CITYSTATE SAVINGS BANK, INC.
COMBINED STATEMENTS OF FINANCIAL POSITION
OF THE TRUST AND MANAGED FUNDS OPERATED BY THE TRUST DEPARTMENT
DECEMBER 31, 2018 AND 2017
(With Supplementary Combining Information)
(Amounts in Philippine Pesos)

		Supplementary Combining Information									
		2018				2017				**Combined**	
	Notes	**Institutional Trust**	**Individual Trust**	**Institutional Agency**	**Individual Agency**	Institutional Trust	Individual Trust	Institutional Agency	Individual Agency	**2018**	2017
A S S E T S											
DUE FROM BANKS	7	**P 83,966,853**	**P 1,209,961**	**P 100,862,860**	**P 43,569,135**	P 73,338,253	P 306,255	P 69,565,492	P 66,764,021	**P 229,608,809**	P 209,974,021
LOANS AND RECEIVABLES	8	**2,723,698**	**15,804**	**1,451,228**	**307,571**	18,617,508	9,692	42,514,078	1,067,425	**4,498,301**	62,208,703
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	9	**73,597,360**	**494,000**	**31,997,861**	-	-	-	-	-	**106,089,221**	-
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)	10	**185,966,492**	-	-	-	-	-	-	-	**185,966,492**	-
AVAILABLE-FOR-SALE (AFS) FINANCIAL ASSETS	10	-	-	-	-	377,231,124	1,440,430	85,063,252	-	-	463,734,806
HELD-TO-COLLECT FINANCIAL ASSETS	11	**110,074,771**	**1,457,518**	**220,245,371**	**7,337,505**	-	-	-	-	**339,115,165**	-
INVESTMENT PROPERTIES	12	**55,107,903**	-	-	-	48,157,507	-	-	-	**55,107,903**	48,157,507
OTHER ASSETS	13	**351,289,481**	-	-	-	140,850,702	-	-	-	**351,289,481**	140,850,702
		P 862,726,558	**P 3,177,283**	**P 354,557,320**	**P 51,214,211**	P 658,195,094	P 1,756,377	P 197,142,822	P 67,831,446	**P 1,271,675,372**	P 924,925,739
ACCOUNTABILITIES											
PRINCIPAL		**P 760,015,583**	**P 2,976,248**	**P 337,558,320**	**P 48,763,802**	P 586,576,081	P 5,491,131	P 181,611,783	P 65,622,657	**P 1,149,313,953**	P 839,301,652
NET UNREALIZED FAIR VALUE LOSSES ON FINANCIAL ASSETS AT FVOCI		**(3,414,778)**	**-**	**-**	**-**	-	-	-	-	**(3,414,778)**	-
NET UNREALIZED FAIR VALUE GAINS (LOSSES) ON AFS FINANCIAL ASSETS		**-**	**-**	**-**	**-**	1,770,600	(19,570)	(10,144,898)	-	**-**	(8,393,868)
ACCUMULATED INCOME (LOSS)		**105,565,603**	**193,170**	**16,729,086**	**2,430,451**	69,620,993	(3,721,043)	25,489,582	2,193,908	**124,918,310**	93,583,440
OTHER ACCOUNTABILITIES		**560,150**	**7,865**	**269,914**	**19,958**	227,420	5,859	186,355	14,881	**857,887**	434,515
		P 862,726,558	**P 3,177,283**	**P 354,557,320**	**P 51,214,211**	P 658,195,094	P 1,756,377	P 197,142,822	P 67,831,446	**P 1,271,675,372**	P 924,925,739

See Notes to Combined Financial Statements.

CITYSTATE SAVINGS BANK, INC.
COMBINED STATEMENTS OF COMPREHENSIVE INCOME
OF THE TRUST AND MANAGED FUNDS OPERATED BY THE TRUST DEPARTMENT
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(With Supplementary Combining Information)
(Amounts in Philippine Pesos)

		Supplementary Combining Information									
		2018				2017				Combined	
	Notes	Institutional Trust	Individual Trust	Institutional Agency	Individual Agency	Institutional Trust	Individual Trust	Institutional Agency	Individual Agency	2018	2017
INCOME											
Interest, net of final tax	7, 8, 10, 11	P 11,180,231	P 59,472	P 7,211,016	P 1,084,597	P 9,499,712	P 62,156	P 4,008,320	P 1,423,968	P 19,535,316	P 14,994,156
Dividends	9, 10	10,159,769	29,150	1,747,267	-	10,176,902	29,150	1,757,474	-	11,936,186	11,963,526
Revaluation gains on investment properties and other assets	12, 13	35,376,175	-	-	-		-	-	-	35,376,175	-
Rental income	12	2,760,696	-	-	-	2,507,485	-	-	-	2,760,696	2,507,485
Others	8, 10, 12	1,936,034	-	34,034	-	1,134,000	-	-	-	1,970,068	1,134,000
		61,412,905	88,622	8,992,317	1,084,597	23,318,099	91,306	5,765,794	1,423,968	71,578,441	30,599,167
EXPENSES											
Trading losses – net	9	4,649,657	6,000	11,529,589	-	-	-	-	-	16,185,246	-
Trust fees	15	4,114,758	27,708	2,119,214	96,008	2,650,035	113,242	1,758,019	141,917	6,357,688	4,663,213
Miscellaneous		512,154	1,447	2,517,101	148,978	382,441	2,267,722	37,108	-	3,179,680	2,687,271
		9,276,569	35,155	16,165,904	244,986	3,032,476	2,380,964	1,795,127	141,917	25,722,614	7,350,484
NET PROFIT (LOSS)		52,136,336	53,467	(7,173,587)	839,611	20,285,623	(2,289,658)	3,970,667	1,282,051	45,855,827	23,248,683
OTHER COMPREHENSIVE INCOME (LOSS)	10										
Items that will be reclassified subsequently to profit or loss											
Net unrealized fair value gains (losses) on financial assets at FVOCI during the year		(5,449,738)	-	1,969,824	-	-	-	-	-	(3,479,914)	-
Impairment losses (recoveries) on debt investments at FVOCI		6,131	-	(34,034)	-	-	-	-	-	(27,903)	-
Net unrealized fair value gains (losses) on AFS financial assets		-	-	-	-	3,636,170	(38,070)	(9,433,924)	-	-	(5,835,824)
Fair value losses on disposed AFS financial assets reclassified to profit or loss		-	-	-	-	-	-	(531,000)	-	-	(531,000)
		(5,443,607)	-	1,935,790	-	3,636,170	(38,070)	(9,964,924)	-	(3,507,817)	(6,366,824)
TOTAL COMPREHENSIVE INCOME (LOSS)		P 46,692,729	P 53,467	(P 5,237,797)	P 839,611	P 23,921,793	(P 2,327,728)	(P 5,994,257)	P 1,282,051	P 42,348,010	P 16,881,859

See Notes to Combined Financial Statements.

CITYSTATE SAVINGS BANK, INC.
COMBINED STATEMENTS OF CHANGES IN ACCOUNTABILITIES
OF THE TRUST AND MANAGED FUNDS OPERATED BY THE TRUST DEPARTMENT
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(With Supplementary Combining Information)
(Amounts in Philippine Pesos)

		Supplementary Combining Information								Combined	
		2018				2017					
	Notes	Institutional Trust	Individual Trust	Institutional Agency	Individual Agency	Institutional Trust	Individual Trust	Institutional Agency	Individual Agency	2018	2017
PRINCIPAL											
Balance at beginning of year		P 586,576,081	P 5,491,131	P 181,611,783	P 65,622,657	P 664,801,319	P 604,410	P 19,290,431	P 56,261,091	P 839,301,652	P 740,957,251
Net contributions (withdrawals)		173,439,502	(2,514,883)	155,946,537	(16,858,855)	(78,225,238)	4,886,721	162,321,352	9,361,566	310,012,301	98,344,401
Balance at end of year		760,015,583	2,976,248	337,558,320	48,763,802	586,576,081	5,491,131	181,611,783	65,622,657	1,149,313,953	839,301,652
NET UNREALIZED FAIR VALUE GAINS (LOSSES) ON FINANCIAL ASSETS AT FVOCI											
Balance at beginning of year											
As previously reported		-	-	-	-	-	-	-	-	-	-
Effect of adoption of PFRS 9	2	2,028,829	-	(1,935,790)	-	-	-	-	-	93,039	-
As restated		2,028,829	-	(1,935,790)	-	-	-	-	-	93,039	-
Other comprehensive income (loss)	10	(5,443,607)	-	1,935,790	-	-	-	-	-	(3,507,817)	-
Balance at end of year		(3,414,778)	-	-	-	-	-	-	-	(3,414,778)	-
NET UNREALIZED FAIR VALUE GAINS (LOSSES) ON AFS FINANCIAL ASSETS											
Balance at beginning of year											
As previously reported		1,770,600	(19,570)	(10,144,898)	-	(1,865,570)	18,500	(179,974)	-	(8,393,868)	(2,027,044)
Effect of adoption of PFRS 9		(1,770,600)	19,570	10,144,898	-	-	-	-	-	8,393,868	-
As restated		-	-	-	-	(1,865,570)	18,500	(179,974)	-	-	(2,027,044)
Other comprehensive income (loss)	10	-	-	-	-	3,636,170	(38,070)	(9,964,924)	-	-	(6,366,824)
Balance at end of year		-	-	-	-	1,770,600	(19,570)	(10,144,898)	-	-	(8,393,868)
ACCUMULATED INCOME (LOSS)											
Balance at beginning of year											
As previously reported		69,620,993	(3,721,043)	25,489,582	2,193,908	60,849,081	84,875	1,936,282	9,200,755	93,583,440	72,070,993
Effect of adoption of PFRS 9	2	(11,342,410)	31,958	(8,769,227)	-	-	-	-	-	(20,079,679)	-
As restated		58,278,583	(3,689,085)	16,720,355	2,193,908	60,849,081	84,875	1,936,282	9,200,755	73,503,761	72,070,993
Net profit (loss) during the year		52,136,336	53,467	(7,173,587)	839,611	20,285,623	(2,289,658)	3,970,667	1,282,051	45,855,827	23,248,683
Net contributions (withdrawals)		(4,849,316)	3,828,788	7,182,318	(603,068)	(11,513,711)	(1,516,260)	19,582,633	(8,288,898)	5,558,722	(1,736,236)
Balance at end of year		105,565,603	193,170	16,729,086	2,430,451	69,620,993	(3,721,043)	25,489,582	2,193,908	124,918,310	93,583,440
OTHER ACCOUNTABILITIES											
Balance at beginning of year		227,420	5,859	186,355	14,881	332,364	792	6,306	22,198	434,515	361,660
Accruals during the year		4,618,479	28,215	4,331,176	232,491	3,032,476	2,380,964	1,795,127	-	9,210,361	7,208,567
Payments		(4,285,749)	(26,209)	(4,247,617)	(227,414)	(3,137,420)	(2,375,897)	(1,615,078)	(7,317)	(8,786,989)	(7,135,712)
Balance at end of year		560,150	7,865	269,914	19,958	227,420	5,859	186,355	14,881	857,887	434,515
TOTAL ACCOUNTABILITIES		P 862,726,558	P 3,177,283	P 354,557,320	P 51,214,211	P 658,195,094	P 1,756,377	P 197,142,822	P 67,831,446	P 1,271,675,372	P 924,925,739

See Notes to Combined Financial Statements.

CITYSTATE SAVINGS BANK, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
OF THE TRUST AND MANAGED FUNDS
OPERATED BY THE TRUST DEPARTMENT
DECEMBER 31, 2018 AND 2017
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

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 14, 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 2018, the Bank has 30 branches and 31 on-site and six off-site automated teller machines strategically located in key cities and municipalities within Metro Manila and provincial areas.

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.

The combined financial statements of the trust and managed funds (the Funds) operated by the Trust Department of the Bank as of and for the year ended December 31, 2018 (including the comparative financial statements as of and for the year ended December 31, 2017) were authorized for issue by the Bank's Board of Directors (BOD) on April 30, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Combined Financial Statements

(a) Statement of Compliance with the Guidelines in the Preparation of Audited Financial Statements for Trust Institutions

The combined financial statements of the Funds have been prepared in accordance with BSP Circular No. 653, *Guidelines in the Preparation of Audited Financial Statements for Trust Institutions* (the Guidelines).

The Guidelines have adopted Philippine Financial Reporting Standards (PFRS), except for the following:

- presentation of the combined statement of cash flows, which is required as part of the basic financial statements under PFRS but is not required under the Guidelines;

- presentation of each component of income and expense recognized outside of profit or loss (other comprehensive income) in the combined statement of changes in accountabilities, which is not an allowed presentation under PFRS but is required by the Guidelines; and,

- application of provisions of PFRS only to trust accounts still outstanding as of the end of reporting period.

PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board and approved by the Board of Accountancy.

Pursuant to the Guidelines, the audited financial statements shall comprise of the following:

- Combined statement of financial position;

- Combined statement of comprehensive income;

- Combined statement of changes in accountabilities, which shall show a reconciliation of the net carrying amount at beginning and end of year of the following accounts: (i) principal, (ii) net unrealized fair value gains (losses) on financial assets at fair value through other comprehensive income (FVOCI) in 2018 and available-for-sale (AFS) financial assets in 2017 (presented as other comprehensive income account), (iii) accumulated income (loss), and (iv) other accountabilities, separately disclosing the changes in each of the foregoing accounts; and,

- Notes to the combined financial statements, which shall comprise of a summary of significant accounting policies and other disclosure requirements provided under PFRS; provided, that for purposes of complying with the disclosure of the nature and extent of risks arising from financial instruments as required under PFRS 7, *Financial Instruments: Disclosures,* disclosure statements may be made based on the general categories of contractual relationships (i.e., institutional-trust, individual-trust, institutional-agency and individual-agency of the trust/investment management department of a bank with its clients).

The combined statement of financial position, combined statement of comprehensive income and combined statement of changes in accountabilities are presented for each of the general categories of contractual relationships (i.e., unit investment trust fund-trust, institutional-trust, individual-trust, other fiduciary, institutional-agency, individual-agency and special purpose trust) of the trust/investment management department of the Bank with its clients.

The combined financial statements of the Funds were prepared from the transactions recorded in the books of accounts maintained by the Trust Department of the Bank.

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

(b) Presentation of Combined Financial Statements

The combined financial statements are presented in accordance with the Guidelines and Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Funds present all items of income, expenses and other comprehensive income and losses in a single combined statement of comprehensive income.

The Funds present a third combined 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 combined statement of financial position at the beginning of the preceding period. The related notes to the third combined statement of financial position are not required to be disclosed.

In 2018, the Funds adopted PFRS 9, *Financial Instruments*, which was applied using the transitional relief allowed by the standard. This allows the Funds not to restate its prior periods' combined financial statements. Differences arising from the adoption of PFRS 9 in relation to classification and measurement and impairment of financial assets are recognized in the opening balance of Accumulated Income and net unrealized fair value gains or losses (NUGL) in the current year [see Note 2.2(a)(i)].

Further, the Funds adopted PFRS 15, *Revenue from Contracts with Customers,* which was applied using the modified retrospective approach. However, the said adoption did not cause material retrospective restatements to the Funds' combined financial statements as at January 1, 2018.

The table in the succeeding page shows the impact of the adoption of PFRS 9 to the accumulated income, NUGL on financial assets at FVOCI in 2018 and AFS financial assets in 2017 and total accountabilities balance as at January 1, 2018.

	Institutional Trust	Individual Trust	Institutional Agency	Individual Agency	Combined
Accumulated Income (Loss)					
Balance at December 31, 2017 under PAS 39	P 69,620,993	(P 3,721,043)	P 25,489,582	P 2,193,908	P 95,583,440
Impact of PFRS 9 [see Note 2.2(a)(i)]:					
Effect of reclassifications and remeasurements of financial assets	4,905,070	33,500	(8,658,520)	-	(3,719,950)
Recognition of allowance for impairment on debt securities:					
At amortized cost	(169,672)	(1,542)	(76,673)	-	(247,887)
At FVOCI	(202,599)	-	(34,034)	-	(236,633)
Increase in allowance for impairment on loans and other receivables	(15,875,209)	-	-	-	(15,875,209)
Total impact of PFRS 9	(11,342,410)	31,958	(8,769,227)	-	(20,079,679)
Balance at January 1, 2018 under PFRS 9	**P 58,278,583**	**(P 3,689,085)**	**P 16,720,355**	**P 2,193,098**	**P 73,503,761**
NUGL on Financial Assets at FVOCI					
Balance at December 31, 2017 under PAS 39	P -	P -	(P 10,144,898)	P -	(P 8,393,868)
Impact of PFRS 9 [see Note 2.2(a)(i)]:					
Effect of reclassifications and remeasurements of financial assets	1,826,230	-	(1,969,824)	-	(143,594)
Recognition of allowance for impairment on debt securities at FVOCI	202,599	-	34,034	-	236,633
Total impact of PFRS 9	2,028,829	-	(1,935,790)	-	93,039
Balance at January 1, 2018 under PFRS 9	**P 2,028,829**	**P -**	**(P 1,935,790)**	**P -**	**P 93,039**
NUGL on AFS Financial Assets					
Balance at December 31, 2017 under PAS 39	P 1,770,600	(P 19,570)	(P 10,144,898)	P -	(P 8,393,868)
Impact of PFRS 9 [see Note 2.2(a)(i)] – Effect of reclassifications and remeasurements of financial assets	(1,770,600)	19,570	10,144,898	-	8,398,868
Balance at January 1, 2018 under PFRS 9	**P -**	**P -**	**P -**	**P -**	**P -**
Total Accountabilities					
Balance at December 31, 2017 under PAS 39	P 658,195,094	P 1,756,377	P 197,142,822	P 67,831,446	P 924,925,739
Net impact of PFRS 9	(11,084,181)	51,528	(560,119)	-	(11,592,772)
Balance at January 1, 2018 under PFRS 9	**P 647,110,913**	**P 1,807,905**	**P 196,582,703**	**P 67,831,446**	**P 913,332,967**

Accordingly, the adoption of these two new accounting standards did not require the Funds to present its third combined statement of financial position.

(c) Functional and Presentation Currency

The combined financial statements of the Funds are presented in Philippine pesos, the Funds' functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the combined financial statements of the Funds are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Funds operate.

2.2 Adoption of New and Amended PFRS

(a) Effective in 2018 that are Relevant to the Funds

The Funds adopted for the first time the new PFRS which are mandatorily effective for annual periods beginning on or after January 1, 2018 as follows:

PFRS 9	:	Financial Instruments
PFRS 15	:	Revenue from Contracts with Customers; Clarifications to PFRS 15

Discussed below are the relevant information about these new standards, amendments, interpretation and improvements.

(i) PFRS 9, *Financial Instruments* (issued in 2014). This new standard on financial instruments replaced PAS 39, *Financial Instruments: Recognition and Measurement,* and PFRS 9 issued in 2009, 2010 and 2013. 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 i.e., held-to-collect (HTC) financial asset, financial asset at fair value through profit or loss (FVTPL), and at FVOCI;

- an expected credit loss (ECL) model in determining impairment of all financial assets that are not measured at 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.

The new accounting policies relative to the adoption of PFRS 9 are fully disclosed in Notes 2.4 and 2.7.

The tables on the next page show the effects of the adoption of PFRS 9 in the carrying amounts and presentation of the categories of the affected financial asset accounts in the combined statement of financial position as at January 1, 2018.

	Institutional Trust	Individual Trust	Institutional Agency	Individual Agency	Combined
Financial assets at FVTPL					
Carrying amount, PAS 39 – December 31, 2017	P -	P -	P -	P -	P -
Reclassification from AFS financial assets	157,339,553	533,500	36,348,630	-	194,221,683
Carrying amount, PFRS 9 – January 1, 2018	**P 157,339,553**	**P 533,500**	**P 36,348,630**	**P -**	**P 194,221,683**
Financial assets at FVOCI					
Carrying amount, PAS 39 – December 31, 2017	P -	P -	P -	P -	P -
Reclassification from AFS financial assets	120,519,416	-	18,581,176	-	139,100,592
Carrying amount, PFRS 9 – January 1, 2018	**P 120,519,416**	**P -**	**P 18,581,176**	**P -**	**P 139,100,592**
AFS financial assets					
Carrying amount, PAS 39 – December 31, 2017	P 377,231,124	P 1,440,430	P 85,063,252	P -	P 463,734,806
Reclassification to financial assets at FVTPL	(157,339,553)	(533,500)	(36,348,630)	-	(194,221,683)
Reclassification to financial assets at FVOCI	(120,519,416)	-	(18,581,176)	-	(139,100,592)
Reclassification to HTC financial assets	(99,372,155)	(906,930)	(30,133,446)	-	(130,412,531)
Carrying amount, PFRS 9 – January 1, 2018	**P -**	**P -**	**P -**	**P -**	**P -**
HTC financial assets					
Carrying amount, PAS 39 – December 31, 2017	P -	P -	P -	P -	P -
Reclassification from AFS financial assets	99,372,155	906,930	30,133,446	-	130,412,531
Reclassification from loans and receivables	-	-	10,500,000	-	10,500,000
Remeasurement of AFS financial assets	4,960,700	53,070	(483,446)	-	4,530,324
Allowance for impairment	(169,672)	(1,542)	(76,673)	-	(247,887)
Carrying amount, PFRS 9 – January 1, 2018	**P 104,163,183**	**P 958,458**	**P 40,073,327**	**P -**	**P 145,194,968**
Loans and receivables					
Carrying amount, PAS 39 – December 31, 2017	P 18,617,508	P 9,692	P 42,514,078	P 1,067,425	P 62,208,703
Reclassification to HTC financial assets	-	-	10,500,000	-	10,500,000
Allowance for impairment	(15,875,209)	-	-	-	(15,875,209)
Carrying amount, PFRS 9 – January 1, 2018	**P 2,742,299**	**P 9,692**	**P 32,014,078**	**P 1,067,425**	**P 35,833,494**

a. *Financial Assets Reclassified from AFS Financial Assets to Financial Assets at FVTPL*

The Funds reclassified to financial assets at FVTPL all its quoted equity securities with fair value of P194,221,683, which were previously classified as AFS financial assets, as these securities are now held by the Funds for trading purposes or with the objective of selling them in the short-to-medium term. As a result, the accumulated fair value losses on those financial assets amounting to P3,719,950 were reclassified from NUGL on Financial Assets at FVOCI account to Accumulated Income or Loss account as of January 1, 2017 [see Note 2.1(b)].

b. *Debt Securities Reclassified from AFS Financial Assets to HTC Financial Assets*

Certain government securities and corporate bonds with fair values of P105,649,877 and P24,762,654, which were previously classified as AFS financial assets, that met the criteria to be classified as HTC financial assets under PFRS 9 because the business model is to hold these securities in order to collect contractual cash flows where the cash flows are solely payment of principal and interest (SPPI). Accordingly, the accumulated net unrealized fair value losses on AFS securities amounting to P4,530,324 was adjusted to the opening balance of NUGL on Financial Assets at FVOCI and HTC Financial Assets accounts as of January 1, 2018. Also, the Funds determined whether these securities are impaired based on the ECL model developed by the Trust Department of the Bank for the Funds [see Note 2.2(a)(i)e].

c. *Debt Securities Reclassified from AFS Financial Assets to Financial Assets at FVOCI*

Certain debt securities in the form of corporate bonds, previously under AFS securities with fair value of P139,100,592, were presented as financial assets at FVOCI because these securities were determined that the investment objective of the business model is to hold these investments to collect the contractual cash flows, and sell but are held for long-term strategic investment and are not expected to be traded in the short-to-medium term.

d. *Unquoted Debt Securities Reclassified from Loans and Other Receivables to HTC Financial Assets*

The Funds reclassified unquoted debt securities, previously classified under loans and receivables, amounting to P10,500,000 to HTC financial assets that meet the criteria set by the business model for HTC financial assets. Furthermore, the Bank determined whether these securities are impaired using the ECL model developed by the Bank for the Funds [see Note 2.2(a)(i)e].

e. *Credit Losses on Investment in Debt Securities*

All of the Funds' investments in debt securities classified as HTC Financial Assets and Financial Assets at FVOCI are considered to have low credit risk, and the loss allowance recognized was therefore limited to 12-month expected credit loss. Management considers 'low credit risk' for debt securities issued by listed companies and the government that has an investment grade credit rating with at least one reputable rating agency. Other instruments are considered to have low credit risk when they have a low probability of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term. The application of the ECL model developed for the Funds resulted in the recognition of allowance for impairment in HTC financial assets amounting to P247,887 and was adjusted against the opening balance of Accumulated Income or Loss account in the Funds' combined financial statements [see Note 2.1(b)]. The Funds also recognized allowance for impairment on debt securities measured at FVOCI amounting to P236,633 and was adjusted against the opening balance of NUGL on Financial Assets at FVOCI in the Funds' combined financial statements [see Note 2.1(b)].

f. *Credit Losses on Loans and Other Receivables*

The application of the ECL methodology based on the stages of impairment assessment for loans and other receivables resulted in the recognition of allowance for credit losses amounting P15,875,209 as of January 1, 2018, with the adjustment charged against the opening balance of Accumulated Income or Loss account in the Funds' combined financial statements [see Note 2.1(b)].

(ii) PFRS 15, *Revenue from Contract with Customers,* together with the *Clarifications to PFRS 15* (herein referred to as PFRS 15). This standard replaced PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: 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.

The Fund's significant sources of revenues pertain to trading and managing investment securities, which generate income through interest, dividend and sale of securities. Except for sale of investment properties, significant amount of the Funds' revenues are out of scope of PFRS 15. Recognition and measurement of revenue streams within the scope of PFRS 15 did not vary from PAS 18.

The Funds adoption of PFRS 15 has resulted in changes in its accounting policies (see Note 2.10).

(b) Effective in 2018 but not Relevant to the Funds

PAS 40 (Amendments)	:	Investment Property – Reclassification to and from Investment Property
PFRS 2 (Amendments)	:	Share-based Payment – Classification and Measurement of Share-based Payment Transactions
International Financial Reporting Interpretations Committee (IFRIC) 22	:	Foreign Currency Transactions and Advance Consideration
Annual Improvements to PFRS (2014-2016 Cycle)		
PAS 28 (Amendments)	:	Investment in Associates – Clarification on Fair Value through Profit or Loss Classification
PFRS 4 (Amendments)	:	Insurance Contracts – Applying PFRS 9 with PFRS 4
PFRS 1 (Amendments)	:	First-time Adoption of Philippine Financial Reporting Standards – Deletion of Short-term Exemptions

(c) Effective Subsequent to 2018 but not Adopted Early

There are new PFRS, interpretations, amendments and annual improvements to existing standards effective for annual periods subsequent to 2018 which are adopted by the FRSC. The Bank will adopt the relevant pronouncements presented below in accordance with their transitional provisions; and, unless otherwise stated, the Bank is currently assessing the impact on the Funds' combined financial statements.

(i) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendments clarify 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 FVOCI.

(ii) 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 this new standard has no significant impact to the Funds' combined financial statements.

(iii) IFRIC 23, *Uncertainty over Income Tax Treatmen*ts (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 Funds 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 Funds has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above.

(iv) Annual Improvements to PFRS 2015-2017 Cycle. Among the improvements, the following amendments are relevant to the Funds but had no material impact on the Funds' combined 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.

2.3 Basis of Combination

These combined financial statements comprise the total of the fund accounts operated by the Trust Department of the Bank for each of the general categories of contractual relationships namely: (a) Institutional Trust; (b) Individual Trust; (c) Institutional Agency; and, (d) Individual Agency. The separate financial statements of each fund are prepared and presented for the same reporting period using consistent accounting policies.

For purposes of the combined financial statement presentation, inter-fund investments of each group of trust and managed funds are not eliminated to reflect the assets and accountabilities at their reported balances.

The combined financial statements and supplementary combining information reflect only the income and expenses and net profit or loss of trust accounts still outstanding as of the end of the reporting period. The income and expenses and net profit or loss of those trust accounts, which were terminated prior to the end of each reporting period presented, are not included in the combined financial statements and supplementary combining information as of and for the years presented.

2.4 Financial Assets

Financial assets are recognized when the Funds become 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.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental or directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss.

(a) Classification, Measurement and Reclassification of Financial Assets in Accordance with PFRS 9

Under PFRS 9, the classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are described in the succeeding pages.

(i) Financial Assets at Amortized Cost

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

- the asset is held within the Funds' business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect"); and,

- the contractual terms of the instrument give rise, on specified dates, to cash flows that are SPPI on the principal amount outstanding.

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

Where the business model is to hold assets to collect contractual cash flows, the Bank assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

The Funds' financial assets at amortized cost presented in the combined statement of financial position is composed of Due from Banks, Loans and Receivables and HTC Financial Assets.

Interest income is calculated by applying the effective interest rate (EIR) to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the combined statement of income.

Interest income is calculated by applying the EIR to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the combined statement of income.

(ii) Financial Assets at Fair Value Through Other Comprehensive Income

The Funds accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective is to hold to collect the associated cash flows and sell ("hold to collect and sell"); and,

- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition, the Funds can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Funds for trading. The Funds can also classify debt investments as financial assets at FVOCI if the investment objective of the business model is to hold these investments to collect the contractual cash flows and sell where the debt securities are held for long-term strategic investment and are not expected to be actively traded in the short-to-medium term.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value, including the foreign exchange component, are recognized in other comprehensive income, net of any effects arising from income taxes, and are reported as part of NUGL on Financial Assets at FVOCI account in accountabilities. When the asset is disposed of, the cumulative gain or loss previously recognized in the NUGL at FVOCI account is not reclassified to profit or loss but is reclassified directly to Accumulated Income or Loss account, except for those debt securities classified as financial assets at FVOCI wherein cumulative fair value gains or losses are recycled to profit or loss.

Any dividends earned on holding equity instruments are recognized in profit or loss as Dividends, when the Funds' right to receive dividends is established, it is probable that the economic benefits associated with the dividend will flow to the Fund, and the amount of the dividend can be reliably measured, unless the dividends clearly represent recovery of a part of the cost of the investment.

(iii) Financial Assets at Fair Value Through Profit or Loss

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorized at FVTPL. Further, irrespective of business model, financial assets whose contractual cash flows are not SPPI are accounted for at FVTPL. Also, equity securities are classified as financial assets at FVTPL, unless the Fund designates an equity investment that is not held for trading as at FVOCI at initial recognition. The Funds' financial assets at FVTPL include equity securities, which are held for trading purposes or designated as at FVTPL.

Financial assets at FVTPL are measured at fair value with gains or losses recognized as part of Trading Gains or Losses in the combined statement of income. Related transaction costs are recognized directly as expense in the combined statement of income. The fair values of these financial assets are determined by reference to active market transactions or using a valuation technique where no active market exists.

Interest earned on these investments is reported in profit or loss under Interest Income account while dividend income is reported under Dividends account in the combined statement of income when the right of payment has been established.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

The Funds can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Funds are required to reclassify financial assets: (i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVTPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the Funds' business model will be effected only at the beginning of the next reporting period following the change in the business model.

(b) Classification, Measurement and Reclassification of Financial Assets in Accordance with PAS 39

Financial assets are assigned to different categories by management on initial recognition, depending on the purpose for which the investments were acquired and their characteristics. 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 (HTM) financial assets and AFS financial assets.

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 four categories of financial assets is discussed below and on the succeeding pages.

(i) Financial Assets at FVTPL

This category includes financial assets that are either classified as held for trading or that meets certain conditions and are designated by the Funds to be carried at fair value through profit or loss upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments.

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at fair value through profit or loss) may be reclassified out of FVTPL category if they are no longer held for the purpose of being sold or repurchased in the near term.

(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 Funds provide money or services directly to a debtor with no intention of trading the receivables.

The Funds' financial assets categorized as loans and receivables are presented as Due from Banks and Loans and Receivables in the combined statement of financial position. Due from Banks include demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash which are subject to insignificant risk of changes in value as well as Long-term Negotiable Certificate of Deposit (LTNCD). LTNCD pertains to deposits with other bank but with higher interest rate than the regular savings accounts and with maturity of more than three months.

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

(iii) HTM Financial Assets

This category includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity that the Funds have the positive intention and ability to hold them until maturity. Investments intended to be held for an undefined period are not included in this classification. Should the Funds sell other than an insignificant amount of HTM financial assets, the entire category would be tainted and reclassified as AFS securities.

Subsequent to initial recognition, HTM financial assets are measured at amortized cost using the effective interest method, less impairment losses, if any. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment are recognized in profit or loss.

(iv) 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 AFS financial assets of the Funds include listed equity securities, corporate bonds and government securities.

All financial assets within this category are subsequently measured at fair value, unless otherwise disclosed, which mostly pertains to investment in non-marketable equity securities carried at cost less allowance for impairment, with changes in value recognized as NUGL on AFS Financial Assets in other comprehensive income, except for interest and dividend income, impairment losses and foreign exchange differences in 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 total principal balance to profit or loss and is presented as reclassification adjustment within other comprehensive income even though the financial asset has not been derecognized.

(c) *Effective Interest Rate Method and Interest Income*

Under both PFRS 9 and PAS 39, interest income is recognized using the EIR method for all financial instrument measured at amortized cost and financial instrument designated at FVTPL. Interest income on interest bearing financial assets measured at FVOCI under PFRS 9, similar to interest bearing financial assets classified as AFS or HTM under PAS 39, are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of EIR. The Funds recognize interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive (negative) adjustment to the carrying amount of the asset in the combined statement of financial position with an increase (reduction) in Interest income. The adjustment is subsequently amortized through interest and similar income in the combined statement of income.

The Funds calculate interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the net carrying amount of the financial assets (after deduction of the loss allowance). If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying a credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

(d) *Impairment of Financial Assets Under PFRS 9*

From January 1, 2018, the Funds assess ECL on a forward-looking basis associated with its financial assets carried at amortized cost and debt securities measured at FVOCI. No impairment loss is recognized on equity securities.

Recognition of credit losses or impairment is no longer dependent on the Funds' identification of a credit loss event. Instead, the Funds consider a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The Funds measure loss allowances at an amount equal to lifetime ECL, except for the following financial instruments for which they are measured as 12-month ECL:

- debt securities that are identified to have 'low credit risk' at the reporting date; and,

- other financial instruments on which credit risk has not increased significantly since their initial recognition.

For these financial instruments, the allowance for impairment is based on 12-month ECL associated with the probability of default of a financial instrument in the next 12 months (referred to as 'Stage 1' financial instruments). Unless there has been a significant increase in credit risk subsequent to the initial recognition of the financial asset, a lifetime ECL (which are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial asset) will be recognized (referred to as 'Stage 2' financial instruments). 'Stage 2' financial instruments also include those loan accounts and facilities where the credit risk has improved and have been reclassified from 'Stage 3'. A lifetime ECL shall be recognized for 'Stage 3' financial instruments, which include financial instruments that are subsequently credit-impaired, as well as purchased or originated credit impaired assets.

The Funds definition of credit risk and information on how credit risk is mitigated are disclosed in Note 4.3.

Measurement of ECL

The key elements used in the calculation of ECL are as follows:

- *Probability of Default (PD)* – it is an estimate of likelihood of a borrower defaulting on its financial obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation.

- *Loss Given Default (LGD)* – it is an estimate of loss arising in case where a default occurs at a given time (either over the next 12 months or 12-month LGD), or over the remaining lifetime or lifetime LGD). It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those the Funds would expect to receive, including the realization of any collateral. It is presented as a percentage loss per unit of exposure at the time of default.

- *Exposure at Default (EAD)* – it represents the gross carrying amount of the financial instruments subject to impairment calculation; hence, this is the amount that the Funds expect to be owed at the time of default over the next 12 months (12-month EAD) or over the remaining lifetime (lifetime EAD). In case of a loan commitment, the Funds shall include the undrawn balance (up to the current contractual limit) at the time of default should it occur.

  The measurement of the ECL reflects: (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (ii) the time value of money; and, (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

  Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

(e) *Impairment of Financial Assets under PAS 39*

The Funds assess at the end of every reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is 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 on 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 Funds about certain loss events, including, among others: (a) significant financial difficulty of the issuer or debtor; (b) a breach of contract, such as a default or delinquency in interest or principal payments; (c) it becoming probable that the borrower will enter bankruptcy or other financial reorganization; (d) the disappearance of an active market for that financial asset because of financial difficulties; and, (e) 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.

The Funds recognize impairment loss based on the category of financial assets as follows:

(i) Carried at Amortized Cost – Loans and Other Receivables and HTM Financial Assets

The Funds first assess whether objective evidence of impairment exists individually for financial assets that are individually significant and collectively for financial assets that are not individually significant. If the Funds determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, they include the asset in a group of financial assets with similar credit risk characteristics and collectively assess 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 a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and other receivables or HTM financial assets carried at amortized cost 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 losses 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 the combined statement of income. If a loan or HTM financial asset 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 Funds 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 estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for 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 Funds' or the BSP'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 Funds and historical loss experience for assets with credit risk characteristics similar to those in the Funds. 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 the related observable data for the period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Funds to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment, subject to BSP regulations. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the combined statement of income.

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, the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date of the impairment is reversed. The amount of the reversal is recognized in the combined statement of income.

(ii) Carried at Fair Value – AFS Financial Assets

In the case of equity instruments classified as AFS financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is removed from principal fund balance and recognized in the combined statement of comprehensive income.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of interest income in profit or loss.

Impairment losses recognized in the combined statement of comprehensive income on equity instruments are not reversed through the combined statement of comprehensive income.

If, in a subsequent period, the fair value of debt instrument classified as AFS financial assets increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the combined statement of comprehensive income.

(f) 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 Funds neither transfer nor retain substantially all the risks and rewards of ownership and continue to control the transferred asset, the Funds recognize its retained interest in the asset and an associated liability for amounts it may have to pay. If the Funds retain substantially all the risks and rewards of ownership of a transferred financial asset, the Funds continue to recognize the financial asset and also recognize a collateralized borrowing for the proceeds received.

2.5 Investment Properties

Investment properties consist of parcels of land which are held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business, for use in the rendering of services or for administrative purposes.

Investment properties are measured initially at acquisition cost, including transaction costs. Investment properties are accounted for under the fair value model.

Investment properties measured using the fair value model is stated at fair value as determined by independent appraisers on a periodic basis. Changes in the fair value is recognized in profit or loss as Revaluation Gains on Investment Properties and Other Assets. The carrying amounts recognized in the combined statement of financial position reflect the prevailing market conditions at the end of each reporting period.

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal.

Any gain or loss on the retirement or disposal of investment property is immediately recognized in profit or loss as Gain or loss on sale of investment properties under the Other Income or Miscellaneous Expenses account in the combined statement of comprehensive income.

2.6 Other Assets

Other assets consist of memorial lots which are not held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business, for use in the rendering of services or for administrative purposes.

Other assets are measured initially at acquisition cost, including transaction costs. Other assets, particularly the memorial lots, are subsequently revalued using the fair value model.

Other assets measured using the fair value model is stated at fair value as determined by independent appraisers on a periodic basis. Changes in the fair value is recognized in profit or loss as Revaluation Gains on Investment Properties and Other Assets account. The carrying amounts recognized in the combined statement of financial position reflect the prevailing market conditions at the end of each reporting period.

Other assets are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal.

2.7 Financial Liabilities

Financial liabilities, which include other accountabilities (except tax-related payables), are recognized when the Funds becomes a party to the contractual terms of the instrument.

Financial liabilities and other accountabilities are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments. All interest-related charges, if any, are recognized as an expense in profit or loss section of the combined statement of comprehensive income.

Financial liabilities are derecognized from the combined statement of financial position 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.

2.8 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 combined statement of financial position when the Funds currently have 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 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.

2.9 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 combined financial statements. Similarly, possible inflows of economic benefits to the Funds that do not yet meet the recognition criteria of an asset are considered contingent assets; hence, are not recognized in the combined financial statements. On the other hand, any reimbursement that the Funds 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.

2.10 Revenue and Expense Recognition

In 2018, all revenues earned by the Funds are out of scope of PFRS 15. Accordingly in 2017 and prior years, revenue is recognized to the extent that the revenue can be reliably measured; it is probable that future economic benefits will flow to the Funds; and the expenses and costs incurred and to be incurred can be measured reliably. The Funds' revenue comprised of interest income, rental income, dividend income, revaluation gain and other income.

Interest income is recognized in the combined statement of comprehensive income for all financial instruments held by the Funds 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 over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through 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 Fundsx estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment options) 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 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.

Dividends arising from the Funds' equity securities are recognized when the right to receive the payments is established.

Expenses which mainly pertain to trust fees are recognized in profit or loss upon rendering and charging of trust services to the managed funds.

2.11 Leases – Funds as a Lessor

Leases, wherein Funds substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item, are classified as finance leases and are presented as receivable at an amount equal to Trust's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on Fund's net investment outstanding in respect of the finance lease.

Leases, which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease collections are recognized as income in profit or loss as part of Rental income under Income account in the combined statement of income on a straight-line basis over the lease term.

2.12 Principal Fund Balance

Principal consists of accumulated contributions from trustors, after deducting principal drawings.

Unrealized fair value gains (losses) – net on financial assets at FVOCI in 2018 and AFS financial assets in 2017 consist of accumulated gains and losses arising from the mark-to market valuation of financial assets at FVOCI in 2018 and AFS financial assets in 2017.

Accumulated income or loss includes all current and prior period results of operations as disclosed in the combined statement of comprehensive income, reduced by the amounts of income withdrawals.

2.13 Income Taxes

Tax expense recognized in profit or loss offsetted against interest income, pertains to final tax paid and accrued on interest income generated by the Funds on its investments. This is calculated according to the tax rates applicable to the investments to which the income relates.

2.14 Related Party Transactions and Relationships

Related party transactions are transfers of resources, services or obligations between the Funds or the Bank and their 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; and, (c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank and close members of the family of any such individual.

2.15 Events after the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Funds' combined financial statements in accordance with the Guidelines, requires management to make judgments and estimates that affect the amounts reported in the combined 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 Funds' 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 combined financial statements:

(a) Application of ECL to Loans and Receivables, Financial Assets at Amortized Cost and Financial Assets at FVOCI (2018)

The Funds use the provision matrix approach to calculate ECL for loans and receivables and all debt securities carried at amortized cost and FVOCI. The allowance for impairment is based on the ECLs associated with the probability of default of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since origination of the financial instrument, in such case, a lifetime ECL for the instrument is recognized.

The Bank has established a policy to perform an assessment, at the end of each reporting period, whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

(b) Evaluation of Business Model Applied in Managing Financial Instruments (2018)

Upon adoption of PFRS 9, the Trust Department developed business models for the Funds which reflect how it manages its portfolio of financial instruments. The Funds' business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument under PFRS 9, the Trust Department evaluates in which business model a financial instrument or a portfolio of financial instruments belongs to taking into consideration the objectives of each business model established by the Trust Department (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Funds' investment, trading and lending strategies.

(c) Testing the Cash Flow Characteristics of Financial Assets and Continuing Evaluation of the Business Model (2018)

In determining the classification of financial assets under PFRS 9, the Bank assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Bank assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Bank considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

In addition, PFRS 9 emphasizes that if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Bank considers certain circumstances documented in the Funds' business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with a held-to-collect business model if the Bank can explain the reasons for those sales and why those sales do not reflect a change in the Funds' objective for the business model.

(d) Impairment of AFS Financial Assets (2017)

The determination when an investment classified as AFS financial asset is other-than-temporarily impaired requires significant judgment. In making this judgment, the Funds evaluate, 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.

Based on the evaluation of information and circumstances affecting the Funds' AFS financial assets, management concluded that the assets are not impaired as of December 31, 2017. Future changes in those information and circumstances might significantly affect the carrying amount of the assets.

(e) Distinction between Investment Properties and Other Assets

The Funds determines whether a property qualifies as investment property. In making its judgment, the Funds consider whether the property generates cash flows largely independent of the other assets held by an entity. Other assets generate cash flows that are attributable not only to the property but also to other assets used in the production or supply process.

(f) 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 2.9 and relevant disclosures are presented in Note 16.

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) Estimation of Allowance for ECL (2018)

The measurement of the allowance for ECL on securities at amortized cost and FVOCI is an area that requires the use of significant assumptions about the future economic conditions and credit behaviour (e.g., likelihood of other party defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 4.3.

(b) Impairment of Loans and Receivables (2017)

Adequate amount of allowance for impairment is provided for specific and groups of accounts, where objective evidence of impairment exists. Management evaluates the amount of allowance for impairment based on available facts and circumstances affecting the collectibility of the accounts, including, but not limited to, the length of the Funds' relationship with the borrowers, the borrowers' current credit status, average age of accounts, collection experience and historical loss experience.

The Funds' loans and receivables have been reviewed for indication of impairment. Based on management's assessment, no impairment losses are required to be recognized on these financial assets at the end of 2017.

(c) Fair Value Measurement for Financial Instruments

Fair value measurements of financial assets are generally based on listed quotes in active markets. 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 Funds utilized different valuation methods and assumptions. The Funds' fair value measurement for FVTPL and FVOCI financial assets is further discussed in Note 6.2. Any change in fair value and fair value measurement approach for these financial assets would affect other comprehensive income in the next reporting period.

The carrying amount of the Funds' financial assets and the changes in the fair value recognized on those financial assets are shown in Notes 9 and 10.

(d) Fair Value Measurement for Investment Properties and Memorial Lots

The Funds' investment properties and other assets which are composed of parcels of land and memorial lots, respectively, are carried at revalued amount at the end of the reporting period. In determining the fair value of these assets, the Funds engages the services of professional and independent appraisers applying the relevant valuation methodologies as discussed in Note 6.4.

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

4. RISK MANAGEMENT POLICIES AND OBJECTIVES

The Funds are exposed to risks that are particular to its operating and investing activities, and the business environment in which it operates. The objective of the Trust department in risk management is to establish and maintain a sound system that will enable the Trust department to identify, measure, control and monitor the various risk exposures arising from its business activities. The Bank believes that, as there are opportunities, there are associated risks and the objective is not to totally avoid risks, but to adequately and consistently evaluate, manage, control, and monitor the risks and ensure that the Bank is adequately compensated for all the risks taken. Good risk management involves making informed and rational decisions about the level of risks the institution wants to take, in the pursuit of its objectives, but with consideration to return commensurate with the risk-taking activity.

For the successful implementation of the risk management process, the Bank has established clearly defined risk policies, effective organization and limit structures, appropriate systems and technology support, a good management information reporting system and model/system revalidation.

The risk management methodologies are mainly focused on liquidity, market, and credit risks, which are described in greater detail below.

4.1 Liquidity Risk

Liquidity risk is the potential insufficiency of funds available to meet the withdrawal of funds of the Trust Department's trustors. The Trust Department manages liquidity risk by limiting the maturity mismatch between assets and accountabilities, and by holding sufficient liquid assets of appropriate quality and marketability. The Trust Department recognizes the liquidity risk inherent in their activities and identifies, measures, monitors and controls the liquidity risk inherent as financial intermediary.

The Trust Department's liquidity policy is to manage its operations to ensure that funds available are more than adequate to meet withdrawal of funds by its trustors and customers. As at December 31, the maturity profile of the Funds' combined assets and accountabilities are presented below and in the succeeding page.

	Within one Year	More than One Year to Five Years	More than Five Years	Total
2018:				
Financial Assets				
Due from banks	P 229,608,809	P -	P -	P 229,608,809
Loans and receivables	4,498,301	-	-	4,498,301
Financial assets at FVTPL	106,089,221	-	-	106,089,221
Financial assets at FVOCI	29,287,346	138,436,530	18,242,616	185,966,492
HTC financial assets	135,052,538	122,375,061	81,687,566	339,115,165
	504,536,215	260,811,591	99,930,182	865,277,988
Financial Liabilities				
Principal	1,149,313,953	-	-	1,149,313,953
Accumulated income	124,918,310	-	-	124,918,310
Other accountabilities	857,887	-	-	857,887
	1,275,090,150	-	-	1,275,090,150
Net Exposure	(P 770,553,935)	P 260,811,591	P 99,930,182	(P 409,812,162)

	Within one Year	More than One Year to Five Years	More than Five Years	Total
2017:				
Financial Assets				
Due from banks	P 209,974,021	P -	P -	P 209,974,021
Loans and receivables	62,208,703	-	-	62,208,703
AFS financial assets	197,242,312	266,492,494	-	463,734,806
	469,425,036	266,492,494	-	735,917,530
Financial Liabilities				
Principal	839,301,652	-	-	839,301,652
Accumulated income	93,583,440	-	-	93,583,440
Other accountabilities	434,515	-	-	434,515
	933,319,607	-	-	933,319,607
Net Exposure	(P 463,894,571)	P 266,492,494	P -	(P 197,402,077)

4.2 Market Risk

The Funds' exposure to market risk is the potential diminution of earnings arising from the movement of market interest rates as well as the potential loss in market value, primarily of the Funds' holdings of equity and debt securities, due to price fluctuation. The market risk of the Funds is composed of interest rate risk and price risk.
The Funds, through the Trust Department, manage this risk through a process of identifying, analyzing, measuring and controlling relevant market risk factors, and establishing appropriate limits for the various exposures.

(a) Interest Rate Risk

The Trust Department follows a policy of managing its financial assets and accountabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. The Funds are exposed to changes in market interest rates through its deposits with banks including placements with BSP, which are subject to variable interest rates. All other financial assets and financial liabilities either have fixed interest rates or are noninterest bearing. Management has assessed that the effects of changes in the interest rates to the Funds' combined financial statements are not significant; thus, the amounts of exposure are no longer presented.

(b) Price Risk

The Funds' market price risk arises from its investments carried at fair value which pertains to financial assets classified as financial assets at FVTPL and financial assets at FVOCI in 2018 and AFS financial assets in 2017. The Trust Department manages its risk arising from changes in market price by diversifying the Funds' portfolio and monitoring the changes in the market price of the investments. Diversification of the portfolio is done in accordance with the limits set by the Trust Department of the Bank.

The observed volatility rates of the fair values of the Funds' investments held at fair value and their impact on the Funds' accountabilities as of December 31 are shown below.

	Observed Volatility Rates		Impact of Increase on the Funds' Accountabilities	Impact of Decrease on the Funds' Accountabilities
	Increase	Decrease		
2018				
Listed equity shares	**17.71%**	**17.71%**	**P 31,838,900**	**(P 31,838,900)**
Government and corporate bonds	**5.21%**	**5.21%**	**5,849,605**	**(5,849,605)**
			P 37,688,505	**(P 37,688,505)**
2017				
Listed equity shares	17.28%	17.28%	P 33,561,507	(P 33,561,507)
Government and corporate bonds	5.77%	5.77%	10,885,635	(10,885,635)
			P 44,447,142	(P 44,447,142)

4.3 Credit Risk

Credit risk is the risk that the counterparty in a transaction may default on settlement, and it arises from lending, trade finance and other activities undertaken by the Funds. The Trust Department manages credit risk through a system of policies and authorities that govern the processes and practices of all credit-originating and borrowing relationship management units.

The Trust Department continuously monitors defaults of counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at a reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Funds' policy is to deal only with creditworthy and accredited counterparties in accordance with the policies duly approved by the Trust Committee of the Bank. The investments of Funds are also subject to the BSP prescribed Single Borrower Limit and internal limit of the Bank. Credit risk exposure monitoring is being performed regularly and reported to the Trust Committee and BOD.

From January 1, 2018, allowance for ECL is recognized on loans and receivables, HTC at financial assets and debt securities classified as financial assets at FVOCI. On the other hand, impairment provisions as of December 31, 2017, which are based on the requirements of PAS 39, are recognized for losses that have been incurred on this date. Significant changes in the economy, or in particular industry segments that represent a concentration in the Funds' financial instrument portfolio could result in losses that are different from those provided at the end of each reporting period. Management, therefore, carefully monitors the changes and adjusts the Funds' exposure to such credit risk, as necessary.

Loans and receivables, regardless if the accounts have been fully paid, extended or renewed in subsequent year or period, are subjected to evaluation for possible losses. The Trust Department follows the minimum required allowance provided by BSP, which applies general and specific provisions for loan accounts. Past due accounts, accounts identified for phase-out and those that exhibit the characteristics of classified loans shall be risk-rated following the guidelines on credit classification per BSP Manual of Regulations for Banks, i.e., Especially Mentioned, Substandard, Doubtful or Loss.

For the Funds' HTC financial assets and financial assets at FVOCI, credit ratings published by reputable external rating agency, such Standard & Poor's, are used. These ratings are continuously monitored and updated. The PD associated with each rating is determined based on realized default rates over the previous 12 months, as published by the rating agency.

As at December 31, 2018 and 2017, none of the loans and receivables are secured by collateral or other credit enhancements. As at the same dates, the Funds are not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar credit characteristics.

(a) Exposure to Credit Risk

The maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the combined statements of financial position or in the detailed analysis provided in the notes to the combined financial statements, as summarized below.

	Institutional Trust	Individual Trust	Institutional Agency	Individual Agency	Combined
December 31, 2018					
Due from banks	**P 83,966,853**	**P 1,209,961**	**P 100,862,860**	**P 43,569,135**	**P 229,608,809**
Loans and receivables	**2,723,698**	**15,804**	**1,451,228**	**307,571**	**4,498,301**
Financial assets at FVOCI	**112,276,492**	**-**	**-**	**-**	**112,276,492**
HTC financial assets	**110,074,771**	**1,457,518**	**220,245,371**	**7,337,505**	**339,115,165**
	P 309,041,814	**P 2,683,283**	**P 322,559,459**	**P 51,214,211**	**P 685,498,767**
December 31, 2017					
Due from banks	P 73,338,253	P 306,255	P 69,565,492	P 66,764,021	P 209,974,021
Loans and receivables	18,617,508	9,692	42,514,078	1,067,425	62,208,703
AFS financial assets	219,891,572	906,930	48,714,622	-	269,513,124
	P 311,847,333	P 1,222,877	P 160,794,192	P 67,831,446	P 541,695,848

The credit risk for due from banks is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in the due from banks are cash and short-term placements which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P500,000 for every depositor per banking institution.

For loans and receivables, and investment securities consisting of government and corporate debt securities, the Trust Department continuously monitors defaults of counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at a reasonable cost, external credit ratings and/or reports on counterparties are obtained and used. The Trust Department's policy is to deal only with creditworthy counterparties. All loans and receivables, and investments in debt securities held by the Funds are considered high grade that is neither past due nor specifically impaired.

(b) *Concentrations of Credit Risk*

The Trust Department monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk at the end of each reporting period is shown below.

	Institutional Trust	Individual Trust	Institutional Agency	Individual Agency	Combined
December 31, 2018					
Financial institutions	P 84,326,679	P 1,216,260	P 101,290,872	P 43,785,915	P 230,619,726
Corporation	112,922,538	-	214,895,418	7,428,296	335,246,252
Government	110,542,152	1,467,023	6,373,169	-	118,382,344
Individuals	1,250,445	-	-	-	1,250,445
	P 309,041,814	**P 2,683,283**	**P 322,559,459**	**P 51,214,211**	**P 685,498,767**
December 31, 2017					
Financial institutions	P 73,557,876	P 307,363	P 69,642,681	P 66,817,119	P 210,325,039
Corporation	137,687,318	-	85,089,152	1,001,333	223,777,803
Government	99,372,154	906,930	5,370,792	-	105,649,876
Individuals	1,229,985	8,584	691,567	12,994	1,943,130
	P 311,847,333	P 1,222,877	P 160,794,192	P 67,831,446	P 541,695,848

(c) *Credit Quality Analysis*

All financial instruments has external rating, ranging from BB (non-investment grade speculative) to BBB (lower medium grade), which are considered under stage 1 of three-stage impairment approach in determining the loss allowance. With reference to the external rating, the Trust Department assessed the credit quality of all financial instruments to have low credit risk and the loss allowance recognized was therefore limited to 12-month expected credit loss.

(d) *Allowance for Expected Credit Losses*

In 2018, the Funds have recognized ECL on HTC financial assets amounting to P327,007 (see Note 11). On the other hand, reversal of impairment has been recognized for loans and receivables and financial assets at FVOCI amounting to P1,942,165 and P27,903, respectively, in 2018 (see Notes 8 and 10).

As of December 31, 2018, the allowance for expected credit losses on loans and receivable and HTC financial assets amounted to P13,933,044 and P574,894, respectively (see Notes 8 and 11). Accumulated losses on financial assets at FVOCI amounting to P208,730 as of December 31, 2018 was charged to NUGL on financial assets at FVOCI. No similar amounts were recognized in 2017 since the Funds applied the transitional relief allowed by the new standard.

5. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following table summarizes the carrying amounts and fair values of the categories of financial assets and financial liabilities presented on the Funds' combined statements of financial position:

	Institutional Trust		Individual Trust		Institutional Agency		Individual Agency		Combined	
	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
December 31, 2018										
Financial assets										
At amortized cost:										
Due from banks	**P 83,966,853**	**P 83,966,853**	**P 1,209,961**	**P 1,209,961**	**P 100,862,860**	**P 100,862,860**	**P 43,569,135**	**P 43,569,135**	**P 229,608,809**	**P 229,608,809**
Loans and receivables	**2,723,698**	**2,723,698**	**15,804**	**15,804**	**1,451,228**	**1,451,228**	**307,571**	**307,571**	**4,498,301**	**4,498,301**
HTC financial assets	**110,074,771**	**109,357,058**	**1,457,518**	**1,459,973**	**220,245,371**	**220,562,587**	**7,337,505**	**7,349,777**	**339,115,165**	**338,729,395**
	196,765,322	**196,047,609**	**2,683,283**	**2,685,738**	**322,559,459**	**322,876,675**	**51,214,211**	**51,226,483**	**573,222,275**	**572,836,505**
At fair value:										
Financial assets at FVTPL	**73,597,360**	**73,597,360**	**494,000**	**494,000**	**31,997,861**	**31,997,861**	**-**	**-**	**106,089,221**	**106,089,221**
Financial assets at FVOCI	**185,966,492**	**185,966,492**	**-**	**-**	**-**	**-**	**-**	**-**	**185,966,492**	**185,966,492**
	259,563,852	**259,563,852**	**494,000**	**494,000**	**31,997,861**	**31,997,861**	**-**	**-**	**292,055,713**	**292,055,713**
	P 456,329,174	**P 455,611,461**	**P 3,177,283**	**P 3,179,738**	**P 354,557,320**	**P 354,874,536**	**P 51,214,211**	**P 51,226,483**	**P 865,277,988**	**P 864,892,218**
Financial liabilities										
At amortized cost –										
Other accountabilities	**P 560,150**	**P 560,150**	**P 7,865**	**P 7,865**	**P 269,914**	**P 269,914**	**P 19,958**	**P 19,958**	**P 857,887**	**P 857,887**
December 31, 2017										
Financial assets										
Loans and receivables:										
Due from banks	P 73,338,253	P 73,338,253	P 306,255	P 306,255	P 69,565,492	P 69,565,492	P 66,764,021	P 66,764,021	P 209,974,021	P 209,974,021
Loans and receivables	18,617,508	18,617,508	9,692	9,692	42,514,078	42,514,078	1,067,425	1,067,425	62,208,703	62,208,703
AFS financial assets	377,231,124	377,231,124	1,440,430	1,440,430	85,063,252	85,063,252	-	-	463,734,806	463,734,806
	P 469,186,885	P 469,186,885	P 1,756,377	P 1,756,377	P 197,142,822	P 197,142,822	P 67,831,446	P 67,831,446	P 735,917,530	P 735,917,530
Financial liabilities										
At amortized cost –										
Other accountabilities	P 227,420	P 227,420	P 5,859	P 5,859	P 186,355	P 186,355	P 14,881	P 14,881	P 434,515	P 434,515

The fair values disclosed for the Funds' financial assets and financial liabilities which are measured at amortized cost, are estimated as follows:

(a) Due from Banks

Due from banks include interbank deposits and 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 discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity, which for short-term deposits approximate the nominal value.

(b) *Loans and Receivables*

Loans and receivables are net of allowance for impairment. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at original interest rate to determine fair value.

(c) *Other Accountabilities*

Fair value of these liabilities approximates their net carrying values due to their short duration.

6. FAIR VALUE MEASUREMENT AND DISCLOSURES

The information about the fair value measurement including the hierarchy of fair value of the Funds' financial assets measured at fair value in the combined statements of financial position are presented in Note 6.

6.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities 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 Funds use valuation technique, it maximizes the use of observable market data where it is available and rely 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 Funds' classes of financial assets measured at fair value categorized as Level 1, in the combined statements of financial position on a recurring basis as of December 31, 2018 and 2017.

	Institutional Trust	Individual Trust	Institutional Agency	Individual Agency	Combined
December 31, 2018					
Financial Assets at FVTPL	P 73,597,360	P 494,000	P 31,997,861	P -	P 106,089,221
Financial Assets at FVOCI:					
Corporate bonds	112,276,492	-	-	-	112,276,492
Equity securities	73,690,000	-	-	-	73,690,000
	P 259,563,852	**P 494,000**	**P 31,997,861**	**P -**	**P 292,055,713**
December 31, 2017					
AFS Financial Assets:					
Government securities	P 99,372,154	P 906,930	P 5,370,792	P -	P 105,649,876
Corporate bonds	120,519,418	-	43,343,830	-	163,863,248
Equity securities	157,339,552	533,500	36,348,630	-	194,221,682
	P 377,231,124	P 1,440,430	P 85,063,252	P -	P 463,734,806

The Funds have no financial liabilities measured at fair value as of December 31, 2018 and 2017.

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

Described below are the information about how the fair values of the Funds' financial assets at FVTPL, financial assets at FVOCI and AFS financial assets are determined.

(a) Government debt Securities

In 2018, fair values of peso-denominated government debt securities issued by the Philippine government, are determined based on the reference price per Bloomberg which used Bloomberg Valuation Service (BVAL). These BVAL reference rates are computed based on the weighted price derived using an approach based on a combined sequence of proprietary BVAL algorithms of direct observations or observed comparables. In 2017, the fair value of the Funds' government debt securities which are classified as AFS financial assets and categorized within Level 1 is determined directly based on published closing prices available from the electronic financial data service providers [i.e., Philippine Dealing & Exchange Corp. (PDEx)] which had been based on price quoted or actually dealt in an active market at the end of each of reporting period. This is consistent with BSP Circular No. 813, *Amendment on Market Valuation of Government Securities,* issued by the BSP pursuant to Monetary Board Resolution No. 1504 dated September 13, 2013.

(b) *Equity Securities*

The fair value of the Funds' equity securities which consist of listed shares of stock, categorized within Level 1, is determined directly based on their quoted market prices in the Philippine Stock Exchange at the close of the reporting period.

(c) *Corporate Bonds*

Corporate bonds with fair value categorized within Level 1 is determined to be the current mid-price, which is computed as the average of ask and bid prices as appearing on Bloomberg.

6.3 Fair Value Measurement for Financial Instruments Carried at Amortized Cost

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

	Institutional Trust	Individual Trust	Institutional Agency	Individual Agency	Combined
December 31, 2018					
Level 1 –					
Financial assets –					
Due from banks	P 83,966,853	P 1,209,961	P 100,862,860	P 43,569,135	P 229,608,809
HTC financial assets	109,357,058	1,459,973	106,658,581	7,349,777	224,825,389
	P 193,323,911	**P 2,669,934**	**P 207,521,441**	**P 50,918,912**	**P 454,434,198**
Level 3:					
Financial assets –					
Loans and receivables	P 2,723,698	P 15,804	P 1,451,228	P 307,571	P 4,498,301
HTC financial assets	-	-	113,904,006	-	113,904,006
	P 2,723,698	**P 15,804**	**P 115,355,234**	**P 307,571**	**P 118,402,307**
Financial liabilities –					
Other accountabilities	**P 560,150**	**P 7,865**	**P 269,914**	**P 19,958**	**P 857,887**
December 31, 2017					
Level 1 –					
Financial assets –					
Due from banks	P 73,338,253	P 306,255	P 69,565,492	P 66,764,021	P 209,974,021
Level 3:					
Financial assets –					
Loans and receivables	P 18,617,508	P 9,692	P 42,514,078	P 1,067,425	P 62,208,703
Financial liabilities –					
Other accountabilities	P 227,420	P 5,859	P 186,355	P 14,881	P 434,515

In accordance with the fair value hierarchy of assets and liabilities under PFRS 13, Due from banks is categorized as Level 1, while the fair values disclosed for Loans and Receivables, and Other Accountabilities are categorized under Level 3 as these instruments neither have quoted price in active market nor do they have prices directly or indirectly derived from observable market data.

The fair value of HTC financial assets categorized within Level 1 are determined by direct reference to published price quoted in an active market for traded debt securities. For unquoted debt securities classified as HTC financial assets, the fair value is determined based on their discounted amount of estimated future cash flows expected to be received or paid, which management estimates to approximate their fair values. These instruments are included in Level 3.

6.4 Fair Value Measurement of Investment Properties and Other Assets

The Level 3 fair value of the investment properties and other assets was derived using the market data approach that reflects the recent transaction prices for similar properties in nearby locations. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property with adjustment on the price, fair value is included in Level 3. The technique of this approach requires the observable recent prices of the reference properties be 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 property. As of December 31, 2018 and 2017, the fair values of other assets and investment properties are shown below:

	Notes	**2018**	2017
Investment properties	12	**P 55,107,903**	48,157,507
Other assets	13	**351,289,481**	140,850,702
		P 406,397,384	P 189,008,209

There has been no change to the valuation techniques used by the Funds during the year for its non-financial asset. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2018 and 2017.

7. DUE FROM BANKS

This account consists of:

	2018	2017
Time deposit	**P 189,401,038**	P 106,154,042
Special savings deposit	**37,578,787**	91,512,998
Demand deposit	**2,628,984**	306,981
UDSCL	**-**	12,000,000
	P 229,608,809	P 209,974,021

The balance of this account as of December 31 represents deposits with the following:

	2018	2017
Own bank	**P 40,207,771**	P 91,819,979
Other banks	**189,401,038**	118,154,042
	P 229,608,809	P 209,974,021

Due from banks earn interest of 2.90% to 6.88% and 1.75% to 3.75% per annum in 2018 and 2017, respectively.

Interest income earned (net of tax) from these savings and time deposits amounted to P6,161,643 and P4,734,736 in 2018 and 2017, respectively, and are shown as part of Interest Income in the combined statements of comprehensive income.

8. LOANS AND RECEIVABLES

Loans and receivables as of December 31 include the following:

	Note	**2018**	2017
Loans to customers		**P 15,183,489**	P 49,414,555
Accrued interest		**3,247,856**	2,294,148
UDSCL	10	**-**	10,500,000
		18,431,345	62,208,703
Allowance for impairment		**(13,933,044)**	-
		P 4,498,301	P 62,208,703

Loans to customers pertain to receivables from the pension plan holders of the trustors which earn interest of 18.00% per annum. Interest income earned (net of tax) from these financial assets amounted to P1,001,856 and P968,598 in 2018 and 2017, respectively, and are shown as part of Interest Income in the combined statements of comprehensive income.

The changes in the allowance for impairment of total loans and receivables in 2018 are summarized below.

Balance at beginning of year	
As previously reported	P -
Effect of adoption of PFRS 9 [see Note 2.2(a)(i)]	15,875,209
As restated	15,875,209
Reversal of impairment	(1,942,165)
Balance at end of year	P 13,933,044

The gain on reversal of impairment is presented as part of Others under Income in the 2018 combined statement of comprehensive income.

9. FINANCIAL ASSETS AT FVTPL

This account is composed of investments on common and preferred equity shares which are previously classified as AFS Financial Assets. As of the reclassification date, the accumulated fair value losses on those financial assets amounting to P3,719,950 were reclassified from NUGL on Financial Assets at FVOCI account to Accumulated Income or Loss account as of January 1, 2017 [see Note 2.1(b)].

All financial assets at FVTPL are held for trading. Total fair value of P106,089,221 as of December 31, 2018 has been determined either directly or indirectly by reference to published prices quoted in an active market.

The following details show net income (loss) contributed by financial assets at FVTPL in 2018 to the Funds:

Trading losses	(P 16,185,246)
Dividend income	7,043,643
	(P 9,141,603)

Unrealized fair value losses on financial assets at FVTPL recognized in 2018 is presented as Trading losses under Income in the 2018 combined statement of comprehensive income.

Dividends earned in equity securities measured at fair value through FVTPL is presented as Dividend under Income in the 2018 combined statement of comprehensive income.

10. FINANCIAL ASSETS AT FVOCI (2018)/AVAILABLE-FOR-SALE FINANCIAL ASSETS (2017)

Financial assets at FVOCI/AFS financial assets as of December 31 consist of the following:

	2018	2017
Quoted corporate bonds	**P 112,276,492**	P 163,863,248
Quoted equity securities	**73,690,000**	194,221,682
Government securities	**-**	105,649,876
	P 185,966,492	P 463,734,806

Government securities consist of Philippine Treasury Bonds and Fixed Rate Treasury Notes with annual coupon rates ranging from 3.50% to 14.38% in 2017. These bonds will mature in various dates within 2018 to 2032. In 2018, such financial assets were reclassified to HTC financial assets due to change in business model in the adoption of PFRS 9.

Corporate bonds consist of seven-year and 11-year peso-denominated bonds issued by a local publicly-listed company, with an annual coupon rates ranging from 4.16% to 8.00% and 4.31% to 8.30% in 2018 and 2017, respectively, and pay interest semi-annually. These bonds were purchased at face value and will mature in 2019 to 2027.

Interest income (net of tax) and dividends earned from these investments amounted to P3,999,748 and P4,892,543, respectively, in 2018 and P9,291,822 and P11,963,526, respectively, in 2017 and are presented as part of Interest and Dividends, respectively, under Income in the combined statements of comprehensive income.

The information about the fair values hierarchy of Funds' AFS financial assets is presented in Note 6.

Changes in the carrying amounts of financial assets at FVOCI in 2018 and AFS financial assets in 2017 are summarized below.

	2018	2017
Balance at beginning of year:		
As previously recognized	**P 463,734,806**	P 427,813,081
Effect of adoption of PFRS 9 [see Note 2.2(a)(i)]		
Reclassification to:		
Financial assets at FVTPL	**(194,221,683)**	-
HTC financial assets	**(130,412,531)**	-
As restated	**139,100,592**	427,813,081
Additions	**62,312,258**	47,610,000
Maturities	**(12,000,000)**	(5,040,930)
Unrealized fair value losses - net	**(3,479,914)**	(5,835,824)
Amortization of premium and discount	**33,556**	25,512
Disposals	**-**	(837,033)
Balance at end of year	**P 185,966,492**	P 463,734,806

Realized gains amounting to P531,000 in 2017, arising from disposal of equity securities are presented as part of Others in the 2017 combined statement of comprehensive income.

As of December 31, 2018 and 2017, accumulated unrealized fair value losses on mark-to-market of financial assets at FVOCI amounted to P3,623,508 and P8,393,868, respectively, and is presented as part of NUGL on Financial Assets at FVOCI account as of December 31, 2018 and NUGL on AFS Financial Assets account as of December 31, 2017 in the combined statements of financial position. Total accumulated impairment losses presented as part of NUGL on Financial Assets at FVOCI account, amounted to P208,730 as of December 31, 2018. No similar amounts were recognized in 2017 since the Funds applied the transitional relief allowed by the new standard [see Note 2.2(a)(i)].

The reconciliation of NUGL is as follows:

	2018	2017
Balance at beginning of year		
As previously reported	**(P 8,393,868)**	(P 2,027,044)
Effect of adoption of PFRS 9 [see Note 2.1(b)]:		
Reclassification and remeasurement of financial assets	**8,250,274**	-
Impairment of financial assets at FVOCI	**236,633**	-
As restated	**93,039**	(2,027,044)
Unrealized fair value losses during the year	**(3,479,914)**	(5,835,824)
Impairment recovery during the year	**(27,903)**	-
Realized fair value gains	**-**	(531,000)
Balance at end of year	**(P 3,414,778)**	(P 8,393,868)

The gain on reversal of impairment of financial assets at FVOCI is presented as part of Others under Income in the 2018 combined statement of comprehensive income.

11. HELD-TO-COLLECT FINANCIAL ASSETS

This account is composed of the following in 2018:

	Note	
Government debt securities	10	P 118,046,053
Corporate bonds		107,740,000
Commercial papers		103,404,006
Other debt securities		10,500,000
		339,690,059
Allowance for impairment		(574,894)
		P 339,115,165

Government debt securities represent debt securities issued by the Republic of the Philippines, which earn annual effective interests ranging from 3.50% to 8.00% in 2018. These securities will mature in various dates within 2019 to 2040.

Corporate bonds consist of seven-year and 11-year peso-denominated bonds issued by a local publicly-listed company, with an annual coupon rates ranging from 4.00% to 8.00% and pay interest semi-annually. These bonds were purchased at face value and will mature in 2019 to 2027.

The interest income earned by the Funds from HTC financial assets amounted to P8,372,069 and is presented as part of Interest in 2018 the statements of profit or loss.

The reconciliation of the carrying amounts of HTC financial assets in 2018 as follows:

Balance at beginning of year	
As previously reported	P -
Effect of adoption of PFRS 9 [see Note 2.2(a)(i)]	
Reclassification from:	
AFS financial assets	130,412,531
Loans and receivables	10,500,000
Remeasurement of AFS financial assets	4,530,324
Allowance for impairment	(247,887)
As restated	145,194,968
Additions	193,712,243
Amortization of premium and discount	534,961
Impairment losses	(327,007)
Balance at end of year	P 339,115,165

Impairment losses on HTC financial assets in 2018 is presented as part of Miscellaneous under Expenses in the 2018 combined statement of comprehensive income.

12. INVESTMENT PROPERTIES

Changes in the carrying amount of investment properties are summarized below.

	2018	2017
Balance at beginning of year	**P 48,157,507**	P 59,300,107
Disposals	**-**	(11,142,600)
Fair value gains	**6,950,396**	-
Balance at end of year	**P 55,107,903**	P 48,157,507

The fair value gains is presented as part of Revaluation Gains on Investment Properties and Other Assets account in the 2018 combined statement of comprehensive income. No fair value gains were recognized in 2017.

In 2017, the management sold certain parcel of land with cost amounting to P10,866,000, with previously recognized revaluation gain amounting to P276,600, for a total consideration of P12,000,000. The related gain on sale amounting to P1,134,000 is presented as Gain on sale of other assets under the Others account in the 2017 combined statement of comprehensive income. There are no similar transactions in 2018.

Income earned by the Funds from its investment properties leased to third parties under operating lease agreements amounted to P2,760,696 and P2,507,485 in 2018 and 2017, respectively, and is presented as Rental income account in the combined statements of comprehensive income.

13. OTHER ASSETS

The Funds' other assets pertain to memorial lots. Changes in the carrying amount of other assets are summarized below.

	2018	2017
Balance at beginning of year	**P 140,850,702**	P 74,377,680
Additions	**182,013,000**	66,473,022
Fair value gains	**28,425,779**	-
Balance at end of year	**P 351,289,481**	P 140,850,702

The fair value gains is presented as part of Revaluation Gains on Investment Properties and Other Assets account in the 2018 combined statement of comprehensive income. No fair value gains were recognized in 2017.

14. TAXES

Income from peso-denominated accounts of the Funds such as interest income on government securities, corporate bonds and deposits in banks are recorded net of applicable 20% final tax.

15. TRUST FEES

Trust fees charged by the Trust Department for both 2018 and 2017 are based on the following percentages:

Individual and Institutional Trust	
P1.0 million and above	1.50%
Less than P1.0 million	1.00%
Institutional and Individual Agency	
Excess of P5.0 million	0.25% to 0.38%
Less than P5.0 million	0.38% to 0.50%

16. COMMITMENTS AND CONTINGENT ACCOUNTABILITIES

As of December 31, 2018 and 2017, management believes that no additional material losses or liabilities are required to be recognized in the combined financial statements since there are no outstanding commitments and contingent accountabilities such as guarantees and commitments to extend credit, etc. The Funds are also not involved in any disputes, claims or assessments from regulating agency or with third parties.