PFRS 9 (2014).

- The Bank assessed that the government and other debt securities classified as available-for-sale (AFS) securities qualify under the SPPI test and the held-to-collect and sell business model. Thus, these financial assets will continue to be measured at fair value, with mark-to-market fluctuations recognized in other comprehensive income subject to recycling upon disposal of the securities.

- The ECL methodology will apply to the Bank's loan receivables and debt securities currently classified as AFS financial assets. Management has assessed that the application of the ECL model will result in an increase in the required allowance of impairment of certain financial instrument as compared with the amount that would have been reported under the impairment provision of PAS 39.

FOR APPROVAL
Signature: ______________
Position: ______________
Date: ______________

- The Bank's equity securities, regardless if quoted or not, will be measured at fair value with changes in fair value presented in other comprehensive income if designated at FVTOCI. To present changes in other comprehensive income requires making an irrevocable designation on initial recognition or at the date of transition.

- Most of the financial liabilities of the Bank are measured at amortized cost. Upon application of PFRS 9 (2014), management has assessed that the amortized cost classification for most of the financial liabilities will be retained.

(iii) PFRS 15, *Revenue from Contract with Customers* (effective from January 1, 2018). This standard will replace PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related interpretations on revenue recognition: International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate,* IFRIC 18, *Transfers of Assets from Customers,* and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Based on an assessment of the Bank's revenue streams as at December 31, 2017, which has been limited to the facts and circumstances existing at that date, management determined that its significant sources of revenues pertain to its lending and investing activities which generate interest income and service charges and fees. Except for service charges and fees, substantial amount of the Bank's revenues are generated from financial instruments which are outside the scope of PFRS 15.

(iv) IFRIC 22, *Foreign Currency Transactions and Advance Consideration – Interpretation on Foreign Currency Transactions and Advance Consideration* (effective from January 1, 2018). The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. Management has initially assessed that this interpretation has no material impact on the Bank's financial statements.

(v) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendment clarifies that prepayment features with negative compensation attached to financial instruments may still qualify under the SPPI test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVTOCI. Management is currently assessing the impact of these amendments on the Bank's financial statements.

FOR APPROVAL
Signature: ________________
Position: __________________
Date: _____________________

(vi) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases.*

For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right-of-use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

For lessors, lease accounting is similar to PAS 17's. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17's. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

Management has initially assessed that the Bank's adoption of PFRS 16 would likely result in recognition of asset and corresponding lease liability in its statement of financial position to account for its long-term leases in accordance with this new standard.

(vii) IFRIC 23, *Uncertainty over Income Tax Treatment*s (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Bank to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Bank has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. Management is currently assessing the impact of this interpretation on the Bank's financial statements.

(viii) Annual Improvements to PFRS 2015-2017 Cycle. Among the improvements, the following amendments are relevant to the Bank but had no material impact on the Bank's financial statements as these amendments merely clarify existing requirements:

- PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.

- PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.

2.3 Financial Assets

Financial assets are recognized when the Bank becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

(a) Classification and Measurement of Financial Assets

Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity investments and available-for-sale (AFS) financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and the related transaction costs are recognized in profit or loss. A more detailed description of the categories of financial assets currently relevant to the Bank is as follows:

(i) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for those with maturities greater than 12 months after the end of each reporting period, which are classified as non-current assets.

The Bank's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Loans and Receivables Arising from Reverse Repurchase Agreement, Loans and Receivables, and Security deposits (under Other Resources account) in the statement of financial position. Cash and cash equivalents comprise accounts with maturities of three months or less, including cash and non-restricted balances with the BSP and other banks. For statement of cash flows purposes, cash and cash equivalents include cash and other cash items, due from BSP, due from other banks, and loans and receivables arising from reverse repurchase agreement that are unrestricted and readily available for use in the Bank's operations and are subject to insignificant risk of change in value.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any.

(ii) AFS Financial Assets

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Bank's AFS financial assets include equity securities and government debt securities, corporate bonds and proprietary club shares.

All financial assets within this category are subsequently measured at fair value, except for equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost, less impairment loss, if any. Gains and losses are recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Revaluation Reserves account in equity, except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss.

When the financial asset is disposed of or is determined to be impaired, that is, when there is a significant or prolonged decline in the fair value of the security below its cost, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income even though the financial asset has not been derecognized.

FOR APPROVAL
Signature: ________________
Position: __________________
Date: _____________________

(b) Impairment of Financial Assets

The Bank assesses at the end of each reporting period whether there is an objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event has an impact of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events, including, among others: (i) significant financial difficulty of the issuer or debtor; (ii) a breach of contract, such as a default or delinquency in interest or principal payments; (iii) the Bank granting the borrower, for economic or legal reasons relating to the borrower's difficulty, a concession that the lender would not otherwise consider; (iv) the probability that the borrower will enter bankruptcy or other financial reorganization; (v) the disappearance of an active market for that financial asset because of financial difficulties; or, (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including adverse changes in the payment status of borrowers in the group, or national or local economic conditions that correlate with defaults on the assets in the group.

The Bank recognizes impairment loss based on the category of financial assets as follows:

(i) Carried at Amortized Cost – Loans and Receivables

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial asset with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in the collective assessment of impairment.

If there is an objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit loss that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. When practicable, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the established future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosures less cost of obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimated future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When possible, the Bank seeks to restructure loans rather than to take possession of the collateral. This may involve extending the payment arrangement and agreement for new loan conditions. Once the terms have been renegotiated and satisfactory track record of payment of principal and/or interest is achieved, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria evidencing the good quality of the loan are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate. The difference between the recorded carrying amount of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized as part of Impairment Losses (Recoveries) account in profit or loss.

When a loan is determined to be uncollectible, it is written off against the related allowance for impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses in the statement of profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss.

FOR APPROVAL
Signature: _______________
Position: ________________
Date: ____________________

(ii) Carried at Cost – AFS Financial Assets

If there is objective evidence of impairment for any of the unquoted equity instruments that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and required to be settled by delivery of such an unquoted equity instrument, impairment loss is recognized. The amount of impairment loss is the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

(iii) Carried at Fair Value – AFS Financial Assets

When a decline in the fair value of an AFS financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss – measured as the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is reclassified from revaluation reserves to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized.

Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss. Reversal of impairment losses is recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

(c) Items of Income and Expense Related to Financial Assets

All income and expenses, excluding impairment losses which is presented as a separate line item in the statement of profit or loss, relating to financial assets that are recognized in profit or loss are presented as part of Interest Income or Interest Expense account in the statement of profit or loss.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

(d) Derecognition of Financial Assets

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.4 Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost less impairment losses, if any. All other items of bank premises, furniture, fixtures and equipment are carried at acquisition cost less subsequent depreciation, amortization and any impairment losses.

The cost of an asset comprises its purchase price and directly attributable cost of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized, while expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Building and improvements	40 years
Office furniture, fixtures and equipment	5 years

Leasehold improvements are amortized over the term of the lease or the estimated useful lives of the improvements, whichever is shorter.

Fully depreciated and fully amortized assets are retained in the accounts until they are no longer in use and no further charge for depreciation and amortization is made in respect of those assets.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.15).

The residual values, estimated useful lives and method of depreciation and amortization of bank premises, furniture, fixtures and equipment, are reviewed and adjusted if appropriate, at the end of each reporting period.

An item of bank premises, furniture, fixtures and equipment including the related accumulated depreciation, amortization and any impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

2.5 Investment Properties

Investment properties include land and buildings acquired by the Bank, in settlement of loans from defaulting borrowers through foreclosure or dacion in payment. These properties are held either to earn rental income or for capital appreciation or for both, but not held for sale in the next twelve months or used in the rendering of services or for administrative purposes.

Investment properties are stated at cost, less accumulated depreciation and any impairment losses (see Note 2.15). The cost of an investment property comprises its purchase price and directly attributable costs incurred. For these assets, the cost is recognized initially at the lower of the outstanding loan balance or bid price, which should not be higher than the appraised value of the property.

Building and building improvements included under investment properties have estimated useful life of ten years and are depreciated using the straight-line basis.

Direct operating expenses related to investment properties, such as repairs and maintenance, and real estate taxes are charged to profit or loss in the period in which these costs are incurred.

Investment properties including the related accumulated depreciation and any impairment losses, are derecognized upon disposal or when no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss under the caption Miscellaneous under the Other Operating Income account in the year of retirement or disposal.

2.6 Assets Held-for-Sale

Assets held-for-sale pertain to motor vehicles and jewelry items, presented as part of Other Resources account in the statement of financial position, are acquired through repossession or foreclosure which the Bank intends to sell within one year from the date of classification as held for sale and remains committed to immediately dispose the assets through an active marketing plan.

The Bank classifies an asset as held-for-sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. In the event that the sale of the asset is extended beyond one year, the extension of the period required to complete the sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the Bank's control and there is sufficient evidence that the Bank remains committed to its plan to sell the asset.

Assets held-for-sale are measured at the lower of their carrying amounts, immediately prior to their classification as held for sale, and their fair value less costs to sell. These assets are not subject to depreciation. If the Bank has classified an asset as held-for-sale or disposal group, but the criteria for it to be recognized as held-for-sale or disposal group are no longer satisfied, the Bank shall cease to classify the asset as such.

The Bank recognizes an impairment loss for any initial or subsequent write-down of the assets held-for-sale and disposal group to fair value less cost to sell, to the extent that it has not been previously recognized in profit or loss. On the other hand, any gain from any subsequent increase in fair value less to costs to sell of an asset up to the extent of the cumulative impairment loss that has been previously recognized is recognized in profit or loss.

Assets that ceases to be classified as held-for-sale is measured at the lower of:
(a) its carrying amount before the asset was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the asset not been classified as held for sale; and, (b) its recoverable amount at the date of the subsequent decision not to sell. Any adjustment to the carrying amount of an asset that ceases to be classified as held for sale resulting in either a gain or loss, is recognized in profit or loss.

The gain or loss arising from the sale or re-measurement of assets held-for-sale or disposal group is recognized in profit or loss and is included in the Gain from assets acquired or exchanged under Miscellaneous Income or Loss on sale of acquired assets under Miscellaneous Expense in the statement of profit or loss.

2.7 Intangible Assets

Intangible assets include acquired branch license and computer software used in operations and administration which are accounted for under the cost model and presented under the Other Resources account in the statement of financial position. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given to acquire an asset at the time of its acquisition.

Acquired branch license is classified as intangible assets with indefinite useful life, hence, is not subject to amortization but would require an annual test for impairment (see Note 2.15). Branch license is subsequently carried at cost less accumulated impairment losses, if any.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred.

The costs of any internally generated software development are recognized as intangible assets. Any capitalized internally developed software that is not yet complete is not amortized but is subject to impairment testing as described in Note 2.15. Amortization commences upon completion of the asset.

Capitalized software costs are amortized on a straight-line basis over the estimated useful lives (ranging from three to ten years) as these intangible assets are considered finite.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

2.8 Other Resources

Other resources pertain to other assets controlled by the Bank as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the Bank and the asset has a cost or value that can be measured reliably.

2.9 Financial Liabilities

Financial liabilities, which include deposit liabilities and other liabilities (except for income tax payable, post-employment benefit obligation, sundry credits and other tax-related liabilities) are recognized when the Bank becomes a party to the contractual terms of the instrument.

Deposit liabilities and other liabilities are recognized initially at their fair values and subsequently measured at amortized costs using effective interest method for those with maturities beyond one year, less settlement payments. All interest-related charges incurred on financial liability are recognized as Interest Expense in the statement of profit or loss.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.10 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when the Bank currently has legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on a future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and, must be legally enforceable for both entity and all counterparties to the financial instruments.

2.11 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Bank that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Bank can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

FOR APPROVAL
Signature: _______________
Position: _________________
Date: ____________________

2.12 Revenue and Expense Recognition

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that the economic benefits will flow to the Bank; and, the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue and expense is recognized:

(a) *Interest income and expense* are recognized in profit or loss for all financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(b) *Service charges and fees* are generally recognized on an accrual basis when the service has been provided. Fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as the arrangement of the acquisition of debt instruments or other securities, are recognized on completion of the underlying transaction. Other service fees are recognized based on the applicable service contracts, usually on a time-appropriate basis.

(c) *Trading gain* is recognized when the ownership of the securities is transferred to the buyer and is computed at the difference between the selling price and the carrying amount of the securities disposed of.

(d) *Gains from assets acquired/exchanged* are recognized in profit or loss (as part of Miscellaneous under Other Operating Income) when the risks and rewards of the assets are transferred to the buyer or when the collectability of the entire sales price is reasonably assured.

(e) *Rental income* is accounted for on a straight-line basis over the lease terms on operating leases and is recorded in profit or loss as part of Miscellaneous under the Other Operating Income account. Rental income is generally earned from lease of investment property.

(f) *Penalties on loans,* presented as part of Miscellaneous Income, are recognized only upon collection or accrued when there is a reasonable degree of certainty as to its collectability.

(g) *Dividend income* is recognized when the Bank's right to receive payment is established. Dividend income is included as part of Other Operating Income in the statement of profit or loss.

Costs and expenses are recognized in profit or loss upon utilization of the goods or services or at the date these are incurred. All finance costs are reported in profit or loss on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset, if any.

2.13 Leases

The Bank accounts for its leases as follows:

(a) *Bank as Lessee*

Leases, which do not transfer to the Bank substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as repairs and maintenance and insurance, are expensed as incurred.

(b) *Bank as Lessor*

Leases, which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

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

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;

(c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or,

(d) there is a substantial change to the asset.

2.14 Foreign Currency Transactions and Translation

The accounting records of the Bank are maintained in Philippine pesos, except for the FCDU, which is maintained in United States (US) dollars. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

The financial statements of the FCDU of the Bank, which are expressed in US dollars as its functional currency, are translated using the closing rates for statement of financial position accounts and weighted average rates for statement of profit or loss and statement of comprehensive income accounts.

Changes in the fair value of monetary financial assets denominated in foreign currency classified as AFS financial assets are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income.

2.15 Impairment of Non-financial Assets

The Bank's premises, furniture, fixtures and equipment, investment properties, intangible assets and other non-financial assets are subject to impairment testing. Intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested for impairment either individually or at the cash-generating unit level. Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Bank's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets, except for intangible assets with indefinite useful life, are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

FOR APPROVAL
Signature: ________________
Position: __________________
Date: ______________________

2.16 Employee Benefits

The Bank provides post-employment benefits to employees through a defined benefit plan and defined contribution plan, and other employee benefits which are recognized as follows:

(a) Post-employment Defined Benefit Plan

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Bank, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Bank's defined benefit post-employment plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by the Bank's Trust Department.

The liability recognized in the statement of financial position for defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefits payments using a discount rate derived from the interest rates of a zero coupon government bond as published by the Philippine Dealing & Exchange Corp. (PDEx), that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Miscellaneous Account in the statement of profit or loss. Remeasurements are not reclassified to profit or loss in the subsequent periods.

Past service costs are recognized immediately in profit or loss in the period of a plan amendment or curtailment.

(b) Post-employment Defined Contribution Plans

A defined contribution plan is a pension plan under which the Bank pays fixed contributions into an independent entity. Under this plan, the Bank has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities or assets may be recognized if underpayment or prepayment has occurred and are normally of a short-term nature.

(c) *Termination Benefits*

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(d) *Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of each reporting period. They are included in the Other Liabilities account in the statement of financial position at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement.

2.17 Income Taxes

Tax expense recognized in profit or loss comprises the sum of current and deferred taxes not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method, on temporary differences at the end of each reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

FOR APPROVAL
Signature: ______________
Position: ______________
Date: ______________

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if the Bank has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxation authority.

2.18 Related Party Transactions and Relationships

Related party transactions are transfers of resources, services or obligations between the Bank and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Bank; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of an entity that gives them significant influence over the Bank and close members of the family of any such individual; and, (d) the Bank's funded post-employment benefit plan for its employees.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

2.19 Equity

Capital stock represents the nominal value of shares that have been issued.

Additional paid-in capital includes any premiums received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Deposit on subscription of shares represents the amount of money received from stockholders as deposit for its subscription to the Bank's unissued capital stock which is currently pending for its issuance.

Revaluation reserves comprise of the following:

(a) Net unrealized fair value gain arising from the marked-to-market valuation of AFS securities.

(b) Remeasurements of defined benefit post-employment plan based on the accumulated balances of actuarial gains or losses arising from experience adjustments and other changes in actuarial assumptions used in the determination of defined benefit obligation, and actual return on plan assets (excluding amount included in net interest).

FOR APPROVAL
Signature: ________________
Position: _________________
Date: ____________________

Surplus reserve pertains to a portion of the Bank's income from trust operations set-up on a yearly basis in compliance with BSP regulations.

Deficit represents all current and prior period results of operations as reported in the statement of profit or loss, reduced by the amount of dividends declared, if any.

2.20 Loss per Share

Basic loss per share is computed by dividing net loss attributable to the equity holders of the Bank by the weighted average number of shares issued and outstanding, adjusted retroactively for any stock dividend, stock split or reverse stock split declared during the reporting period.

Diluted losses per share is computed by dividing net loss by the weighted average number of common shares issued and outstanding during the period assuming the conversion of potentially dilutive shares.

Currently, the Bank does not have potentially dilutive shares outstanding; hence, the dilutive loss per share is equal to the basic loss per share.

2.21 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the Bank's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Bank's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. 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. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Impairment of AFS Securities

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Bank evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

FOR APPROVAL
Signature: _______________
Position: ________________
Date: ___________________

Based on the evaluation of information and circumstances affecting the Bank's AFS securities, management concluded that those assets are not permanently impaired as of December 31, 2017 and 2016 except for a certain AFS security which is permanently impaired based on the management assessment as of December 31, 2017 (see Note 10). Future changes in those information and circumstances might significantly affect the carrying amount of the assets.

(b) Distinguishing Investment Properties and Owner-occupied Properties

The Bank determines whether a property qualifies as investment property. In making its judgment, the Bank considers whether the property generates cash flows largely independent of the other assets held by the Bank. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in its banking operations.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in its banking operation and services or for administrative purposes. If a portion can be sold separately (or leased out separately under finance lease), the Bank accounts for the portion separately. If a portion cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in its banking operation or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Bank considers each property separately in making its judgment.

(c) Distinguishing Operating and Finance Leases

The Bank has entered into various lease agreements as a lessee or lessor. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities. Management assessed that all of its existing lease arrangements qualify as operating leases.

(d) Classifying and Determining Fair Value of Acquired Properties

The Bank classifies its acquired properties as bank premises, furniture, fixtures and equipment if used in operations, as assets held for sale included as part of Non-financial assets under the Other Resources account if the Bank expects that the properties will be recovered through sale rather than use, as Investment Properties if held for currently undetermined future use and is regarded as held for capital appreciation, or as financial assets in accordance with PAS 39. At initial recognition, the Bank determines the fair value of acquired properties through internally and externally generated appraisal. The appraised value is determined based on the current economic and market conditions, as well as the physical condition of the property. The Bank's methodologies in determining the fair value of acquired properties are further discussed in Note 6.

The Bank provides additional criterion for booking personal and chattel properties to Assets held-for-sale such that the personal and chattel properties should have a ready buyer before it can be booked as Assets held-for-sale or the Bank is committed to dispose the properties through active marketing and disposal program in case the sale will not happen within one year. Accounts with no ready buyers were classified as Investment Properties for real properties and as Repossessed chattels and other equipment under Other Resources account for other properties.

FOR APPROVAL
Signature: ________________
Position: __________________
Date: ______________________

(e) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.11 and relevant disclosures on those provisions and contingencies are presented in Note 25. In dealing with the Bank's various legal proceedings, the Bank's estimate of the probable costs that may arise from claims and contingencies has been developed in consultation and coordination with the Bank's internal and external legal counsels acting in defense for the Bank's legal cases and are based upon the analysis of probable results. Although the Bank does not believe that its on-going legal proceeding will have a material adverse effect on the Bank's financial position, it is possible that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies conducted relating to those proceedings.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

(a) *Estimating Impairment Losses on Loans and Receivables*

Adequate amount of allowance for impairment is provided for specific and groups of accounts, where objective evidence of impairment exists. The Bank evaluates the amount of allowance for impairment based on available facts and circumstances affecting the collectability of the accounts, including, but not limited to, the length of the Bank's relationship with the borrowers, the borrowers' current credit status, average age of accounts, value of the collaterals, collection experience and historical loss experience. The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

The carrying value of loans and receivables and the analysis of allowance for impairment on such financial assets are shown in Note 11.

(b) *Determining Fair Value Measurement for AFS Securities*

The Bank carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument. The amount of changes in fair value would differ if the Bank utilized different valuation methods and assumptions. Any change in fair value of these financial assets would affect profit or loss and other comprehensive income.

The carrying amount of the Bank's AFS securities and the changes in the fair value recognized on those financial assets are shown in Note 10.

FOR APPROVAL
Signature: ________________
Position: ________________
Date: ____________________

(c) Estimating Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Buildings classified as Investment Properties, and Computer Software presented as part of Other Resources

The Bank estimates the useful lives of bank premises, furniture, fixtures, and equipment, buildings, and computer software are based on the period over which the assets are expected to be available for use. The estimated useful lives of those assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of these assets are presented in Notes 12, 13 and 14. Based on management's assessment as at December 31, 2017 and 2016, there is no change in the estimated useful lives of these assets during the year. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(d) Fair Value Measurement for Investment Properties

The Bank's investment properties are composed of parcels of land and buildings acquired from defaulting borrowers and are not held for sale within the next twelve months from the end of reporting period. The estimated fair values of these assets, as disclosed in Notes 6 and 13, are determined by in-house and independent appraisers applying the relevant valuation methodologies as described therein.

For investment properties with appraisal conducted prior to the end of the reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of the fair value of those properties.

A significant change in key inputs and sources of information used in the determination of the fair value disclosed for those assets may result in adjustment in the carrying amount of the assets reported in the financial statements if their fair value will indicate evidence of impairment.

(e) Determining Realizable Amount of Deferred Tax Assets

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management assessed that the carrying amount of deferred tax assets recognized in the statements of financial position as disclosed in Note 20 can be utilized in the coming years or within their prescriptive period.

(f) Estimating Impairment of Non-financial Assets

Except for intangible assets with indefinite useful lives, which are tested for impairment at least annually, PFRS requires that an impairment review be performed when certain impairment indications are present. In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.15). Though management believes that the assumptions used in the estimation of fair values of non-financial assets are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amount and any resulting impairment loss could have a material adverse effect on the Bank's results of operations.

Based on management's assessment, certain non-financial assets related to jewelry items were found impaired as of December 31, 2017 and 2016; hence, adequate amounts of allowance for impairment loss have been recognized, as discussed in Note 14.1.

(g) Valuation of Post-employment Defined Benefit Plan

The determination of the amounts of post-employment benefit obligation is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates and expected rate of salary increases. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or loss, and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit obligation, as well as the effect of the changes in the assumptions used in estimating such obligation are presented in Note 19.2.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

By their nature, the Bank's activities are principally related to the use of financial instruments. The Bank accepts deposits from customers at a fixed rate, and for various periods, and seeks to earn above-average interest margins by investing these funds in high-quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Bank's Risk Management Committee (RMC) has overall responsibility for the Bank's risk management systems and sets risks management policies across the full range of risks to which the Bank is exposed. The Bank's RMC places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. It provides written principles for overall risk management, as well as written policies covering specific areas, such as credit risk, liquidity risk, foreign exchange risk, and investment of excess liquidity.

4.1 Credit Risk

Credit risk is the risk that the counterparty in a transaction may default in payments and it arises from lending, treasury, and other activities undertaken by the Bank. The Bank manages its credit risk and loan portfolio through the Accounts Management Department (AMD), which undertakes several functions with respect to credit risk management. Impairment provisions are provided for losses that have been incurred at the end of the reporting period. Significant changes in the economy, or in the health of a particular industry segments that represents a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the end of the reporting period. Management, therefore, carefully manages its exposure to credit risk.

The Credit Review Office (CRRO) undertakes credit analysis and review to ensure consistency in the Bank's risk assessment process. The AMD performs risk ratings for all accounts subject to validation of the CRRO. It also ensures that the Bank's credit policies and procedures are adequate to meet the demands of the business.

The AMD also undertakes portfolio management by reviewing the Bank's loan portfolio, including the portfolio risks associated with particular industry sectors, loan size and maturity, and development of a strategy for the Bank to achieve its desired portfolio mix and risk profile.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

The AMD reviews the Bank's loan portfolio in line with the Bank's policy of not having significant unwarranted concentrations of exposure to individual counterparties, in accordance with the BSP's prohibitions on maintaining a financial exposure to any single person or group of connected persons in excess of 25% of its net worth.

Loan classification is an integral part of the Bank's management of credit risk. On a quarterly basis, loans are reviewed, classified and rated based on internal and external factors that affect their performance. On a quarterly basis, loan classifications of impaired accounts are assessed and the results are used as basis for the review of loan loss provisions.

Generally, accounts are classified by the Bank based on the loan credit quality as follows:

(a) Unclassified

These are individual credits that do not have a greater-than-normal risk and do not possess the characteristics of adversely classified loans as defined below. These are credits that have the apparent ability to satisfy their obligations in full and therefore, no loss in ultimate collection is anticipated. These are adequately secured by readily marketable collateral or other forms of support security or are supported by sufficient credit and financial information of favorable nature to assure repayment as agreed.

(b) Loans Especially Mentioned (LEM)

Accounts classified as LEM are individual credits that have potential weaknesses particularly on documentation or credit administration that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment prospects of the loan and thus heighten the credit risk to the Bank.

A credit may also be classified as LEM if there is evidence of weakness in the borrower's financial condition or credit worthiness, or the credit is subject to an unrealistic repayment program or inadequate source of funds.

(c) Substandard

Accounts classified as "Substandard" are individual credits or portions thereof, which appear to involve a substantial and unreasonable degree of risk to the Bank because of unfavorable record or unsatisfactory characteristics. There exists in such accounts the possibility of future loss to the Bank unless given closer supervision. Those classified as "Substandard" must have a well-defined weakness or weaknesses that jeopardize their liquidation. Such well-defined weaknesses may include adverse trends or development of financial, managerial, economic or political nature, or a significant weakness in collateral.

(d) Doubtful

Accounts classified as "Doubtful" are individual credits or portions thereof which have the weaknesses inherent in those classified as "Substandard", with the added characteristics that existing facts, conditions and values make collection or liquidation in full highly improbable and in which substantial loss is probable. Positive and vigorous action is required to avert or minimize losses.

(e) Loss

Accounts classified as "Loss" are individual credits or portions thereof which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. The amount of loss is difficult to measure and it is not practical or desirable to defer writing off these basically worthless assets even though partial recovery may be obtained in the future.

These loan classifications are also used by the Bank as inputs and basis in determining the impairment losses as described in Note 2.3.

FOR APPROVAL
Signature: _______________
Position: _______________
Date: _______________

4.1.1 Exposure to Credit Risk

The carrying amount of financial assets recognized in the financial statements, represents the Bank's maximum exposure to credit risk without taking into account the value of any collateral obtained and allowance for impairment recognized. The table below shows the credit quality by class of financial assets as of December 31, 2017.

	Neither Past Due nor Specifically Impaired			
	High Grade	**Standard Grade**	**Past Due and Individually Impaired**	**Total**
Cash and other cash items	P 67,206,772	P -	P -	P 67,206,772
Due from BSP	586,867,698	-	-	586,867,698
Due from other banks	371,071,330	-	-	371,071,330
Loans and receivables arising from reverse repurchase agreement	237,908,872	-	-	237,908,872
AFS securities	212,293,701	-	50,000	212,343,701
Loans and receivables (gross)	1,878,041,517	14,754,899	193,808,725	2,086,605,141
Other resources	11,997,598	-	-	11,997,598
	P3,365,387,488	**P 14,754,899**	**P 193,858,725**	**P 3,574,001,112**

The credit quality by class of financial assets as of December 31, 2016 follows:

	Neither Past Due nor Specifically Impaired			
	High Grade	Standard Grade	Past Due and Individually Impaired	Total
Cash and other cash items	P 100,187,703	P -	P -	P 100,187,703
Due from BSP	365,833,736	-	-	365,833,736
Due from other banks	185,888,730	-	-	185,888,730
Loans and receivables arising from reverse repurchase agreement	315,569,609	-	-	315,569,609
AFS securities	167,648,469	-	-	167,648,469
Loans and receivables (gross)	2,286,324,908	13,403,388	120,218,996	2,419,947,292
Other resources	11,344,455	-	-	11,344,455
	P3,432,797,610	P 13,403,388	P 120,218,996	P3,566,419,994

The Bank is able to manage the credit risk arising from its deposits with other banks as the banks where these deposits are made have high reputation and good credit standing. Moreover, due from other banks are insured by the Philippine Deposit Insurance Corporation (PDIC) up to a maximum coverage of P0.5 million for every depositor per banking institution, as provided for under RA 9576, *Amendment to Charter of PDIC*.

The Due from BSP account represents the aggregate balance of interest-bearing and noninterest-bearing deposit accounts in local currency maintained by the Bank with the BSP primarily to meet reserve requirements and to serve as clearing account for interbank claims; hence, no significant credit risk is anticipated for this account.

AFS securities exposed to credit risk as of December 31, 2017 and 2016 pertain to quoted and unquoted government and corporate debt securities (see Note 10).

FOR APPROVAL
Signature: ______________
Position: ______________
Date: ______________

The Bank holds collateral against loans and receivables in the form of mortgage interests over property, other registered securities over assets and guarantees. An estimate of the fair value of collateral and other security enhancements held against loans and receivables is shown below.

	2017	2016
Against past due and impaired –		
Properties	**P 380,979,264**	P 800,177,158
Against neither past due nor impaired:		
Properties	**3,189,058,368**	7,441,374,027
Jewelries	**199,138,137**	197,316,795
Hold-out deposits	**23,651,103**	415,226,386
	P3,792,826,872	P8,854,094,366

4.1.2 Concentration of Credit Risk

The Bank monitors concentrations of credit risk by industry. An analysis of concentrations of credit risk at the end of the reporting period is shown below.

	Due from BSP, Other Banks and Loans and Reverse Repurchase Agreements	**Loans and Receivables**	**AFS Securities**
December 31, 2017			
Financial intermediaries	P 1,195,847,900	P 8,793,761	P -
Other community, social and personal activities	-	214,306,978	-
Consumption	-	251,208,324	-
Real estate, renting and other related activities	-	812,619,558	-
Wholesale and retail trade	-	235,367,710	-
Agriculture, fishing and forestry	-	38,439,240	-
Manufacturing (various industries)	-	40,164,010	-
Others	-	484,705,560	212,343,701
	P 1,195,847,900	**P 2,086,605,141**	**P 212,343,701**
December 31, 2016			
Financial intermediaries	P 867,292,075	P 404,793,761	P -
Other community, social and personal activities	-	722,372,859	-
Consumption	-	249,561,268	-
Real estate, renting and other related activities	-	685,083,046	-
Wholesale and retail trade	-	201,298,934	-
Agriculture, fishing and forestry	-	37,127,443	-
Manufacturing (various industries)	-	76,221,990	-
Others	-	43,487,991	167,648,469
	P 867,292,075	P 2,419,947,292	P 167,648,469

FOR APPROVAL
Signature: ______________
Position: ______________
Date: ______________

4.2 Liquidity Risk

Liquidity risk is the risk that there are insufficient funds available to adequately meet the credit demands of the Bank's customers and repay deposits on maturity. The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure that short-term funding requirements are met. In addition, the Bank seeks to maintain sufficient liquidity to take advantage of interest rate and exchange rate opportunities when they arise.

The analysis of the maturity profile of resources, liabilities and off-statement of financial position items as of December 31, 2017 and 2016 in accordance with the account classification of the BSP, are presented as follows:

	Within three months	Within three months to one year	Within one year to five years	More than five years	Total
December 31, 2017					
Resources:					
Cash and other cash items	P 67,206,772	P -	P -	P -	P 67,206,772
Due from BSP	586,867,698	-	-	-	586,867,698
Due from other banks	352,922,838	18,148,492	-	-	371,071,330
Loans and receivables arising from reverse repurchase agreement	237,908,872	-	-	-	237,908,872
AFS securities	138,712,486	-	22,081,821	258,932,063	419,726,370
Loans and receivables	483,039,675	500,259,101	513,440,624	490,358,305	1,987,097,705
Other resources	56,165,843	104,911,125	184,011,003	121,024,431	466,112,402
Total Resources	1,922,824,184	623,318,718	719,533,448	870,314,799	4,135,991,149
Liabilities and Equity:					
Deposit liabilities	3,114,222,700	185,815,229	61,771,756	-	3,361,809,685
Other liabilities	67,872,676	-	13,825,060	-	81,697,736
Total liabilities	3,182,095,376	185,815,229	75,596,816	-	3,443,507,421
Equity	-	-	-	692,483,728	692,483,728
Total Liabilities and Equity	3,182,095,376	185,815,229	75,596,816	692,483,728	4,135,991,149
On-book gap	(1,259,271,192)	437,503,489	643,936,632	177,831,071	-
Cumulative on-book gap	(1,259,271,192)	(821,767,703)	(177,831,071)	-	-
Contingent assets	129,308,047	-	-	-	129,308,047
Contingent liabilities	(14,442,549)	(2,016,800)	(896,298,788)	(25,160,078)	(937,918,216)
Off-book gap	114,865,498	(2,016,800)	(896,298,788)	(25,160,078)	(808,610,168)
Cumulative off-book gap	114,865,498	112,848,698	(783,450,090)	(808,610,168)	-
Cumulative total gap	**(P 1,144,405,694)**	**(P 708,919,005)**	**(P 961,281,161)**	**(P 808,610,168)**	**P -**

	Within three months	Within three months to one year	Within one year to five years	More than five years	Total
December 31, 2016					
Resources:					
Cash and other cash items	P 100,187,703	P -	P -	P -	P 100,187,703
Due from BSP	365,833,736	-	-	-	365,833,736
Due from other banks	156,291,352	29,597,378	-	-	185,888,730
Loans and receivables arising from reverse repurchase agreement	315,569,609	-	-	-	315,569,609
AFS securities	105,689,450	-	56,722,923	227,311,086	389,723,459
Loans and receivables	440,317,190	877,664,993	352,948,076	670,725,936	2,341,656,195
Other resources	87,914,275	185,241,036	200,178,870	36,153,333	509,487,514
Total Resources	1,571,803,315	1,092,503,407	609,849,869	934,190,355	4,208,346,946
Liabilities and Equity:					
Deposit liabilities	3,055,465,309	135,798,458	203,697,687	-	3,394,961,454
Other liabilities	104,425,790	-	16,188,382	-	120,614,172
Total liabilities	3,159,891,099	135,798,458	219,886,069	-	3,515,575,626
Equity	-	-	-	692,771,320	692,771,320
Total Liabilities and Equity	3,159,891,099	135,798,458	219,886,069	692,771,320	4,208,346,946
On-book gap	(1,581,934,712)	950,551,877	389,963,800	241,419,035	-
Cumulative on-book gap	(1,581,934,712)	(631,382,835)	(241,419,035)	-	-
Contingent assets	53,748,197	-	-	-	53,748,197
Contingent liabilities	(462,800,517)	(9,784,214)	(118,127,79)	(224,073,890)	(814,786,414)
Off-book gap	(409,052,320)	(9,784,214)	(118,127,793)	(224,073,890)	(761,038,217)
Cumulative off-book gap	(409,052,320)	(418,836,534)	(536,964,327)	(761,038,217)	-
Cumulative total gap	(P 1,990,987,032)	(P 1,050,219,369)	(P 778,383,362)	(P 761,038,217)	P -

The Bank continually assesses business opportunities and strategies where it can effectively and sufficiently match its short-term funding requirements with adequate liquid assets through taking customers' deposits with longer maturities and originating loans with periodic repayments enough to cover credit demands of customers.

The contractual maturities of the Bank's financial liabilities as of December 31, 2017 and 2016 are presented below.

	Within three months	**Within three months to one year**	**Within one year to five years**	**Total**
December 31, 2017				
Deposit liabilities	P 3,114,222,700	P 185,815,229	P 61,771,756	3,361,809,685
Other liabilities	68,849,899	-	-	68,849,899
	P 3,183,072,599	**P 185,815,229**	**P 61,771,756**	**P3,430,659,584**
December 31, 2016				
Deposit liabilities	P 3,055,465,309	P 135,798,458	P 203,697,687	3,394,961,454
Other liabilities	103,449,146	-	-	103,449,146
	P 3,158,914,455	P 135,798,458	P 203,697,687	P3,498,410,600

4.3 Foreign Exchange Risk

The Bank manages its exposure to the effects of fluctuations in the foreign currency exchange rates by maintaining foreign currency exposure within the existing regulatory guidelines and at a level that it believes to be relatively conservative for a financial institution engaged in that type of business.

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Signature: ______________
Position: ______________
Date: ______________

The Bank's net foreign currency exposure is computed as its foreign currency-denominated resources less foreign currency-denominated liabilities. BSP regulations impose a cap of 2.5% of net worth, or US$5 million, whichever is lower, on the consolidated excess foreign currency holding of banks in the Philippines. In the case of the Bank, its foreign currency exposure is primarily limited to the day-to-day, over-the-counter buying and selling of foreign currency in the Bank's branches. The Bank's foreign currency exposure on each day is guided by the limits set forth in the Bank's Risk Management Manual. These limits are within the prescribed ceilings mandated by the BSP. At the end of each day, the Bank reports to the BSP on its compliance with the mandated foreign currency exposure limits.

Foreign currency-denominated assets and liabilities as of December 31, 2017 and 2016 translated to closing rates consist of the following:

	2017		2016	
	US Dollar	**Philippine Peso**	US Dollar	Philippine Peso
Due from other banks	**$ 5,818,569**	**P290,521,154**	$ 2,177,804	P108,280,413
Cash and other cash items	**19,508**	**974,015**	26,826	1,333,789
Loans and receivables - net	**9,904**	**494,496**	6,673	331,795
Deposit liabilities	**(5,842,739)**	**(291,727,967)**	(2,089,896)	(103,909,618)
Other liabilities	**(5,224)**	**(260,799)**	(2,786)	(138,522)
Short-term exposure	**$ 18**	**P 899**	$ 118,621	P 5,897,857

The sensitivity of the net profit before tax and equity in regards to the Bank's financial assets and financial liabilities and the US dollar – Philippine peso exchange rate assumes a +/- 12.93% change and +/- 10.42% change in the Philippine peso/US dollar exchange rate for the years ended December 31, 2017 and 2016, respectively. These percentage changes have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months, estimated at 99% confidence level.

As the Bank's foreign currency exposure in both years as shown above is minimal, management has assessed that the effects of changes in the foreign exchange rate to the Bank's results of operations are not significant.

Exposures to foreign exchange rates vary during the year depending on the volume of the Bank's foreign currency deposit unit transactions.

4.4 Interest Rate Risk

The Bank's policy is to minimize interest rate cash flow risk exposures. The Bank's cash flow interest rate risk relates primarily to the possible changes in the prevailing interest rates of due from other banks, AFS debt securities – bonds and floating rate loans. The volatility in the interest rates of these financial instruments will result to an increase or decrease of the Bank's interest spread, and consequently will affect its financial performance. The due from BSP was not included in the cash flow interest rate sensitivity since the potential effects on net profit or loss before tax and equity will be immaterial. All other financial assets and financial liabilities have fixed rates.

FOR APPROVAL
Signature: ______________
Position: ______________
Date: ______________

The table below illustrates the sensitivity of the Bank's loss before tax and equity to a reasonably possible change in interest rates of the assets mentioned above. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Bank's financial instruments held at the end of each reporting period. All other variables are held constant.

	Sensitivity Rate +/- %	Loss Before Tax	Equity
December 31, 2017			
Loans and receivables	0.04%	(P 879,474)	P 615,632
AFS securities – bonds	0.04%	(128,820)	90,174
Due from other banks	0.06%	(550,671)	385,470
		(P 1,558,965)	**P 1,091,276**
December 31, 2016			
Loans and receivables	0.10%	(P 2,186,941)	P 1,530,859
AFS securities – bonds	0.06%	(211,852)	148,296
Due from other banks	0.05%	(87,182)	61,027
		(P 2,485,975)	P 1,740,182

The Bank's loan portfolio includes floating rate loans, which are repriced periodically by reference to the transfer pool rate which reflects the Bank's internal cost of funds. The changes in interest rates used in the analysis have been determined based on the average volatility in interest rates of the said resources, using standard deviation, in the previous 12 months.

5. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.1 Carrying Amounts and Fair Values by Category

The following table presents a comparison by category of the carrying amounts and estimated fair values of the Bank's financial assets and financial liabilities:

	Notes	**2017** Carrying Amounts	**2017** Fair Values	2016 Carrying Amounts	2016 Fair Values
Financial Assets					
Loans and receivables:					
Cash and other cash items		**P 67,206,772**	**P 67,206,772**	P 100,187,703	P 100,187,703
Due from BSP	7	**586,867,698**	**586,867,698**	365,833,736	365,833,736
Due from other banks	8	**371,071,330**	**371,071,330**	185,888,730	185,888,730
Loans and receivables arising from reverse repurchase agreement	9	**237,908,872**	**237,908,872**	315,569,609	315,569,609
Loans and receivables - net	11	**1,987,097,705**	**2,127,790,114**	2,341,656,195	2,490,549,523
Other resources	14	**11,997,598**	**11,997,598**	11,344,455	11,344,455
AFS securities	10	**346,183,518**	**346,183,518**	290,294,891	290,294,891
		P 3,608,333,493	**P 3,749,025,902**	P 3,610,775,319	P 3,759,668,647
Financial Liabilities					
At amortized cost:					
Deposit liabilities	15	**P 3,361,809,685**	**P 3,361,809,685**	P 3,394,961,454	P 3,394,961,454
Other liabilities	16	**68,849,899**	**68,849,899**	103,449,146	103,449,146
		P 3,430,659,584	**P 3,430,659,584**	P 3,498,410,600	P 3,498,410,600

The amounts of AFS securities as of December 31, 2017 and 2016 do not include investments totaling P73.5 million and P99.4 million, respectively, which are composed of debt and equity securities that are carried at cost as their fair values cannot be determined (see Note 10).

See Notes 2.3 and 2.9 for the description of the accounting policies for each category of financial instruments. A description of the Bank's risk management objectives and policies for financial instruments is provided in Note 4.

5.2 Offsetting of Financial Assets and Financial Liabilities

The following financial assets presented in the statements of financial position at gross amounts are covered by enforceable master netting arrangements and similar arrangements:

	Gross amounts recognized in the statements of financial position	Related amounts not set off in the statements of financial position		Net amount
		Financial Instruments	Collateral received	
Loans and receivables –				
Receivables from customers				
December 31, 2017	**P 1,987,097,705**	**(P 23,651,103)**	**P -**	**P 1,963,446,602**
December 31, 2016	P 2,327,174,617	(P 415,226,386)	P -	P 1,911,948,231

The following financial liabilities presented in the statements of financial position at gross amounts are covered by enforceable master netting arrangements and similar agreements:

	Gross amounts recognized in the statements of financial position	Related amounts not set off in the statements of financial position		Net amount
		Financial Instruments	Collateral received	
Deposit liabilities –				
December 31, 2017	**P 3,361,809,685**	**(P 23,651,103)**	**P -**	**P 3,338,158,582**
December 31, 2016	P 3,394,961,454	(P 415,226,386)	P -	P 2,979,735,068

For financial assets and financial liabilities (i.e., receivable from customers and their corresponding hold-out deposits) subject to enforceable master netting agreements or similar arrangements, each agreement between the Bank and counterparties allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis; however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

FOR APPROVAL
Signature: ______________
Position: ______________
Date: ______________

6. FAIR VALUE MEASUREMENT AND DISCLOSURES

6.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement,* the fair value of financial assets and liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Bank uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

6.2 Financial Instruments Measurement at Fair Value

The table below shows the fair value hierarchy of the Bank's classes of financial assets measured at fair value in the statements of financial position on a recurring basis as of December 31, 2017 and 2016.

	Level 1	Level 2	Total
December 31, 2017			
AFS securities:			
Debt securities			
Corporate bonds	P 88,427,428	P -	P 88,427,428
Government securities	100,373,421	-	100,373,421
Equity securities	133,332,669	-	133,332,669
Proprietary club shares	-	24,050,000	24,050,000
	P 322,133,518	**P 24,050,000**	**P 346,183,518**

FOR APPROVAL
Signature: ______________
Position: ______________
Date: ______________

	Level 1	Level 2	Total
December 31, 2016			
AFS securities:			
Debt securities			
Corporate bonds	P 77,718,999	P -	P 77,718,999
Government securities	40,500,902	-	40,500,902
Equity securities	152,034,990	-	152,034,990
Proprietary club shares	-	20,040,000	20,040,000
	P270,254,891	P 20,040,000	P 290,294,891

The amounts of AFS securities as of December 31, 2017 and 2016 do not include investments totaling to P73.5 million and P99.4 million, respectively, which are composed of debt and equity securities that are carried at cost as their fair values cannot be determined (see Note 10).

The Bank has no financial liabilities measured at fair value as of December 31, 2017 and 2016.

There were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in both years.

Described below are the information about how the fair values of the Bank's AFS financial assets are determined.

(a) *Equity securities*

The fair values of equity securities were valued based on their market prices quoted in the Philippine Stock Exchange at the end of each reporting period, hence, included in Level 1.

(b) *Debt Securities*

The fair value of the Bank's debt securities which consist of government bonds categorized within Level 1 is determined directly based on published bid prices available from the electronic financial data service providers which had been based on price quoted or actually dealt in an active market at the end of each reporting period.

(c) *Propriety Club Shares*

Proprietary golf club shares are included in Level 2 as their prices are not derived from market considered as active due to lack of trading activities among market participants at the end or close to the end of each reporting period.

FOR APPROVAL
Signature: ______________
Position: ______________
Date: ______________

6.3 *Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed*

The table below summarizes the fair value hierarchy of the Bank's financial assets and liabilities which are not measured at fair value in the statements of financial position but for which fair values is disclosed.

	Level 1	Level 2	Level 3	Total
December 31, 2017				
Financial assets:				
Loans and receivables:				
Cash and other cash items	P 67,206,772	P -	P -	P 67,206,772
Due from BSP	586,867,698	-	-	586,867,698
Due from other banks	371,071,330	-	-	371,071,330
Loans and receivables arising from reverse repurchase agreement	237,908,872	-	-	237,908,872
Loans and receivables - net	-	-	2,127,790,114	2,127,790,114
Other resources	-	-	11,997,598	11,997,598
	P 1,263,054,672	P -	P 2,139,787,712	P 3,402,842,384
Financial liabilities:				
At amortized cost:				
Deposit liabilities	P -	P -	P 3,361,809,685	P 3,361,809,685
Other liabilities	-	-	68,849,899	68,849,899
	P -	P -	P 3,430,659,584	P 3,430,659,584
December 31, 2016				
Financial assets:				
Loans and receivables:				
Cash and other cash items	P 100,187,703	P -	P -	P 100,187,703
Due from BSP	365,833,736	-	-	365,833,736
Due from other banks	185,888,730	-	-	185,888,730
Loans and receivables arising from reverse repurchase agreement	315,569,609	-	-	315,569,609
Loans and receivables - net	-	-	2,341,656,195	2,341,656,195
Other resources	-	-	11,344,455	11,344,455
	P 967,479,778	P -	P 2,353,000,650	P 3,320,480,428
Financial liabilities:				
At amortized cost:				
Deposit liabilities	P -	P -	P 3,394,961,454	P 3,394,961,454
Other liabilities	-	-	103,449,146	103,449,146
	P -	P -	P 3,498,410,600	P 3,498,410,600

Fair values of the foregoing financial assets and financial liabilities measured and presented in the statements of financial position at amortized cost are estimated as follows:

(a) *Due from BSP and Other Banks, and Loans and Receivables Arising from Reverse Repurchase Agreement*

Due from BSP pertains to deposits made by the Bank to the BSP for clearing and reserve requirements, overnight and term deposit facilities, while loans and receivables arising from reverse repurchase agreement pertain to loans and receivables from BSP arising from overnight lending from excess liquidity. Due from other banks includes items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on the discounted cash flows using prevailing money market interest rates for debt with similar credit risk and remaining maturity, which for short-term deposits approximate the nominal value.

FOR APPROVAL
Signature: ______________
Position: ______________
Date: ______________

(b) *Loans and Receivables and Other Resources*

Loans and receivables and certain accounts under other resources are net of any impairment losses. The estimated fair value of loans and receivables and other resources represents the discounted amount of estimated future cash flows expected to be received for instruments with maturities of beyond one year. Expected cash flows are discounted at current market rates to determine fair value.

(c) *Deposit Liabilities*

The estimated fair value of demand deposits with no stated maturity, which includes noninterest-bearing deposits, is the amount repayable on demand. The estimated fair value of interest-bearing deposits without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The carrying amounts of deposits which are generally short-term in nature approximate their fair values. Moreover, for long-term deposit liabilities, the carrying amount approximates the fair vaue as the Bank does not significantly change the interest rates from previous years.

(d) *Other Liabilities*

Other liabilities are recognized initially at their fair value and subsequently measured at amounts to which they are to be paid. Fair value of these short-term liabilities approximates their carrying values.

6.4 Fair Value Disclosures for Investment Properties

The total estimated fair values of the Bank's investment properties amounted to P94.1 million and P75.2 million as of December 31, 2017 and 2016, respectively. The fair value hierarchy of those properties categorized as Level 3, are shown below.

	2017	2016
Land	**P 52,265,758**	P 63,677,207
Buildings	**41,814,715**	11,520,587
	P 94,080,473	P 75,197,794

The fair values disclosed for the Bank's investment properties as of December 31, 2017 and 2016 were based on the appraisals performed by the Bank's in-house and independent and qualified appraisers having appropriate and recent experience in the fair value measurement of similar properties in the relevant locations. To some extent, the valuation process was conducted by the appraisers in discussion with the Bank's management with respect to the determination of the inputs such as the size, age, and condition of the land and building, and the comparable prices in the corresponding property location. In estimating the fair values of the investment properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Bank's investment properties is their current use.

The fair values of the Bank's investment properties were determined based on the following approaches:

(a) *Fair Value Measurement for Land*

The Level 3 fair value of land was derived using the observable recent prices of the reference properties and was adjusted for differences in key attributes such as property size, zoning, and accessibility. The most significant input into this valuation approach is the price per square meter; hence, the higher the price per square meter, the higher the fair value of the properties.

(b) *Fair Value Measurement for Buildings*

The Level 3 fair value of the buildings was determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

There has been no change to the valuation techniques used during the year. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2017 and 2016.

7. DUE FROM BANGKO SENTRAL NG PILIPINAS

The balance of this account consists of the following:

	2017	2016
Demand deposit	**P 238,867,698**	P 271,833,736
Overnight deposit facility	**48,000,000**	94,000,000
Term deposit facility	**300,000,000**	-
	P 586,867,698	P 365,833,736

The aggregate balance of noninterest-bearing Demand Deposit Account, and interest-bearing Overnight Deposit Facility and Special Deposit Accounts, all denominated in local currency, are maintained with the BSP primarily to meet a portion of the reserve requirements and to serve as a clearing account for interbank claims.

Interest-bearing deposits with the BSP bear annual interest at rates ranging from 2.50% to 3.50% in 2017 and 2.50% in both 2016 and 2015. Total interest earned from these deposits amounted to P8.9 million, P7.7 million and P19.8 million in 2017, 2016 and 2015, respectively, and are shown as part of the Interest Income on Due from BSP and Other Banks and Receivables Arising from Reverse Repurchase Agreement account in the statements of profit or loss.

FOR APPROVAL
Signature: _______________
Position: _________________
Date: ____________________

8. DUE FROM OTHER BANKS

This account represents deposits with local banks which are composed of the following:

	2017	2016
Time deposits	**P 297,702,621**	P 105,720,328
Savings deposits	**73,368,709**	80,168,402
	P 371,071,330	P 185,888,730

Savings deposits represent clearing and other depository accounts with other banks which bear annual interest rates ranging from 0.25% to 0.50% in 2017 and from 0.25% to 0.88% in 2016 and 2015.

Time deposits include special savings deposits, which bear annual effective interest rates ranging from 1.00% to 2.16% in 2017 and 2016 while from 1.00% to 2.50% in 2015, and have average maturities of one to 12 months.

Interest income earned from these savings and time deposits amounted to P2.0 million in 2017 and P1.5 million in both 2016 and 2015, and is shown as part of Interest Income on Due from BSP and Other Banks and Receivables Arising from Reverse Repurchase Agreement account in the statements of profit or loss.

The breakdown of this account by currency is as follows:

	2017	2016
Philippine peso	**P 66,949,190**	P 77,608,316
United States dollar	**304,122,140**	108,280,414
	P 371,071,330	P 185,888,730

For statements of cash flows purposes, deposits amounting to P18.1 million and P29.6 million as of December 31, 2017 and 2016, respectively, are not considered as cash and cash equivalents since these have maturities of more than three months (see Note 26).

9. LOANS AND RECEIVABLES ARISING FROM REVERSE REPURCHASE AGREEMENT

The Bank has loans and receivables from BSP as of December 31, 2017 and 2016 from overnight lending from excess liquidity which earn annual effective interest of 3.00% in 2017 and 2016. These loans normally mature within 30 days. Interest income earned from these financial assets amounted to P3.4 million in 2017 and P1.5 million in 2016 (nil in 2015), and is shown as part of Interest Income on Due from BSP and Other Banks and Receivables Arising from Reverse Repurchase Agreement account in the statements of profit or loss.

10. AVAILABLE-FOR-SALE SECURITIES

The breakdown of AFS securities as to type of instrument is shown below.

	2017	2016
Equity securities:		
Quoted	**P 133,332,669**	P 152,034,990
Unquoted	**50,000,000**	50,000,000
Government debt securities:		
Quoted	**100,373,421**	40,500,902
Unquoted	**23,542,852**	29,428,568
Corporate bonds:		
Quoted	**88,427,428**	77,718,999
Unquoted	**-**	20,000,000
Quoted proprietary club shares	**24,050,000**	20,040,000
	P 419,726,370	P 389,723,459

The maturity profile of the AFS securities at amortized cost follows:

	2017	2016
Within one year	**P 138,712,486**	P 105,689,450
Beyond one year	**281,013,884**	284,034,009
	P 419,726,370	P 389,723,459

Unquoted equity securities pertain to non-marketable preference shares issued by a private corporation. These securities earned dividends amounting to P4.4 million, P3.7 million and P2.3 million in 2017, 2016 and 2015, respectively, and is recognized as part of Dividends under Miscellaneous income in the statements of profit or loss (see Note 18.1).

Unquoted government debt securities are composed of debt securities issued by the local government of Infanta, Quezon. These securities earn an annual effective interest rate of 5.5%, 4.7%, and 5.7% in 2017, 2016 and 2015, respectively.

Unquoted corporate debt securities in 2016 pertain to debt securities issued by a private corporation which matured in 2017. This earns an annual effective interest rate of 4.3%.

All unquoted securities are carried at cost as the fair value of these securities cannot be determined.

Quoted equity securities pertain to shares of stock of domestic corporations whose shares of stock are publicly traded in the PSE. These securities earned dividends amounting to P8.5 million in 2017 and P7.4 million in 2016 (nil in 2015) and is presented as part of Dividends under Miscellaneous Income account in the 2017 and 2016 statements of profit or loss (see Note 18.1).

Quoted government debt securities represent debt securities issued by the Republic of the Philippines, which earn annual effective interests ranging from 5.0% to 6.4% in 2017, 2016 and 2015. These securities will mature in various dates within 2017 to 2037.

Quoted corporate bonds are marketable debt securities issued by top corporations in the Philippines. These debt securities earn annual effective interests ranging from 5.9% to 8.0% in 2017 and 4.5% to 6.7% in both 2016 and 2015.

Proprietary club shares consist of golf shares of Forest Hills Golf & Country Club, previously acquired from borrowers as settlement of loan, and of Wack Wack Golf & Country Club.

The Bank recognized impairment loss on the quoted proprietary club shares due to the prolonged decline amounting to P0.3 million (nil in 2016 and 2015) and is presented as part of Impairment Losses account in the 2017 statement of profit or loss.

The reconciliation of the carrying amounts of AFS securities follows:

	2017	2016
Balance at beginning of year	**P 389,723,459**	P 424,194,665
Acquisitions	**104,075,924**	131,000,000
Disposal/maturity	**(68,595,494)**	(167,323,996)
Amortization	**(10,425,420)**	(4,458,586)
Fair value gains	**4,947,901**	6,311,376
Balance at end of year	**P 419,726,370**	P 389,723,459

Unrealized fair value gains on AFS securities amounting to P4.9 million, P6.3 million, and P3.6 million in 2017, 2016 and 2015, respectively, were reported in Other Comprehensive Income, net of tax, and formed part of the Revaluation Reserves account in the statements of changes in equity (see Note 17.2).

Realized gains or losses amounting to P1.3 million, P3.0 million and P0.2 million in 2017, 2016 and 2015, respectively, arising from disposals of AFS securities are presented as Trading gain under Miscellaneous Income account in the statements of profit or loss (see Note 18.1).

Interest income earned by the Bank from AFS securities amounted to P9.0 million, P12.9 million and P7.5 million in 2017, 2016 and 2015, respectively, and is presented as Interest Income on Available-for-sale Securities account in the statements of profit or loss.

The fair values of quoted government debt securities and equity securities have been determined under Level 1 hierarchy, while proprietary club shares have been determined under Level 2 hierarchy (see Note 6.2).

Certain government securities amounting to P49.9 million and P10.0 million as of December 31, 2017 and 2016, respectively, were earmarked for trust duties and tagged as non-tradable by the Bureau of Treasury (see Note 21).

FOR APPROVAL
Signature: ______________
Position: ______________
Date: ______________

11. LOANS AND RECEIVABLES

The details of this account follow:

	Note	2017	2016
Receivables from customers		**P1,968,435,625**	P2,327,174,617
Sales contract receivables	12	**74,183,320**	49,284,684
Other receivables		**43,986,196**	43,487,991
		2,086,605,141	2,419,947,292
Unearned interests, discounts and other charges		**(2,631,311)**	(8,202,137)
Allowance for impairment		**(96,876,125)**	(70,088,960)
		P1,987,097,705	P2,341,656,195

Included in receivables from customers are non-accruing loans amounting to P155.4 million and P120.3 million as of December 31, 2017 and 2016, respectively.

Other receivables include accrued rent receivables amounting to P0.2 million and P0.5 million as of December 31, 2017 and 2016, respectively, which is recognized in accordance with PAS 17.

Receivables from customers are composed of the following:

	2017	2016
Time loans	**P1,740,172,228**	P1,768,151,849
Past due loans	**155,449,164**	93,174,583
Items in litigation	**38,359,562**	25,364,310
Bills discounted	**19,598,772**	413,400,386
Restructured loans	**14,754,899**	15,083,489
Bills purchased	**101,000**	12,000,000
	P 1,968,435,625	P2,327,174,617

Receivables from customers bear annual effective interest rates ranging from 1.13% to 36.00% in 2017 and from 1.1% to 55.0% in 2016 and 2015. Total interest earned amounted to P193.0 million, P187.7 million and P173.4 million in 2017, 2016 and 2015, respectively, and are presented as Interest income on loans and receivables in the statements of profit or loss.

The maturity profile of the Bank's receivables from customers follows:

	2017	2016
Within one year	**P1,010,073,403**	P 1,222,740,873
Beyond one year:		
Within five years	**601,860,423**	428,566,340
Beyond five years	**356,501,799**	675,867,404
	P1,968,435,625	P2,327,174,617

The breakdown of total receivables from customers as to type of interest rate follows:

	2017	2016
Variable interest rates	**P1,671,092,644**	P 1,526,909,746
Fixed interest rates	**297,342,981**	800,264,871
	P1,968,435,625	P2,327,174,617

The breakdown of total receivables from customers as to secured and unsecured and the type of security for secured accounts follows:

	2017	2016
Secured:		
Real estate mortgage	**P1,491,648,375**	P 1,381,587,820
Jewelries	**359,508,525**	376,797,388
Chattel mortgage	**64,440,728**	119,299,847
Hold-out deposit	**23,651,103**	414,672,117
	1,939,248,731	2,292,357,172
Unsecured	**29,186,894**	34,817,445
	P1,968,435,625	P2,327,174,617

Sales contract receivables represent the outstanding balance related to the sale of investment properties (see Note 13). The terms of payment ranges from 2 to 25 years in 2017 and 2016. Annual interest rates on these receivables range from 6.0% to 16.8% in 2017, 2016 and 2015.

Changes in the amounts of allowance for impairment of loans and receivables are summarized below.

	2017	2016
Balance at beginning of year	**P 70,088,960**	P 37,363,057
Impairment loss	**35,178,029**	34,837,957
Impairment recoveries	**(2,000,000)**	(2,112,054)
Transfers of allowance due to foreclosures	**(6,390,864)**	-
Balance at end of year	**P 96,876,125**	P 70,088,960

Also, the Bank collected certain loans and receivable, previously provided with allowance, amounting to P2.0 million and P2.1 million in 2017 and 2016, respectively.

The breakdown of allowance for impairment on loans and receivables is shown below.

	2017	2016
Receivables from customers	**P 80,568,678**	P 61,917,058
Sales contract receivables	**501,115**	501,115
Other receivables	**15,806,332**	7,670,787
	P 96,876,125	P 70,088,960

12. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment at the beginning and end of 2017 and 2016 are shown below.

	Land	Building and Improvements	Office Furniture, Fixtures and Equipment	Leasehold Improvements	Construction in Progress	Total
December 31, 2017						
Cost	P 71,375,102	P 137,597,653	P 159,313,116	P 41,955,540	P -	P 410,241,411
Accumulated depreciation and amortization	-	(51,230,491)	(134,034,619)	(23,528,300)	-	(208,793,410)
Net carrying amount	**P 71,375,102**	**P 86,367,162**	**P 25,278,497**	**P 18,427,240**	**P -**	**P 201,448,001**
December 31, 2016						
Cost	P 71,375,102	P 147,304,379	P 159,284,004	P 33,458,425	P 117,190	P 411,539,100
Accumulated depreciation and amortization	-	(56,677,876)	(121,864,608)	(18,372,097)	-	(196,914,581)
Net carrying amount	P 71,375,102	P 90,626,503	P 37,419,396	P 15,086,328	P 117,190	P 214,624,519
January 1, 2016						
Cost	P 71,375,102	P 146,991,449	P 146,778,162	P 32,314,166	P -	P 397,458,879
Accumulated depreciation and amortization	-	(51,416,754)	(107,638,178)	(13,903,346)	-	(172,958,278)
Net carrying amount	P 71,375,102	P 95,574,695	P 39,139,984	P 18,410,820	P -	P 224,500,601

A reconciliation of the carrying amounts of bank premises, furniture, fixtures and equipment at the beginning and end of 2017 and 2016, is shown below.

	Land	Building and Improvements	Office Furniture, Fixtures and Equipment	Leasehold Improvements	Construction in Progress	Total
Balance at January 1, 2017, net of accumulated depreciation and amortization	P 71,375,102	P 90,626,503	P 37,341,897	P 15,086,328	P 117,190	P 214,547,020
Additions	-	545,773	1,871,957	9,063,647	124,172	11,605,549
Disposals	-	(26,704)	(632,190)	-	(241,362)	(900,256)
Depreciation and amortization charges for the year	-	(4,778,410)	(13,303,167)	(5,722,735)	-	(23,804,312)
Balance at December 31, 2017, net of accumulated depreciation and amortization	**P 71,375,102**	**P 86,367,162**	**P 25,278,497**	**P 18,427,240**	**P -**	**P 201,448,001**
Balance at January 1, 2016, net of accumulated depreciation and amortization	P 71,375,102	P 95,574,695	P 39,139,985	P 18,410,820	P -	P 224,500,601
Additions	-	320,430	12,153,066	1,144,259	117,190	13,734,945
Disposals	-	(7,500)	(19,786)	-	-	(27,286)
Depreciation and amortization charges for the year	-	(5,261,122)	(13,853,869)	(4,468,750)	-	(23,583,741)
Balance at December 31, 2016, net of accumulated depreciation and amortization	P 71,375,102	P 90,626,503	P 37,419,396	P 15,086,327	P 117,190	P 214,624,519

Depreciation and amortization expenses amounting to P23.8 million, P24.1 million and P23.9 million in 2017, 2016 and 2015, respectively, and are shown as part of the Depreciation and Amortization account in the statements of profit or loss.

As of December 31, 2017 and 2016, the gross carrying amount of the Bank's fully-depreciated and fully amortized assets that are still used in operations amounts to P114.1 million and P75.7 million, respectively.

The BSP requires that investments in fixed assets do not exceed 50% of the Bank's unimpaired capital. As of December 31, 2017 and 2016, the Bank has satisfactorily complied with this BSP requirement.

13. INVESTMENT PROPERTIES

The gross carrying amounts and accumulated depreciation and impairment of investment properties at the beginning and end of 2017 and 2016 are shown below.

	Land	Buildings	Total
December 31, 2017			
Cost	P 52,265,758	P 34,807,933	P 87,073,691
Accumulated depreciation	-	(4,472,630)	(4,472,630)
Allowance for impairment	(550,090)	-	(550,090)
Net carrying amount	**P 51,715,668**	**P 30,335,303**	**P 82,050,971**
December 31, 2016			
Cost	P 63,677,207	P 11,520,587	P 75,197,794
Accumulated depreciation	-	(5,121,170)	(5,121,170)
Allowance for impairment	(550,090)	-	(550,090)
Net carrying amount	P 63,127,117	P 6,399,417	P 69,526,534
January 1, 2016			
Cost	P 20,466,468	P 13,231,862	P 33,698,330
Accumulated depreciation	-	(5,920,846)	(5,920,846)
Allowance for impairment	(550,090)	-	(550,090)
Net carrying amount	P 19,916,378	P 7,311,016	P 27,227,394

A reconciliation of the carrying amounts of investment properties at the beginning and end of 2017 and 2016 is shown below.

	Land	Buildings	Total
Balance at January 1, 2017, net of accumulated depreciation and impairment	P 63,127,117	P 6,399,417	P 69,526,534
Additions	5,998,159	34,689,727	40,687,886
Disposals	(17,409,608)	(5,432,993)	(22,842,601)
Depreciation charges for the year	-	(5,320,848)	(5,320,848)
Balance at December 31, 2017, net of accumulated depreciation and impairment	**P 51,715,668**	**P 30,335,303**	**P 82,050,971**
Balance at January 1, 2016, net of accumulated depreciation and impairment	P 19,916,378	P 7,311,016	P 27,227,394
Additions	45,994,365	3,322,487	49,316,852
Disposals	(2,783,626)	(3,431,644)	(6,215,270)
Depreciation charges for the year	-	(802,442)	(802,442)
Balance at December 31, 2016, net of accumulated depreciation and impairment	P 63,127,117	P 6,399,417	P 69,526,534

Additions in 2017 include real and other properties acquired through foreclosure of assets valued based on the carrying amount of the related loan and receivable (see Note 11). There were no similar transactions recognized in 2016.

Income earned by the Bank from its investment properties leased to third parties under operating lease agreements amounted to P1.5 million, P1.3 million and P5.1 million in 2017, 2016 and 2015, respectively, and is presented as Rental income under the Miscellaneous Income account in the statements of profit or loss (see Notes 18.1 and 25.2).

Direct operating expenses, other than depreciation expense, incurred on these investment properties amounted to P4.2 million, P2.5 million and P1.6 million for the years ended December 31, 2017, 2016 and 2015, respectively, and are presented as part of Litigation and Asset Acquired Expenses in the statements of profit or loss.

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Position: ______________
Date: ______________

The total fair values of investment properties as of December 31, 2017 and 2016 amounted to P94.1 million and P75.2 million, respectively, as determined by the Bank's in-house and independent appraisers (see Note 6.4).

As of December 31, 2017 and 2016, there is no restriction on the realizability of investment properties or the remittance of income and proceeds of disposal therefrom. In addition, the Bank has not entered into a significant commitment to purchase, construct or develop any investment property in the near future.

14. OTHER RESOURCES

The details of this account follow:

	Notes	**2017**	2016
Assets held-for-sale – net	14.1	**P 60,049,698**	P 63,321,292
Computer software – net	14.2	**45,790,162**	49,466,892
Branch licenses	14.3	**32,500,000**	32,500,000
Sundry debits	14.4	**8,834,524**	45,237,269
Security deposits	14.5, 22.4	**8,014,892**	7,361,749
Deferred tax assets – net	20	**7,632,434**	6,734,271
Stationery and supplies on hand		**4,875,655**	7,497,835
Prepaid expenses	14.6	**3,363,816**	3,664,725
Advance rental		**2,720,610**	2,567,731
Deposit with Philippine Clearing House Corp. (PCHC)		**2,500,000**	2,500,000
Creditable withholding tax		**2,411,138**	-
Utility deposit		**1,089,373**	1,089,373
Documentary stamps		**721,465**	663,553
Deposit to Bancnet		**500,000**	500,000
Petty cash fund		**240,000**	240,000
Other investments		**153,333**	153,333
Miscellaneous		**1,216,330**	1,838,438
		P 182,613,430	P 225,336,461

The expected recovery period of the Bank's other resources is as follows:

	2017	2016
Within one year	**P 56,165,843**	P 87,914,275
Beyond one year	**126,447,587**	137,422,186
	P 182,613,430	P 225,336,461

14.1 Assets Held-for-Sale

Non-financial assets include vehicles and jewelry items foreclosed from borrowers. Certain jewelries were subsequently sold in 2017 and 2016 which resulted in a gain on sale amounting to P1.2 million and P1.8 million, respectively, and is presented as part of Miscellaneous account under Other Operating Income section in the statements of profit or loss.

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Signature: _______________
Position: _______________
Date: _______________

The breakdown of this account is as follows:

	2017	2016
Jewelry items	P 59,156,824	P 64,420,354
Motor vehicles	4,496,150	2,504,214
	63,652,974	66,924,568
Allowance for impairment	(3,603,276)	(3,603,276)
	P 60,049,698	P 63,321,292

Changes in the carrying amounts of jewelry items are summarized below.

	2017	2016
Balance at beginning of year	P 64,420,354	P 118,915,891
Foreclosures	14,987,400	33,860,815
Disposals	(20,250,930)	(88,356,352)
Balance at end of year	P 59,156,824	P 64,420,354

14.2 Computer Software

Computer software pertains to the cost of system software and other expenditures related to software upgrade which is amortized by the Bank over a period of five to ten years.

The movements in the computer software account follow:

	2017	2016
Balance at beginning of year	P 49,466,892	P 50,054,393
Additions	6,216,372	7,489,461
Amortization charges for the year	(9,811,603)	(8,076,962)
Disposals	(81,499)	-
Balance at end of year	P 45,790,162	P 49,466,892

Amortization of computer software amounting to P9.8 million in 2017, P8.6 million in 2016 and P5.7 million in 2015 are shown as part of the Depreciation and Amortization account in the statements of profit or loss.

14.3 Branch License

Branch licenses pertain to the cost of licenses acquired by the Bank in 2004 and in 2006 for a consideration of P11.0 million and P20.0 million, respectively. The Bank also incurred P1.5 million representing relocation costs of the branches acquired in 2004. Branch licenses is subject to annual impairment testing and whenever there is an indication of impairment. The Bank has assessed that the recoverable amount of the branch license exceeds its carrying amount as of December 31, 2017 and 2016. Accordingly, no impairment loss is required to be recognized in 2017 and 2016.

14.4 Sundry Debits

Sundry debits and sundry credits mainly pertain to ATM deposit and withdrawal transactions, including fees and charges thereon, which are yet to be classified, cleared and applied against proper customers' accounts within one month from date of entry (see Note 16).

14.5 Security Deposits

Security deposits include refundable deposits for the lease of the various branches of the Bank from several parties. Refundable security deposits are remeasured at amortized cost using the effective interest rates ranging from 5.76% to 7.42% determined at the inception of the lease contracts. The fair values on initial recognition of the security deposits were determined by calculating the present value of the future cash flows anticipated until the end of the lease term using discount rates determined by reference to market interest rate of comparable financial instrument.

14.6 Prepaid Expenses

Prepaid expenses are mainly composed of prepaid insurances, annual fees, and other prepaid expenses.

15. DEPOSIT LIABILITIES

Savings deposits have interest rate of 0.25% per annum in 2017, 2016 and 2015. Peso term deposit interest rates ranging from 0.75% to 2.625% per annum in 2017 and from 0.31% to 3.25% per annum in both 2016 and 2015. US Dollar term deposit interest rates ranging from 0.025% to 1.3836% per annum in 2017 and 0.13% to 1.30% per annum in both 2016 and 2015.

The breakdown of the interest expense incurred related to each type of deposit liabilities is shown below.

	2017	2016	2015
Savings:			
Philippine peso	**P 25,067,893**	P 33,025,081	P 27,564,652
US dollar	**23,534**	24,968	38,436
Time:			
Philippine peso	**2,277,653**	4,471,896	10,658,362
US dollar	**949,695**	684,375	407,970
Demand	**837,995**	788,914	614,477
	P 29,156,770	P 38,995,234	P 39,283,897

The maturity profile of the Bank's deposit liabilities follows:

	2017	2016
Within one year	**P3,300,037,929**	P3,191,263,767
Beyond one year but within five years	**61,771,756**	203,697,687
	P3,361,809,685	P3,394,961,454

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Signature: ______________
Position: ______________
Date: ______________

The breakdown of deposit liabilities as to currency is shown below.

	2017	2016
Philippine peso	**P3,070,081,718**	P3,291,051,837
US dollar	**291,727,967**	103,909,617
	P3,361,809,685	P3,394,961,454

Under existing BSP regulations, deposit liabilities are subject to regular and liquidity reserve of 8.00% both in 2017 and 2016. The Bank has reserves from its balance in Due from BSP account amounting to P268.9 million and P271.6 million as of December 31, 2017 and 2016, respectively (see Note 7). The Bank is in compliance with these BSP regulations as of the end of reporting period.

16. OTHER LIABILITIES

This account consists of the following:

	Notes	2017	2016
Accounts payable	16.1	**P 26,392,847**	P 26,128,652
Accrued expenses	16.2	**23,665,432**	35,797,350
Cashier's and manager's checks		**17,747,976**	35,096,515
Post-employment benefit obligation	19.2	**12,809,546**	15,172,869
Security deposits		**976,702**	976,702
Sundry credits	14	**36,767**	5,323,926
Income tax payable		**1,524**	1,992,157
Miscellaneous		**66,942**	126,001
		P 81,697,736	P 120,614,172

The expected settlement period of the Bank's other liabilities is as follows:

	2017	2016
Within one year	**P 67,872,676**	P 104,425,790
Beyond one year	**13,825,060**	16,188,382
	P 81,697,736	P 120,614,172

16.1 Accounts Payable

Accounts payable is mainly composed of collections of Social Security System (SSS) contributions from various clients of the Bank, which are remitted to SSS in the succeeding month following the month of collection, advance collections from borrowers, and payable to third party vendors and contractors for purchases of goods and services including the software costs which are not yet settled at the end of each reporting period (see Note 14.2).

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Signature: ________________
Position: ________________
Date: ________________

16.2 *Accrued Expenses*

Accrued expenses are mainly composed of gross receipts taxes, insurance premium to PDIC, and various accruals for utilities, security and janitorial services.

Accrued expenses include rent payable amounting to P6.3 million and P4.1 million as of December 31, 2017 and 2016, respectively, which is recognized in accordance with PAS 17.

17. EQUITY

17.1 *Capital Stock*

As of December 31, 2017 and 2016, the Bank has total authorized capital stock of 100,000,000 common shares at P10 par value per share. As of those dates, the total issued and outstanding shares consisted of 72,764,998 shares amounting to P727.6 million.

On November 28, 2001, the SEC approved the listing of the Bank's shares totaling 44,100,000. The shares were initially listed at an offer price of P11.55 per share. There are 53 holders of the Bank's total outstanding shares as of December 31, 2017 while 55 holders as of December 31, 2016 and 2015. Such listed shares closed at P10.0 per share as of December 31, 2017.

In 2016, the Bank's BOD approved and confirmed the issuance of additional shares from the unsubscribed portion of the existing authorized capital stock amounting to P180,000,000 divided into 18,000,000 shares with a par value of P10 per share.

In 2017, the Bank's BOD approved and confirmed the issuance of additional shares from the unsubscribed portion of the existing authorized capital stock amounting to P78,000,000 divided into 7,800,000 shares with a par value of P10 per share.

Relative to this, the Bank received P258,000,000 as subscription from the stockholders which was presented under Deposit on Subscription of Shares in the statements of changes in equity of which the shares are not yet issued due to pending approval from the Monetary Board of BSP.

17.2 *Revaluation Reserves*

The components and reconciliation of items of other comprehensive income presented in the statements of changes in equity at their aggregate amount under Revaluation Reserves account, are shown below.

	AFS Securities	Defined Benefit Plan	Total
Balance as of January 1, 2017	P 13,942,386	(P 513,924)	P 13,428,462
Remeasurements of defined benefit post-employment plan	-	7,600,655	7,600,655
Fair value gain on AFS securities	4,947,901	-	4,947,901
Fair value loss on impaired on AFS securities	340,000	-	340,000
Fair value gains on disposed of AFS financial assets reclassified to profit or loss	(1,283,303)	-	(1,283,303)
Other comprehensive income before tax	4,004,598	7,600,655	11,605,253
Tax expense	(558,695)	(2,280,196)	(2,838,892)
Other comprehensive income after tax	3,445,903	5,320,459	8,766,362
Balance as of December 31, 2017	**P 17,388,289**	**P 4,806,535**	**P 22,194,824**

	AFS Securities	Defined Benefit Plan	Total
Balance as of January 1, 2016	P 10,968,545	(P 1,678,933)	P 9,289,612
Remeasurements of defined benefit post-employment plan	-	1,664,299	1,664,299
Fair value gain on AFS securities	6,311,376	-	6,311,376
Fair value gains on disposed of AFS financial assets reclassified to profit or loss	(3,021,890)	-	(3,021,890)
Other comprehensive income before tax	3,289,486	1,664,299	4,953,785
Tax expense	(315,645)	(499,290)	(814,935)
Other comprehensive income after tax	2,973,841	1,165,009	4,138,850
Balance as of December 31, 2016	P 13,942,386	(P 513,924)	P 13,428,462

	AFS Securities	Defined Benefit Plan	Total
Balance as of January 1, 2015	P 8,063,840	(P 3,776,605)	P 4,287,235
Remeasurements of defined benefit post-employment plan	-	2,996,675	2,996,675
Fair value gain on AFS securities	3,633,503	-	3,633,503
Fair value gains on disposed of AFS financial assets reclassified to profit or loss	(171,568)	-	(171,568)
Other comprehensive income before tax	3,461,935	2,996,675	6,458,610
Tax expense	(557,230)	(899,003)	(1,456,233)
Other comprehensive income after tax	2,904,705	2,097,672	5,002,377
Balance as of December 31, 2015	P 10,968,545	(P 1,678,933)	P 9,289,612

17.3 Capital Management and Regulatory Capital

The BSP, as a lead regulator, sets and monitors capital requirements for the Bank. In implementing current capital requirements, the BSP requires the Bank to maintain a prescribed ratio of qualifying capital to risk-weighted assets.

Under current banking regulations, the combined capital accounts of the Bank should not be less than an amount equal to 10% of its risk assets. The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio is total equity excluding:

(a) unbooked valuation reserves and other capital adjustments as may be required by the BSP;

(b) total outstanding unsecured credit accommodations to directors, officers, stockholders and related interests;

(c) deferred tax asset or liability;

(d) goodwill;

(e) accumulated equity in earnings of investee where the Bank holds 50% or less but where the equity method of accounting has been applied; and,

(f) appraisal increment on bank premises, furniture, fixtures and equipment other than those allowed to be recognized in connection with a merger or acquisition.

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Date: _____________________

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

The Bank's regulatory capital position at the end of each reporting period follows:

	2017	2016	2015
Tier 1 Capital	**P 546,974,158**	P 667,566,803	P 566,741,868
Tier 2 Capital	**16,604,532**	18,247,440	13,296,000
Total Qualifying Capital	**P 563,578,690**	P 685,814,243	P 580,037,868
Total Risk Weighted Assets	**P3,468,456,203**	P2,962,611,157	P2,588,769,728
Total qualifying capital expressed as a percentage of total risk weighted assets	**16.25%***	23.15%**	22.41%
Tier 1 Capital Adequacy Ratio (CAR)	**15.77%***	22.53%**	21.89%

** Includes the Deposit for Subscription of Shares amounting P258.0 million as of December 31, 2017.*
*** Includes the Deposit for Subscription of Shares amounting P180.0 million as of December 31, 2016.*

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments.

The Bank's policy is to maintain a strong capital base as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

17.4 Compliance with the Minimum Capital Regulatory Requirement

On October 9, 2014, the Monetary Board of the BSP issued Circular No. 854 increasing the minimum capital requirement for all bank categories: universal, commercial, thrift, rural, and cooperative banks. As mandated by this new circular, the revised capitalization requirement applicable to the Bank is P1.0 billion for head office in Metro Manila which should be complied with on or before 2019. The Bank has developed a feasible capital build-up program that it will implement within the two-year period required by the BSP to meet this new minimum capital requirement.

In addition, the Bank's initiated capital build-up program has to consider the continuing losses incurred by the Bank which resulted to a deficit of P319.5 million as of December 31, 2017. In view of the foregoing, the Bank's BOD has came up with the plan in prior years to implement various measures to restore the Bank to normal operating condition within a reasonable period. These measures under the plan include formulation of a capital build up plan in compliance with BSP Circular No. 854 and implementation of business improvement plan. Accordingly, the Bank implemented the following during the year:

- obtained additional shares of stock subscription from existing stockholders out of the unsubscribed portion of the authorized capital stock amounting to P78.0 million in 2017;
- implemented programs and policy to strengthen the Bank's marketing strategy on its loan products;

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Position: _______________
Date: _______________

- strengthened the risk management oversight through monthly meeting of the Bank's Risk Oversight Committee; and,
- rationalization and review of the Bank's business relationship with its related parties.

18. MISCELLANEOUS INCOME AND MISCELLANEOUS EXPENSES

Presented below are the details of these accounts:

18.1 Miscellaneous Income

	Notes	2017	2016	2015
Penalty on loans		**P 15,873,863**	P 5,564,035	P 6,757,480
Gain from assets acquired or exchanged		**13,958,370**	6,952,270	384,976
Dividends	10	**12,868,001**	11,095,627	2,272,418
Income from trust department	21	**4,634,590**	3,848,484	2,564,244
Interbank ATM transactions		**2,229,438**	2,407,002	2,131,738
Rental income	13, 25.2	**1,476,314**	1,278,813	5,142,059
Trading gain	10	**1,283,303**	3,021,890	171,568
Income from re-ordered and pre-encoded checks		**1,225,400**	1,046,072	970,984
Gain on sale of bank premises	12	**408,172**	-	-
Foreign exchange gains – net		**43,376**	478,148	216,862
Legal and appraisal fees		**33,097**	4,829,011	2,974,513
Others		**3,316,618**	2,363,965	669,184
		P 57,350,542	P 42,885,317	P 24,256,026

Gains from assets acquired/exchanged represent gains arising from the disposal of investment properties and other non-financial assets foreclosed from defaulting borrowers.

18.2 Miscellaneous Expenses

	Note	2017	2016	2015
Office supplies		**P 3,866,472**	P 2,920,503	P 3,128,221
PCHC and other charges		**3,633,338**	794,608	1,073,295
Meals and other incentives		**3,626,328**	1,194,518	3,443,145
Annual fees for PSE, SEC, and Bancnet		**1,708,623**	2,284,026	1,717,039
BSP supervision fees		**1,497,885**	1,214,753	998,332
Management and professional fees		**1,433,706**	2,752,444	2,883,654
Representation and entertainment		**957,832**	1,053,502	1,398,347
Transportation and travel		**946,007**	992,958	1,538,584
Christmas party expenses		**680,973**	568,837	444,973
Advertising and publicity		**483,171**	378,859	634,183
Association dues		**-**	592,574	632,933
Loss on sale of acquired assets		**-**	133,650	2,942,680
Rental fee on motor vehicles		**-**	106,291	-
Loss on sale of bank premise	12	**-**	27,286	51,214
Others		**6,151,837**	8,253,943	6,055,486
		P 24,986,172	P 23,268,752	P 26,942,086

Others includes seminar and training expense, other losses, Bank giveaways and other branch related expenses.

19. EMPLOYEE BENEFITS

19.1 Salaries and Employee Benefit Expense

Expenses recognized for salaries and other employee benefits are presented below.

	2017	2016	2015
Short-term employee benefits	**P 97,890,463**	P 99,827,366	P 95,580,632
Post-employment defined benefits	**5,237,332**	4,930,984	4,284,298
	P103,127,795	P104,758,350	P 99,864,930

19.2 Post-employment Defined Benefit Plan

(a) Characteristics of the Defined Benefit Plan

The Bank maintains a funded, tax-qualified, noncontributory post-employment benefit plan that is being administered by the Bank's Trust Department. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60 with a minimum of five years of credited service. The plan also provides for an early retirement at age 50 with a minimum of five years of credited service and late retirement after age 60, both subject to the approval of the Bank's BOD. Normal retirement benefit is an amount equivalent to 100% of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the post-employment benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2017 and 2016.

The amounts of post-employment benefit obligation recognized in the statements of financial position (as part of Other Liabilities account – see Note 16) are determined as follows:

	2017	2016
Present value of the obligation	**P 22,652,779**	P 25,848,233
Fair value of plan assets	**(9,843,233)**	(10,675,364)
	P 12,809,546	P 15,172,869

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Position: ______________
Date: ______________

The movements in the present value of the defined benefit post-employment obligation are as follows:

	2017	2016
Balance at beginning of year	**P 25,848,233**	P 22,306,751
Current service cost	**4,421,032**	4,271,901
Interest expense	**1,390,635**	1,175,566
Remeasurements – actuarial losses (gains) arising from:		
Changes in financial assumptions	**(5,392,187)**	(409,981)
Experience adjustments	**(2,577,818)**	(1,496,004)
Changes in demographic assumptions	**-**	-
Benefits paid	**(1,037,116)**	-
Balance at end of year	**P 22,652,779**	P 25,848,233

The movements in the fair value of plan assets are presented below.

	2017	2016
Balance at beginning of year	**P 10,675,364**	P 9,800,428
Contributions to the plan	**-**	600,139
Interest income	**574,335**	516,483
Return on plan assets (excluding amounts included in net interest)	**(369,350)**	(241,686)
Benefits paid	**(1,037,116)**	-
Balance at end of year	**P 9,843,233**	P 10,675,364

The composition of the fair value of plan assets at the end of each reporting period by category and risk characteristics is shown below.

	2017	2016
Cash and cash equivalents	**P 1,937,601**	P 2,777,038
Quoted equity securities – Holding firms	**3,312,999**	3,594,642
Debt securities – Corporate bonds	**4,592,633**	4,303,684
	P 9,843,233	P 10,675,364

The fair value of the above equity securities (categorized under Level 1) are determined based on quoted market prices in an active market, while the fair value of corporate debt securities (categorized under Level 2) are derived from benchmark government bonds with similar maturities.

The plan assets earned returns of P0.3 million, P0.4 million and P0.3 million in 2017, 2016 and 2015, respectively.

Plan assets of the post-employment plan include cash deposits of P1.60 million and P0.04 million maintained in the Bank as of December 31, 2017 and 2016, respectively.

FOR APPROVAL
Signature: ______________
Position: ______________
Date: ______________

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit post-employment plan are as follows:

	2017	2016	2015
Reported in profit or loss:			
Current service cost	**P 4,421,032**	P 4,271,901	P 3,678,252
Net interest expense	**816,300**	659,083	606,046
	P 5,237,332	P 4,930,984	P 4,284,298
Reported in other comprehensive income (loss):			
Actuarial gains (losses) arising from changes in:			
Financial assumptions	**P 5,392,187**	P 409,981	(P 4,504,919)
Experience adjustments	**2,577,818**	1,496,004	7,912,183
Demographic assumptions	**-**	-	(199,946)
Return on plan assets (excluding amounts included in net interest expense)	**(369,350)**	(241,686)	(210,643)
	P 7,600,655	P 1,664,299	P 2,996,675

Current service cost is presented in the statements of profit or loss as part of Salaries and Employee Benefits under the Other Operating Expenses account.

The net interest expense is included in Miscellaneous under Other Operating Expenses account (see Note 18.2).

Amounts recognized in other comprehensive income were included within item that will not be reclassified subsequently to profit or loss.

In determining the amounts of the defined benefit post-employment obligation, the following significant actuarial assumptions were used:

	2017	2016
Discount rates	**5.70%**	5.38%
Expected rate of salary increases	**3.50%**	5.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 26 years.

These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms to maturity approximating to the terms of the retirement obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Plan

The plan exposes the Bank to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

FOR APPROVAL
Signature: _______________
Position: _______________
Date: _______________

(i) Investment and Interest Risks

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. As of end of 2017, the plan investments are 47% placed in corporate debt securities with the remaining assets invested in cash and cash equivalents and equity securities. Due to the long-term nature of the plan obligation, a level of continuing equity investments is still an appropriate element of the Bank's long-term strategy to manage the plan efficiently.

(ii) Longevity and Salary Risks

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants during their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, the Bank's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below.

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2017 and 2016:

	Impact on Post-employment Defined Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
December 31, 2017			
Discount rate	**+/-1.0 %**	**(P 2,295,497)**	**P 2,786,347**
Salary growth rate	**+/-2.0 %**	**6,014,972**	**(4,193,915)**
December 31, 2016			
Discount rate	+/-1.0 %	(P 3,338,685)	P 4,096,515
Salary growth rate	+/-2.0 %	8,676,486	(6,010,521)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Bank ensures that the investment positions are managed in accordance with its asset-liability matching strategy to ensure that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government or corporate bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency. The Bank monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations. In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

A larger portion of the plan assets as of December 31, 2017 and 2016 are invested in corporate debt and equity securities. In view of the long-term nature of the plan obligation, the Bank may re-allocate its plan assets and increase the level of its investments in equity and debt securities. The Bank believes that a combination of corporate debt securities and equity securities offer the best returns over the long term with an acceptable level of risk. Corporate debt securities and equities included in the plan assets are investments in a diversified portfolio of local blue chip entities.

There has been no change in the Bank's strategies to manage its risks from previous periods.

(iii) Funding Arrangements and Expected Contributions

The plan is currently underfunded by P12.8 million based on the latest actuarial valuation. While there is no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about ten years' time when a significant number of employees is expected to retire.

The maturity profile of undiscounted expected benefit payments from the plan follows:

	2017	2016
Within one year	**P 1,777,002**	P 1,344,543
More than one year to five years	**4,896,465**	4,686,922
More than five years to ten years	**20,656,754**	22,354,604
More than 10 years to 15 years	**24,657,214**	20,942,644
More than 15 years to 20 years	**42,999,300**	57,938,956
More than 20 years	**366,469,318**	617,738,755
	P 461,456,053	P 725,006,424

The weighted average duration of the defined benefit obligation at the end of the reporting period is 20 years.

FOR APPROVAL
Signature: ______________
Position: ______________
Date: ______________

20. CURRENT AND DEFERRED TAXES

The components of tax expense relating to profit or loss and other comprehensive income for the years ended December 31 are as follows:

	2017	2016	2015
Reported in the statement of profit or loss:			
Current tax expense:			
Final tax at 20% and 7.5%	**P 4,284,893**	P 4,471,997	P 5,421,884
Minimum corporate income tax (MCIT) at 2% – RBU	**2,532,460**	2,114,705	1,546,630
Regular corporate income tax (RCIT) – FCDU	**27,862**	4,325	9,588
	6,845,215	6,591,027	6,978,102
Deferred tax expense (income) relating to origination and reversal of temporary differences	**823,339**	(2,971,390)	(748,455)
	P 7,668,554	P 3,619,637	P 6,229,647
Reported in the statement of other comprehensive income:			
Deferred tax expense relating to:			
Remeasurement of defined benefit post-employment plan	**P 2,280,197**	P 499,290	P 899,003
Fair valuation of AFS securities	**558,695**	315,645	557,230
	P 2,838,892	P 814,935	P 1,456,233

A reconciliation of tax on pretax loss computed at the applicable statutory rates to tax expense reported in the statements of profit or loss follows:

	2017	2016	2015
Tax on pretax loss at 30%	**(P 23,815,620)**	(P 29,167,343)	(P 24,127,392)
Adjustments for income subjected to lower income tax rates	**(2,177,962)**	(2,254,436)	(2,785,258)
Tax effects of:			
Unrecognized deferred tax assets	**34,549,342**	35,462,619	30,482,164
Tax exempt income	**(4,383,890)**	(3,328,687)	(249,287)
Non-deductible interests and other expenses	**3,728,996**	3,073,770	3,591,145
Non-taxable income	**(232,312)**	(166,286)	(681,725)
	P 7,668,554	P 3,619,637	P 6,229,647

FOR APPROVAL
Signature: ________________
Position: ________________
Date: ________________

The net deferred tax assets presented under Other Resources account as of December 31 relate to the following (see Note 13):

	2017	2016
Deferred tax assets:		
Allowance for impairment	**P 8,026,146**	P 8,626,146
Defined benefit post-employment obligation	**3,842,864**	4,551,861
Accrued rent under PAS 17	**1,821,494**	257,377
Unamortized past-service cost	**50,630**	145,110
	13,741,134	13,580,494
Deferred tax liabilities:		
Profit on assets sold under installment method	**(3,873,130)**	(5,169,348)
Fair value gains on AFS securities	**(2,235,570)**	(1,676,875)
	(6,108,700)	(6,846,223)
Net deferred tax assets	**P 7,632,434**	P 6,734,271

Deferred tax expense (income) charged to profit or loss and other comprehensive income for the years ended December 31 are as follows.

	Profit or Loss			Other Comprehensive Income		
	2017	2016	2015	**2017**	2016	2015
Defined benefit post-employment obligation	**P 2,989,194**	(P 1,299,253)	(P 925,207)	**P 2,280,197**	P 499,290	P 899,003
Accrued rent under PAS 17	**(1,564,117)**	(1,433,027)	332,915	**-**	-	-
Profit on assets sold under installment method	**(1,296,218)**	(333,590)	(302,413)	**-**	-	-
Allowance for impairment	**600,000**	-	-	**-**	-	-
Past-service cost amortization	**94,480**	94,480	94,480	**-**	-	-
Unrealized foreign exchange gains (loss)	**-**	-	51,770	**-**	-	-
Fair value gains on AFS securities	**-**	-	-	**558,695**	315,645	557,230
Net deferred tax expense (income)	**P 823,339**	(P 2,971,390)	(P 748,455)	**P 2,838,892**	P 814,935	P 1,456,233

The Bank is subject to the MCIT, which is computed at 2% of gross income, as defined under the tax regulations, or RCIT, whichever is higher. For the years ended December 31, 2017, 2016 and 2015, the Bank is liable for MCIT of P2.5 million, P2.1 million and P1.5 million, respectively, since it is in taxable loss position in those years.

Based on the financial and operating forecasts of the Bank, management believes that it may not be able to generate taxable income in the near future, enough to utilize in full the benefits of certain temporary differences, MCIT and NOLCO after it has applied the remaining and available MCIT and NOLCO incurred in prior years. Accordingly, the Bank has not recognized the corresponding deferred tax assets as of December 31, 2017 and 2016 as follows:

	2017		2016	
	Tax Base	**Tax Effect**	Tax Base	Tax Effect
NOLCO	**P255,353,468**	**P 76,606,041**	P 224,590,500	P 67,377,150
Allowance for impairment	**74,275,670**	**22,282,701**	44,938,416	13,481,525
MCIT	**6,193,795**	**6,193,795**	7,015,958	7,015,958
	P335,822,933	**P105,082,537**	P 276,544,874	P 87,874,633

The details of the Bank's MCIT and the period until which they can be applied against RCIT are as follow:

Year Incurred	Amount	Expired	Balance	Year of Expiry
2017	P 2,532,460	P -	P 2,532,460	2020
2016	2,114,705	-	2,114,705	2019
2015	1,546,630	-	1,546,630	2018
2014	3,354,623	(3,354,623)	-	-
	P 9,548,418	**(P 3,354,623)**	**P 6,193,795**	

The breakdown of NOLCO, which can be claimed as deduction from future taxable income within three years from the year the taxable loss was incurred, is shown below.

Year Incurred	Original Amount	Expired	Remaining Balance	Year of Expiry
2017	P 65,681,606	P -	P 65,681,606	2020
2016	79,433,809	-	79,433,809	2019
2015	110,238,053	-	110,238,053	2018
2014	35,918,638	(35,918,638)	-	-
	P 291,272,106	**(P 35,918,638)**	**P 255,353,468**	

The Bank claimed itemized deductions in all years presented.

21. TRUST OPERATIONS

Investments amounting to P924.9 million and P814.7 million held by the Bank as of December 31, 2017 and 2016, respectively, in fiduciary or agency capacity (for a fee) for its customers are not included in the statements of financial position since these are not resources of the Bank (see Note 25.3).

In compliance with the requirements of the General Banking Act relative to the Bank's trust functions:

(a) Investment in government securities of P10.0 million deposited with BSP as security for the Bank's faithful compliance with its fiduciary obligations (see Note 10); and,

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Signature: ______________
Position: ______________
Date: ______________

(*b*) A certain percentage of the Bank's trust income is transferred to surplus reserve. This yearly transfer is required until the surplus reserve for trust function is equivalent to 20% of the Bank's regulatory capital. As of December 31, 2017, 2016 and 2015, the reserve for trust operations amounted to P1.9 million, P1.5 million and P1.1 million, respectively, and is shown as Surplus Reserves in the statements of changes in equity.

Income from trust operations, net of the related expenses amounted to P4.6 million, P3.8 million and P2.6 million for the years ended December 31, 2017, 2016 and 2015, respectively, and are shown as part of Miscellaneous Income account in the statements of profit or loss (see Note 18.1).

22. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank enters into varying transactions with its related parties, certain directors, officers, stockholders, and related interests (DOSRI), and with its funded retirement plan.

The summary of the Bank's significant transactions and the related outstanding balances with DOSRI and other related parties as of and for the years ended December 31, 2017 and 2016 are as follows (in thousands):

		Amounts of Transaction			Outstanding Balance	
Related Party Category	Notes	**2017**	2016	2015	**2017**	2016
Stockholders:	22.2					
Deposit liabilities		**P 5,308**	P 9,048	P 271,440	**P 3,974**	P 101,844
Interest expense		**290**	290	80	-	-
Related Parties Under Common Ownership:						
Deposit liabilities	22.2, 22.3	**572,526**	368,844	318,960	**569,619**	465,204
Insurance expense	22.6	**27,017**	9,670	18	**-**	-
Loans and receivables	22.1	**16,108**	41,456	19,452	**13,455**	38,061
Rent expense	22.4	**13,186**	14,355	6,889	**500**	1,310
Medical, dental and hospitalization	22.7	**2,026**	1,466	3,497	**-**	-
Interest income	22.1	**1,744**	5,897	29,059	**-**	-
Rent income	22.4	**1,734**	1,255	-	**1,734**	1,612
Interest expense	22.2	**815**	742	5,668	**815**	-
Sale of bank premise	22.5	**-**	-	2,260	**-**	-
Officers and Employees:						
Loans and receivables	22.1	**2,805**	4,667	9,083	**2,805**	3,095
Deposit liabilities	22.2	**2,427**	5,986	16,139	**2,127**	1,682
Interest expense	22.2	**10**	10	8	**-**	-
Key Management Personnel –						
Compensation	22.8	**12,269**	11,816	12,712	**-**	-

All of the Bank's loans and receivables from related parties have been reviewed for indications of impairment. Based on management's assessment, no impairment losses are required to be recognized on these financial assets at the end of each reporting period.

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Position: ______________
Date: ______________

22.1 Loans to Related Parties/DOSRI

Under existing policies of the Bank, these loans are made on substantially the same terms as loans granted to other individuals and businesses of comparable risks. The General Banking Act and BSP regulations limit the amount of the loans granted by a bank to a single borrower to 25% of equity. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of the unencumbered deposit and book value of the investment in the Bank. In the aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio (net of loans secured by hold-out on deposits) of the Bank, whichever is lower.

The following additional information relates to the DOSRI loans:

	2017	2016	2015
Total outstanding DOSRI loans	**P 16,260,306**	P 41,156,537	P 378,579,645
% to total loan portfolio	**0.01%**	1.70%	14.90%
% of unsecured DOSRI loans to total DOSRI loans	**0.00%**	0.00%	0.00%
% of past due DOSRI loans to total DOSRI loans	**0.00%**	0.00%	0.00%
% of non-performing DOSRI loans to total DOSRI loans	**0.00%**	0.00%	0.00%

DOSRI loans bear annual interest rates of 11.08% to 19.30%, 11.08% to 19.30%, and 4.50% to 12.50% in 2017, 2016 and 2015, respectively. Existing loans are secured and are payable within three to 20 years.

There were no additional loan releases in 2017 while total collections amounted to P24.9 million. The total loan releases and collections in 2016, on the other hand, amounted to P0.9 million and P338.2 million, respectively.

22.2 Deposit Liabilities to Related Parties/DOSRI

As of December 31, 2017 and 2016, deposit liabilities to related parties amount to P575.7 million and P568.7 million, respectively. The related interest expense incurred by the Bank from these deposits amounted to P0.8 million in 2017 and 2016.

22.3 Transactions with the Retirement Plan

The Bank's retirement fund for its defined benefit post-employment plan maintained for qualified employees, is administered and managed by the Bank's Trust Department under a trust agreement. The carrying amount and the composition of the plan assets as of December 31, 2017 and 2016 is disclosed in Note 19.2.

The total deposits of the retirement fund to the Bank amounted to P1.6 million and P0.04 million as of December 31, 2017 and 2016, respectively.

Equity securities of the retirement fund consist of investments in corporations listed in the PSE, which includes P0.2 million investments in the shares of stock of the Bank as of December 31, 2017 and 2016.

The retirement fund neither provides any guarantee or surety for any obligation of the Bank nor its investments in the Bank's shares of stock covered by any restriction and liens.

The contributions made by the Bank to the retirement plan amounted to P0.6 million in 2016 (nil in 2017), (see Note 19.2).

22.4 Lease Transactions

The Bank, as a lessee, has lease agreements with related parties under common ownership (see Note 25.1). In relation to these lease agreements, the Bank made certain security deposits totaling P2.5 million and P7.4 million as of December 31, 2017 and 2016, respectively, and are presented as part of Other Resources account in the statements of financial position (see Note 14). Rent expense arising from these leases is presented as part of Occupancy in the statements of profit or loss.

The Bank also has lease agreements for the lease of its investment properties to certain related parties under common ownership. Rent income recognized on these leases is presented as Rental income under Miscellaneous Income account in the statements of profit or loss (see Notes 13, 18.1 and 25.2).

Lease agreements with related parties are either subject to fixed rental rate or 5% to 10% escalation rates. These are generally settled through cash payments with no interest charged on the outstanding balance, if any, at the end of each reporting period.

22.5 Sale of Bank Premise

In 2014, the Bank sold a certain parcel of land to a related party under common ownership, with cost amounting to P56.1 million for a total consideration of P81.7 million. This bears an annual effective interest of 7.0%. The outstanding balance of the contract receivable as of December 31, 2015 amounting to P61.3 million is presented as part of Sales contract receivable under the Loans and Receivables account in the 2015 statement of financial position. The balance was fully collected in 2016. There is no similar transaction in 2017 and 2016 (see Notes 11 and 12).

22.6 Insurance Expense

The Bank is covered by life and non-life insurance policies provided by its related parties under common ownership. These include group life insurance, fidelity insurance, money, securities and payroll robbery insurance, and commercial general liability. The related insurance expense incurred by the Bank is presented as part of Insurance in the statements of profit or loss. No related outstanding liability as of December 31, 2017 and 2016.

FOR APPROVAL
Signature: ______________
Position: ______________
Date: ______________

22.7 Medical, Dental and Hospitalization

The Bank has an existing agreement with a related party under common ownership to provide comprehensive health care for its employees. The related expense incurred by the Bank under this agreement is presented as part of Salaries and Employee Benefit Expense in the statements of profit or loss. No related outstanding liability as of December 31, 2017 and 2016.

22.8 Key Management Personnel Compensation

The compensation provided to key management personnel is broken down as follows:

	2017	2016	2015
Short-term employee benefits	**P 10,516,595**	P 11,032,406	P 12,499,508
Post-employment benefits	**1,752,766**	783,861	212,067
	P 12,269,361	P 11,816,267	P 12,711,575

23. LOSS PER SHARE

Losses per share is computed as follows:

	2017	2016	2015
Net loss	**(P 87,053,953)**	(P 100,844,114)	(P 86,654,287)
Divided by the weighted average number of outstanding common shares	**72,764,998**	72,764,998	72,764,998
Loss per share	**(P 1.20)**	(P 1.39)	(P 1.19)

The Bank has no potentially dilutive shares (i.e., options, warrants, convertible instruments, contingently issuable shares if the conditions are satisfied, etc.); hence, no information on diluted loss per share is presented as it is the same with the basic loss per share. However, it is to be noted that the deposits on stocks subscriptions amounting to P258.0 million divided into 25,800,000 shares are not included in the computation of the loss per share since these are not issued and outstanding.

24. SELECTED PERFORMANCE INDICATORS

Following are some measures of the Bank's financial performance and indicators for the past three years:

	2017	2016	2015
Return on average equity	**-12.57%**	-15.49%	-13.33%
Return on average resources	**-2.09%**	-2.22%	-1.91%
Net interest margin	**6.18%**	4.98%	4.33%
Net profit margin	**-40.26%**	-47.70%	-42.85%
Interest rate coverage	**-134.51%**	-138.60%	-83.27%
Debt-to-equity	**497.27%**	507.47%	699.27%
Resources-to-equity	**597.27%**	607.47%	799.27%
CAR	**16.25%**	23.15%	22.41%

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Position: ______________
Date: ______________

25. COMMITMENTS AND CONTINGENCIES

25.1 Operating Lease Commitments – Bank as Lessee

The Bank leases the premises where some of its branches and extension offices are situated for a period of one to ten years, renewable upon mutual agreement between the parties and with terms of one to seven years (see Note 22.4). These leases are accounted for as operating leases which either require fixed rental rate over the term of the lease or with stipulated annual escalation rate of 5% to 10%.

As of December 31, future minimum rental payments under these operating leases contracts are as follows:

	2017	2016
Within one year	**P 21,758,896**	P 17,471,695
After one year but not more than five years	**59,329,894**	47,058,937
More than five years	**42,275,247**	39,546,916
	P 123,364,037	P 104,077,548

The Bank's total rent expense (shown as Occupancy account in the statements of profit or loss) amounted to P30.1 million, P28.7 million and P29.6 million in 2017, 2016 and 2015, respectively.

25.2 Operating Lease Commitments – Bank as Lessor

The Bank is a lessor under non-cancellable operating lease agreements for the lease of its certain investment properties. The leases have terms of five to ten years, with renewal options, and include annual escalation rate of 5% to 10%. The future minimum lease payments under these non-cancellable operating leases are as follows as of December 31:

	2017	2016
Within one year	**P 2,448,055**	P 5,259,638
After one year but not more than five years	**4,458,675**	17,774,339
More than five years	**-**	842,497
	P 6,906,730	P 23,876,474

The total rent income on investment properties amounted to P1.5 million, P1.3 million and P5.1 million in 2017, 2016 and 2015, respectively, and is presented as Rental income under Miscellaneous in the statements of profit or loss (see Notes 13, 18.1 and 22.4).

25.3 Others

In the normal course of the Bank's operations, there are other outstanding commitments and contingent liabilities such as guarantees and commitments to extend credit, which are not reflected in the financial statements. Management believes that as of December 31, 2017, losses, if any, which may arise from these commitments and contingencies will not have a material effect on the Bank's financial statements.

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Signature: _______________
Position: _______________
Date: _______________

Following is a summary of the Bank's commitments and contingent accounts as of December 31:

	Note	2017	2016
Trust department accounts	21	**P 924,925,739**	P 814,683,137
Commitments		**127,873,665**	52,313,814
Others		**14,426,859**	1,537,660

26. NOTES TO STATEMENTS OF CASH FLOWS

The following information supplement those presented in the statements of cash flows for the periods presented with respect to the Bank's non-cash operating and investing activities:

	Notes	2017	2016	2015
Settlement of loans receivable arising from property or jewelry foreclosures	13, 14	**P 55,675,286**	P 83,177,667	P 30,578,893
Unrealized fair value losses on AFS securities		**(3,198,379)**	(7,738,506)	(3,461,935)

For statements of cash flows purposes, the amount of due from other banks as of December 31, 2017 and 2016 considered as cash and cash equivalents follows:

	Note	2017	2016
Due from other banks	8	**P 371,071,330**	P 185,888,730
Due from other banks not considered as cash and cash equivalents		**(18,148,492)**	(29,597,378)
		P 352,922,838	P 156,291,352

27. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented in the succeeding pages is the supplementary information which is required by the Bureau of Internal Revenue (BIR) under its existing revenue regulations (RR) to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS. All information are presented in their absolute amounts.

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Position: _________________
Date: ____________________

27.1 Requirements Under RR No. 15-2010

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR No. 15-2010 are as follows:

(a) *Gross Receipts Tax (GRT)*

In lieu of value-added taxes, the Bank is subject to the GRT imposed on all banks and non-bank financial intermediaries pursuant to Section 121 of the amended Tax Code.

In 2017, the Bank reported total GRT amounting to P7,253,380, which is shown as part of Taxes and Licenses account in the 2017 statement of profit or loss and in Note 27.1(f). Portion of the GRT was remitted and paid by the Bank for FCDU.

(b) *Documentary Stamp Tax (DST)*

The Bank is still in the process of enrollment under Electronic DST System. In general, the Bank's DST transactions arise from the execution of debt instruments, security documents, and bills of exchange.

For the year ended December 31, 2017, DST affixed amounted to P11,741,468, representing documentary stamps imposed mainly on debt instruments documents issued during the year, of which P3,837,647 were charged to the Banks's clients, hence, not reported as part of Taxes and Licenses in the 2017 statement of profit or loss [see Note 27.1(f)].

(c) *Customs Duties and Tariff Taxes*

The Bank has not paid or accrued any customs duties and tariff fees as it has no importation for the year ended December 31, 2017.

(d) *Excise Tax*

The Bank did not have any transaction in 2017 which is subject to excise tax.

(e) *Withholding Taxes*

The details of total withholding taxes for the year ended December 31, 2017 are shown below.

Compensation and employee benefits	P 8,123,091
Final	3,689,406
Expanded	3,520,165
	P 15,332,662

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Signature: _______________
Position: ________________
Date: ___________________

(f) Taxes and Licenses

The details of Taxes and Licenses account shown in the 2017 statement of profit or loss follows:

	Notes		
DST	27.1(b)	P	7,903,821
GRT	27.1(a)		7,253,380
Local taxes and business permits			1,777,650
Real property taxes			647,174
		P	**17,582,025**

(g) Deficiency Tax Assessments and Tax Cases

As of December 31, 2017, the Bank does not have any final deficiency tax assessment from the BIR nor does it have tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open taxable years.

27.2 Requirements Under RR No. 19-2011

RR No. 19-2011 requires schedules of taxable revenues and other non-operating income, costs of sales and services, itemized deductions and other significant tax information to be disclosed in the notes to financial statements.

The amounts of taxable revenues and income, and deductible costs and expenses presented below are based on relevant tax regulations issued by the BIR, hence, may not be the same as the amounts of revenues reflected in the 2017 statement of profit or loss.

(a) Taxable Revenues

The Banks's taxable revenues at regular tax rate (excluding FCDU operations) for the year ended December 31, 2017 amounted to P192,965,082.

(b) Deductible Costs of Services

Deductible costs of services at regular tax rate for the year ended December 31, 2017 comprise the following:

Salaries and employee benefits	P	98,205,396
Interest expense		23,472,552
Miscellaneous		1,497,885
	P	**123,175,833**

(c) *Taxable Non-operating and Other Income*

The details of taxable non-operating and other income in 2017, which are subject to regular tax rate are shown below.

Penalty on loans	P 15,873,863
Service charges and fees	13,362,001
Income from Trust Department	4,634,590
Interbank ATM transactions	2,229,438
Rental income	1,733,646
Others	19,000,197
	P 56,833,735

(d) *Itemized Deductions*

The details of itemized deductions at regular tax rate for the year ended December 31, 2017 are as follows:

Communication, light and water	P 30,178,592
Rental	30,143,382
Outside services	28,326,337
Depreciation and amortization	18,136,576
Taxes and licenses	17,582,025
Amortization of intangibles	15,479,339
Insurance	14,100,295
Fuel and oil	8,523,901
Litigation/assets acquired	4,237,779
Office supplies	2,809,019
Repairs and maintenance	2,108,077
Management and consultancy fees	1,433,706
Representation and entertainment	907,199
Transportation and travel	878,205
Advertising	359,998
Miscellaneous	17,100,160
	P 192,304,590