SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2) (b) THEREUNDER

1. For the quarterly period ended June 30, 2019

2. Commission identification number A1997-9587   3. BIR Tax Identification No. 005-338 421-000

4. Exact name of issuer as specified in its charter: Citystate Savings Bank, Inc.

Makati City, Metro Manila, Philippines

5. Province, country or other jurisdiction of incorporation or organization

6. Industry Classification Code: (SEC Use Only)

Citystate Centre Building, 709 Shaw Boulevard, Pasig City   1600

7. Address of issuer's principal office   Postal Code

(632) 470-3333

8. Issuer's telephone number, including area code

N/A

9. Former name, former address and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
Common Stock	100,000,000

11. Are any or all of the securities listed on a Stock Exchange?

Yes [✓] No [ ]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

Philippine Stock Exchange   Common Stock.

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports).

Yes [✓] No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [✓] No [ ]

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CSBI's unaudited "interim" financial statements are shown in Annex "A" of this report comprising of the following:

a) Consolidated Statements of Condition as of June 30, 2019 and December 31, 2018;

b) Consolidated Statements of Income and Expenses for the quarter ended June 30, 2019 (with comparative figures for the same period ended June 30, 2018);

c) Consolidated Statements of Income and Expenses for the semester ended June 30, 2019 (with comparative figures for the same period ended June 30, 2018);

d) Consolidated Statements of Changes in Equity for the semester ended June 30, 2019 (with comparative figures for the semester ended June 30, 2018);

e) Consolidated Statement of Cash Flow for the semester ended June 30, 2019 (with comparative figures for the semester ended June 30, 2018);

f) Notes to the Financial Statements.

The unaudited "interim" financial statements of CSBI reflect all adjustments which are of normal recurring nature that transpired during the quarter ended June 30, 2019. The bank followed the same accounting policies and methods of computation in the "interim" financial statements as compared with the most recent annual financial statements.

The interim financial statements were prepared in compliance with generally accepted accounting principles in the Philippines as mandated by the Securities and Exchange Commission.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

<u>For the Semester Ended June 30, 2019</u>

Interest Income

Total gross interest income for the first semester of the year decreased to P113.133 million versus P117.058 million recorded the previous year. This was mainly due to the 7.17% decrease in Loans and Receivables from P99.520 million last year as compared to P92.381 million for this year as a result of declined lending activities during the period. Due from BSP and other banks increased to P8.386 million for the period as compared to P5.926 million as a result of increase in Time Deposit with other Bank. Available-for-sale securities increased to P12.366 million from P11.611 million last year due to increase in purchased of investment. The aforementioned were comparative figures for the semester ending June 30, 2019 and June 30, 2018.

Interest Expense

For the six months ended, Interest Expense increased by 11.79% in the amount of P22.430 million versus P20.065 million recorded last year. The Interest Expense is 19.83% of the Net Interest Income of P113.133 million.

Other Income/Expenses

Other Income generated during first semester amounting to P27.261 million is lower as compared to P45.234 million generated over the same period last year. Miscellaneous income decreased by 49.90% from P37.371 million last year versus P18.721 million this year, while Service charges and fees increased by 7.03% from P7.854 million last year to P8.406 million after six months of operation.

The bank’s Operating Expenses decreased by P16.410 million from P155.692 million to P139.281 million. Major accounts with positive variance are as follows, Employee benefits decreased from P49.933 million to P46.728 million; Security, janitorial and messengerial services decreased from P12.587million to P11.708 million; Depreciation and amortization decreased from P19.033 million to P18.656 million; Occupancy from P20.749 million to P15.613 million; Communication, light and water from P14.646 million to P13.242 million; Insurance from P7.668 million to P7.037 million; Fuel and oil from P4.480 million to P4.279 million; Repair and maintenance from P0.873 million to P0.852 million; Miscellaneous from P20.208 million to P13.685 million.

On the other hand, some accounts with negative variance are as follows, Taxes and licenses increased from P4.449 million to P5.256 million; and Litigation and asset acquired expenses from P1.065 million to P2.225 million.

Net Income/Loss

The Bank recorded a net loss of P16.030 million after six months of operation versus P12.742 million net loss for the same period last year.

Total Resources

The bank's Total Resources was down to P3.815 billion or 0.66% lower as compared to P3.840 billion from 2018 year-end level. Due from Bangko Sentral ng Pilipinas decreased by 23.74% or P66.257 million from P279.146 million last year-end to P212.889 million this semester. Likewise, Due from other banks decreased by 19.48% or P101.237 million from P519.773 million year-end balance to P418.535 million. Investment Properties increased by 5.49% or P5.868 from P106.969 last year to P112.837 this year. Bank Premises, Furniture, Fixtures and Equipment is lower by 5.24% from P192.820 million year-end balance to P182.712 million. Other Resources increased by 2.44%. Cash and Other Cash Items declined by 30.35% from P60.300 million year-end balance to P42.001 million. Loans and Receivables were recorded at 2.139 billion higher by 14.58% or P272.176 million against 2018 year-end balance of P1.867 billion.

Total Deposit Liabilities

Deposits generated by the bank's thirty (30) branches decreased by P63.647 million from P3.085 billion year-end balance to P3.022 billion at the end of second quarter of 2019. Of this amount, P2.026 billion or 67.05% comprised savings deposits while the remaining 32.95% or P995.535 million is in the form of demand and time deposits. Total Deposit Liabilities of P3.022 billion is 96.00% of the Total Liabilities amounting to P3.147 billion and 79.00% of the Total Liabilities and Equity of P3.815 billion.

Other Liabilities

This account increased by 38.57% from P77.290 million to P125.808 million at the end of second quarter of 2019. The ending balance of P125.808 million is 4.00% of the Total Liabilities of P3.147 billion.

Capital Funds/Equity

Capital Funds/Equity decreased by P10.186 million from P677.444 million year-end balance to P667.258 million at the end of second quarter of 2019.

Sources of Funds

Deposit generation provided the main source of loanable funds, although Deposit Liabilities decreased by 2.06% from P3.085 billion to P3.022 billion due to payoff of some loan clients. Marketing programs are being implemented to increase and improve deposit mix to attain higher interest margin.

Marketing Programs

To maintain its competitive advantage in public awareness and to reach a wider scope of audience, the bank continues to be aggressive in its advertising campaign through print and radio advertisements, social media and company website.

Key Performance Indicators

The Bank monitors its performance with the other players in the banking industry in terms of the following indicators:

Key Performance Indicators	**CSB** ***June 2019***	**Industry** ***June 2018***
Capital Adequacy Capital to Risk Assets Ratio	15.06%	15.79%
Asset Quality Non-Performing Loan (NPL) Ratio Non-Performing Loan (NPL) Cover	 6.64% 37.45%	 5.27% 59.99%
Liquidity Loans to Deposit	 66.76%	 91.87%
Profitability Return on Average Equity Net Interest Margin	 -9.46% 3.23%	 12.06% 5.58%
Cost Efficiency Cost to Income	137.09%	64.14%

In terms of stability, the bank continues to benefit from Capital Adequacy Ratio (CAR) of 15.06% versus the industry ratio of 15.79%. The bank's NPL ratio of 6.64% is higher than the industry's 5.27%. Allowance for Probable Losses over Non-performing loans is lower at 37.45% versus the industry's 59.99%.

The bank's loan to deposit ratio of 66.76% is lower compared with the thrift banking industry's 91.87%.

In terms of profitability, the bank's Return on Average Equity (ROE) is -9.46%, lower than the industry of 12.06%. The Bank's Net Interest Margin is lower at 3.23% as against the industry's 5.58%.

The bank continues to adopt measures to provide a strong and stable financial condition.

The manner by which the Bank calculates the above indicators is as follows:

Key Performance Indicator	***Formula***
Capital to Risk Assets Ratio	BSP prescribed formula: Total Qualifying Capital Market and Credit Risk Weighted Exposures
Non-performing Loan (NPL) Ratio	Non-performing Loans Gross Loans
Non-performing Loan (NPL) Cover	Allowance for Probable Losses Non-performing Loans
Loans to Deposits Ratio	Total Loans Total Deposits
Return on Average Equity	Net Income After Income Tax Average Total Capital Accounts
Net Interest Margin	Net Interest Income Average Interest Earning Assets
Cost to Income	Total Operating Expenses Net Interest Income + Other Income

A schedule showing financial soundness indicators in two (2) comparative periods is as follows:

	June 2019	June 2018
1. Liquidity Ratio	0:22:1	0.26:1
2. Solvency Ratios		
a) current ratio	0:22:1	0.26:1
b) current liabilities to net worth ratio	4.53	4.49:1
3. Debt-to-equity ratio	0.19	4.64:1
4. Asset-to-equity ratio	5.72	5.64:1
5. Interest rate Coverage ratio	5.04	5.83:1
6. Profitability Ratio		
a) Return on Asset Ratio	-0.42%	-0.33%
b) Return on Net Worth Ratio	-2.40%	-1.85%

Earnings per Share

Basic earnings per share are as follows:

	June 30, 2019	June 30, 2018
Net Income/Loss	P (16,029,591)	P (12,741,670)
Divided by the number of outstanding shares	100,000,000	72,764,998
Basic earnings per share	(0.16)	(0.22)

Dividends

No dividends declared during the quarter ended June 30, 2019.

PART II - OTHER INFORMATION

No other information for this period.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer Citystate Savings Bank, Inc.

Signature and Title Ariel V. Ajesta
Chief Compliance Officer

Date August 13, 2019

Principal Financial/Accounting Officer/Comptroller Martin Jerry E. Machado
Chief Financial Officer

Signature and Title

Date August 13, 2019

CITYSTATE SAVINGS BANK, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND DECEMBER 31, 2018
(Amounts in Philippine Pesos)

	2019 Unaudited	2018 Audited
R E S O U R C E S		
CASH AND OTHER CASH ITEMS	42,001,435	60,299,656
DUE FROM BANGKO SENTRAL NG PILIPINAS	212,888,938	279,146,370
DUE FROM OTHER BANKS	418,535,416	519,773,239
LOANS AND RECEIVABLES ARISING FROM REVERSE REPURCHASE AGREEMENT	181,748,991	181,000,000
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	302,533,638	418,633,887
HELD-TO-COLLECT FINANCIAL ASSETS	76,593,309	72,177,756
LOANS AND RECEIVABLES - Net	2,139,028,813	1,866,852,695
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	182,711,622	192,820,139
INVESTMENT PROPERTIES - Net	112,837,363	106,969,045
OTHER RESOURCES - Net	145,871,346	142,392,222
TOTAL RESOURCES	3,814,750,871	3,840,065,009
LIABILITIES AND EQUITY		
DEPOSIT LIABILITIES		
Demand	597,028,135	632,680,342
Savings	2,026,149,637	2,038,733,786
Time	398,506,460	413,916,804
Total Deposit Liabilities	3,021,684,232	3,085,330,932
OTHER LIABILITIES	125,808,327	77,289,691
Total Liabilities	3,147,492,558	3,162,620,623
EQUITY	667,258,313	677,444,386
TOTAL LIABILITIES AND EQUITY	3,814,750,871	3,840,065,009

CITYSTATE SAVINGS BANK, INC.
STATEMENTS OF COMPREHENSIVE INCOME
For the Quarter Ended June 30, 2019
(With Comparative Figures for the Quarter Ended June 30,2018)
(Amounts in Philippine Pesos)

	2019	2018
INTEREST INCOME		
Loans and receivables	48,194,727	48,677,577
Due from BSP and other banks	3,100,684	4,031,998
Available-for-sale securities	5,628,942	5,996,532
	56,924,353	58,706,107
INTEREST EXPENSE		
Deposit liabilities	10,852,817	9,705,864
Others	-	501,101
	10,852,817	10,206,965
NET INTEREST INCOME	46,071,536	48,499,142
IMPAIRMENT LOSSES - Net	(7,562,316)	-
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES	53,633,852	48,499,142
OTHER OPERATING INCOME		
Service charges and fees	4,438,057	4,234,479
Trading gains	133,477	9,376
Miscellaneous	11,929,482	29,669,097
	16,501,016	33,912,952
OTHER OPERATING EXPENSES		
Employee benefits	23,787,122	25,111,045
Security, janitorial and messengerial services	5,875,979	6,122,799
Depreciation and amortization	9,129,359	10,314,208
Occupancy	7,820,585	12,989,514
Communication, light and water	6,916,697	7,465,775
Taxes and licenses	2,234,542	2,129,043
Insurance	3,151,865	3,807,414
Fuel and oil	2,175,187	2,451,178
Repairs and maintenance	467,042	487,116
Litigation and asset acquired expenses	1,539,823	44,336
Miscellaneous	6,735,594	10,543,197
	69,833,794	81,465,625
PROFIT (LOSS) BEFORE TAX	301,074	946,470
RECOVERY ON CHARGED-OFF ASSETS	-	(3,106,868)
TAX EXPENSE	1,491,469	1,082,942
NET PROFIT (LOSS)	(1,190,395)	2,970,395
OTHER COMPREHENSIVE INCOME (LOSS)		
Fair value gain (loss)	4,142,468	(2,557,049)
TOTAL COMPREHENSIVE INCOME (LOSS)	2,952,072	413,346
Earnings Per Share	(0.01)	(0.02)

CITYSTATE SAVINGS BANK, INC.
STATEMENTS OF COMPREHENSIVE INCOME
For the Semester Ended, June 30, 2019
(With Comparative Figures for the Semester Ended June 30,2018)
(Amounts in Philippine Pesos)

	2019	2018
INTEREST INCOME		
Loans and receivables	92,380,972	99,520,365
Due from BSP and other banks	8,386,340	5,926,421
Available-for-sale securities	12,366,070	11,611,237
	113,133,381	117,058,023
INTEREST EXPENSE		
Deposit liabilities	22,430,405	19,563,927
Others	-	501,101
	22,430,405	20,065,028
NET INTEREST INCOME	90,702,977	96,992,995
IMPAIRMENT LOSSES - Net	(8,464,126)	(3,106,868)
RECOVERY ON CHARGED OFF ASSETS	-	-
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES	99,167,103	100,099,863
	-	
OTHER OPERATING INCOME		
Service charges and fees	8,406,366	7,854,127
Trading gains	133,477	9,376
Miscellaneous	18,721,116	37,370,813
	27,260,959	45,234,316
OTHER OPERATING EXPENSES		
Employee benefits	46,728,302	49,933,372
Security, janitorial and messengerial services	11,707,998	12,586,556
Depreciation and amortization	18,655,844	19,033,071
Occupancy	15,612,520	20,748,863
Communication, light and water	13,241,873	14,646,303
Taxes and licenses	5,256,405	4,449,072
Insurance	7,037,348	7,668,205
Fuel and oil	4,278,593	4,480,350
Repairs and maintenance	852,398	873,075
Litigation and asset acquired expenses	2,225,297	1,064,765
Miscellaneous	13,684,780	20,207,913
	139,281,358	155,691,545
PROFIT (LOSS) BEFORE TAX	(12,853,296)	(10,357,366)
TAX EXPENSE	3,176,295	2,384,304
NET PROFIT (LOSS)	(16,029,591)	(12,741,670)
OTHER COMPREHENSIVE INCOME (LOSS)		
Fair value gain (loss)	12,502,590	2,557,049
TOTAL COMPREHENSIVE INCOME (LOSS)	(3,527,002)	(10,184,621)
Earnings Per Share	(0.16)	(0.22)

CITYSTATE SAVINGS BANK, INC.
STATEMENTS OF CHANGES IN EQUITY
FOR THE SEMESTER ENDED JUNE 30,2019
(With Comparative Figures for the Period Ended December 31, 2018)
(Amounts in Philippine Pesos)

	2019 Unaudited	2018 Audited
CAPITAL STOCK		
Balance at the beginning of the period	**1,000,000,000**	727,649,980
Additional Subscription	**-**	258,000,000
Transfer from deposit on subscription of shares		14,348,020
Balance at the end of the period	**1,000,000,000**	999,998,000
ADDITIONAL PAID-IN CAPITAL	**2,222,444**	2,222,444
REVALUATION RESERVES		
Balance at the beginning of the period	**21,797,905**	22,194,824
Total Comprehensive Income (Loss)	**13,903,186**	7,359,965
Effect of PFRS 9		304,783
Balance at the end of the period	**35,701,091**	29,859,572
SURPLUS RESERVES		
Reserve for trust operations during the period	**2,554,497**	1,918,231
Transfer from Reserves		636,266
		2,554,497
RETAINED EARNINGS		
Balance at the beginning of the period	**(357,190,128)**	(319,501,750)
Effect of PFRS 9		4,074,127
Net income (Loss)	**(16,029,592)**	(41,126,237)
Transfer to Reserves	-	(636,266)
Reserve on Trust business	**-**	
Balance at the end of the period	(373,219,720)	(357,190,126)
TOTAL CAPITAL FUNDS	**667,258,313**	677,444,386

CITYSTATE SAVINGS BANK, INC.
STATEMENTS OF CASH FLOWS
For the Semester End, June 30,2019
(With Comparative Figures for the Semster Ended June 30,2018)
(Amounts in Philippine Pesos)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (Loss) before tax	**(12,853,296)**	(10,357,366)
Adjustments for:		
Gain / (Loss) from sale of Acquired Assets	**2,532,284**	1,139,984
Depreciation and amortization	**18,655,844**	19,033,071
Operating income before working capital changes	**8,334,832**	9,815,689
Decrease (Increase) in loans and receivables	**(221,576,149)**	(128,937,213)
Decrease (Increase) in investment properties (ROPA)	**12,813,586**	34,635,483
(Increase) in other resources	**26,652,369**	(2,997,408)
(Decrease) Increase in deposit liabilities	**(72,301,917)**	(267,823,536)
Increase(decrease) in other liabilities	**24,507,386**	19,603,205
Cash from operations	**(221,569,893)**	(335,703,780)
Cash paid for income taxes	**3,176,295**	2,384,304
Net Cash From Operating Activities	**(218,393,598)**	(333,319,476)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of bank premises, furniture, fixtures and equipment	**21,775,159**	14,768,553
(Increase) Decrease in available-for-sale securities	**(68,962,857)**	26,413,434
Net Cash (Used) in Investing Activities	**(47,187,698)**	41,181,987
CASH FLOWS FROM FINANCING ACTIVITY		
Payment of dividends	**-**	-
Issuance of capital stock	**-**	-
Net Cash Used in Financing Activities	**-**	-
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(265,581,296)**	**(292,137,489)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
Cash and other cash items	**63,052,842**	67,206,772
Due from Bangko Sentral ng Pilipinas	**378,990,314**	586,867,698
Due from other banks	**376,790,551**	371,071,330
Loans arising from Reversed Repurchased	**237,908,872**	164,000,000
	1,056,742,579	**1,189,145,800**
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		
Cash and other cash items	**42,001,435**	63,052,842
Due from Bangko Sentral ng Pilipinas	**394,637,929**	378,990,314
Due from other banks	**418,535,416**	376,790,551
Loans arising from Reversed Repurchased	**181,748,991**	237,908,872
	1,036,923,771	1,056,742,579

CITYSTATE SAVINGS BANK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND DECEMBER 31, 2018
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Incorporation and Operations

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

The Bank's common shares were listed in the Philippine Stock Exchange (PSE) on November 28, 2001. On March 4, 2004, the Bank was authorized by the BSP to engage in quasi-banking functions. On July 13, 2006, the Bank was granted license to operate foreign currency deposit unit (FCDU) and trust function. The Bank's FCDU started operations in November 2006, while its trust operations started in February 2007. At the end of 2018, the Bank has 30 branches, and 31 on-site and six off-site automated teller machines (ATMs) strategically located in key cities and municipalities within Metro Manila and provincial areas.

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

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

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

1.2 Approval of Financial Statements

The financial statements of the Bank as of and for the year ended December 31, 2018 (including the comparative financial statements as of December 31, 2017 and for the years ended December 31, 2017 and 2016) 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 financial statements are summarized below. The policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) Presentation of Financial Statements

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

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

The Bank applied PFRS 9 using the transitional relief allowed by the standard. This allows the Bank not to restate its prior periods' 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 Deficit (or other component of equity, as appropriate) in the current year [(see Note 2.2(a)(ii))].

(c) Functional and Presentation Currency

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

Items included in the financial statements of the Bank are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Bank operates (see Note 2.13).

2.2 *Adoption of New and Amended PFRS*

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

The Bank adopted for the first time the following PFRS, amendments and interpretation to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2018:

PAS 40 (Amendments)	:	Investment Property – Reclassification to and from Investment Property
PFRS 9	:	Financial Instruments
PFRS 15	:	Revenue from Contracts with Customers; Clarifications to PFRS 15
International Financial Reporting Interpretations Committee (IFRIC) 22	:	Foreign Currency Transactions and Advance Consideration

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

(i) PAS 40 (Amendments), *Investment Property – Reclassification to and from Investment Property*. The amendments state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendments provided a non-exhaustive list of examples constituting change in use. The application of these amendments have no impact on the Bank's financial statements.

(ii) PFRS 9, *Financial Instruments*. This new standard on financial instruments has 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;

- an expected credit loss (ECL) model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk (SICR) 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 Bank's new accounting policies relative to the full adoption of PFRS 9 are fully disclosed in Note 2.3 while the required disclosure on credit risks is included in Note 4.1

The table below shows the impact of the adoption of PFRS 9 to the components of and total equity of the Bank as of January 1, 2018.

	Notes	Deficit	Effect on Revaluation Reserves	Total Equity
Balance at January 1, 2018		(P 319,501,750)	P 22,194,824	P 692,483,728
Impact of PFRS 9 [see Note 2.2(a)(ii)]:				
Effect of reclassifications and remeasurements of financial assets:				
Held-to-collect (HTC) financial assets	a	-	304,783	304,783
Reversal of allowance for credit losses on loans and receivables	d	4,825,661	-	4,825,661
Recognition of credit losses on HTC financial assets	e	(751,534)	-	(751,534)
		4,074,127	304,783	4,378,910
Balance at January 1, 2018, as restated		(P 315,427,623)	P 22,499,607	P 696,862,638

In addition, the table below summarizes the effect of the adoption of PFRS 9 in the carrying amounts and presentation of the categories of financial assets in the statement of financial position as of January 1, 2018. The adoption of PFRS 9 has no significant impact on the Bank's financial liabilities.

Measurement Category	Notes	Carrying Amount – PAS 39 December 31, 2017	Reclassification	Remeasurement	Carrying Amount – PFRS 9 January 1, 2018
Financial assets at FVOCI		P -	P -	P -	P -
Reclassification from AFS financial assets	b, c	-	376,153,794	-	376,153,794
Financial assets at FVOCI		P -	P 376,153,794	P -	P 376,153,794
HTC financial assets		P -	P -	P -	P -
Reclassification from AFS financial assets	a, e	-	43,572,576	(569,661)	43,002,915
HTC financial assets		P -	P 43,572,576	(P 569,661)	P 43,002,915
AFS financial assets		P 419,726,370	P -	P -	P 419,726,370
Reclassification to					
Financial assets at FVOCI	b, c	-	(376,153,794)	-	(376,153,794)
HTC financial assets	a	-	(43,572,576)	-	(43,754,449)
AFS financial assets		P 419,726,370	(P 419,726,370)	P -	P -
Loans and receivables					
Gross amount		P 2,083,973,830	P -	P -	P 2,083,973,830
Allowance for impairment	d	(96,876,125)	-	4,825,661	(92,050,464)
Loans and receivables		P 1,987,097,705	P -	P 4,825,661	P 1,991,923,366

Management has determined the impact of PFRS 9 on the Bank's financial statements as indicated below.

(a) *Certain Government Securities Reclassified from Available for Sale (AFS) Securities to Held-to-Collect (HTC) Financial Assets*

Certain government debt securities, previously classified as AFS Securities that met the criteria to be classified as at amortized cost under PFRS 9, were reclassified to HTC financial assets because the business model is to hold these debt instruments in order to collect contractual cash flows relating to principal and interest. Upon reclassification, the related unrealized loss as of January 1, 2018 were reversed to HTC Financial Assets amounting to P304,783. Also an amortization of discount (premium) was recognized amounting to P122,910 (see Note 10.1).

(b) *Certain Government Securities Reclassified from AFS Securities Reclassified to Financial Asset at Fair Value Through Other Comprehensive Income (FVOCI)*

Certain government debt securities, previously classified as AFS Securities that met the criteria to be classified as at FVOCI under PRS 9, were reclassified to Financial Assets at FVOCI because the business model is to hold contractual cash flows and to sell.

(c) *Equity Securities Reclassified from AFS Securities to Financial Assets at FVOCI*

With respect to certain equity securities which were previously classified as AFS securities, the Bank elected to irrevocably designate these equity securities at financial assets at FVOCI, as the assets are now held by the Bank with the objective of selling in the future for liquidity purposes.

(d) *Expected Credit Losses on Loans and Receivables*

The application of the ECL methodology based on the stages of impairment assessment for loans and receivables resulted in the net reversal of excess allowance for credit losses amounting to P4,825,661 as of January 1, 2018. Such amount was adjusted to the opening balance of Deficit account.

(e) *Expected Credit Losses on Investment in Debt Securities*

All of the Bank's investment in debt securities classified at amortized cost and 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 listed and government bonds to be 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 risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term. Additional allowance for credit losses recognized on these debt securities as at January 1, 2018 amounted to P751,534 was adjusted against the opening balance of Deficit account.

(iii) PFRS 15, *Revenue from Contract with Customers,* together with the *Clarifications to PFRS 15* (herein referred to as PFRS 15). This standard has 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.

In applying this new standard, the Bank is required to account for revenue arising from contracts with customers following the five-step model as follows:

(a) identify the contract with a customer;
(b) identify the performance obligations;
(c) determine the transaction price;
(d) allocate the transaction price to the performance obligations; and,
(e) recognize revenue when (or as) performance obligations are satisfied.

Based on an assessment of the Bank's revenue streams as at January 1, 2018, management determined that the current revenue recognition of the Bank's revenues from its lending and deposit-taking activities, which include certain service charges, penalties and commissions, as well as gains arising from sale of non-financial assets, are within the scope of PFRS 15 (see Note 2.11). For those revenues under the scope of PFRS 15, recognition and measurement did not vary significantly from PAS 18. Substantial portion of the Bank's revenues arises from financial instruments (e.g., interest income), which are outside the scope of PFRS 15.

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

(b) *Effective in 2018 that are not Relevant to the Bank*

The following amendments to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2018 but are not relevant to the Bank's financial statements:

PFRS 2 (Amendments)	:	Share-based Payment – Classification and Measurement of Share-based Payment Transactions
PFRS 4 (Amendments)	:	Insurance Contracts – Applying PFRS 9 with PFRS 4, *Insurance Contracts*
PFRS 17 (Amendments)	:	Insurance Contracts
Annual Improvements to PFRS (2014-2016 Cycle)		
PAS 28 (Amendments)	:	Investment in Associates – Clarification on Fair Value Through Profit or Loss Classification
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, amendments to, and interpretations of existing standards effective for annual periods subsequent to 2018, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these is expected to have significant impact on the Bank's financial statements:

(i) PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement* (effective January 1, 2019). The amendments require the use of updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability (asset).

(ii) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation* (effective January 1, 2019). The amendments clarify that prepayment features with negative compensation attached to financial instruments may still qualify under the "solely payments of principal and interests" (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVOCI.

(iii) PFRS 16, *Leases* (effective January 1, 2019). The new standard will eventually replace PAS 17, *Leases*, and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*. 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.

The management plans to adopt the modified retrospective application of PFRS 16 where the cumulative effect of initially applying the standard will be recognized as an adjustment to the opening balance of Deficit account at the date of initial application. The Bank will elect to apply the standard to contracts that were previously identified as leases applying PAS 17 and IFRIC 4 at the date of initial application. Management is currently assessing the financial impact of this new standard on the Bank's financial statements.

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

(v) Annual Improvements to PFRS 2015-2017 Cycle (effective January 1, 2019). Among the improvements, the following amendments are relevant to the Bank but had no material impact on the Bank's financial statements as these amendments merely clarify existing requirements:

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

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

(vi) PAS 1 (Amendments), *Presentation of Financial Statements*, and PAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors* (effective January 1, 2020). The amendments refine the definition of 'material' in PAS 1 and align the definitions used across all PFRS and other pronouncements. These are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgments. As of December 31, 2018, these amendments are still subject to BOA's approval.

2.3 Financial Instruments

Financial assets and financial liabilities are recognized when the Bank becomes a party to the contractual provisions of the financial instrument. For purposes of classifying financial instrument, 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 under PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Deposits, amounts due to banks, and loans are recognized when cash is received by the Bank or advanced to the borrowers.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus transaction costs such as fees and commissions that are incremental or directly attributable to the acquisition or issue of the financial asset or financial liability.

(a) Classification, Measurement and Remeasurement of Financial Assets in accordance with PFRS 9

The classification and measurement of financial assets is driven by the Bank's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are classified into the following: financial assets at amortized, at FVOCI and at FVTPL. The classification and measurement of financial assets relevant to the Bank are described below and 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 financial asset is held within the Bank's 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. These are subsequently measured at amortized cost using the effective interest method, less any allowance for ECL.

The Bank's financial assets at amortized cost are presented in the statement of financial position as Cash and Other Cash Items, Due from Bangko Sentral ng Pilipinas, Due from Other Banks, Loans and Receivables Arising from Reverse Repurchase Agreement, HTC Financial Assets, Loans and Receivables, and Utility deposits, Security deposits, Deposit with Philippine Clearing House Corp. (PCHC), Other investments and Petty cash fund under Other Resources account.

For purposes of cash flows reporting and presentation, cash and cash equivalents comprise accounts with maturities of three months or less, including cash and non-restricted balances with the BSP and other banks. For statement of cash flows purposes, cash and cash equivalents include cash and other cash items, due from BSP, due from other banks, and loans and receivables arising from reverse repurchase agreement that are unrestricted and readily available for use in the Bank's operations and are subject to insignificant risk of change in value.

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

The Bank accounts for financial assets, particularly debt securities, 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 SPPI on the principal amount outstanding.

At initial recognition, the Bank can make an irrevocable election (on an instrument-per-instrument basis) to designate equity securities as at FVOCI; however, such designation is not permitted if the equity investments are held by the Bank for trading. As of January 1, 2018, the Bank has designated certain equity securities as at FVOCI on initial application of PFRS 9.

Subsequent to initial recognition, financial assets at FVOCI are subsequently measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value are recognized in other comprehensive income, net of any effects arising from income taxes, and are reported as part of Revaluation Reserves account in equity. When the asset is disposed of, the cumulative gain or loss previously recognized in the Revaluation Reserves account is not reclassified to profit or loss, but is reclassified directly to Deficit account, except for those debt securities classified as FVOCI wherein cumulative fair value gains or losses are recycled to profit or loss.

Any dividends earned on holding equity instruments are recognized as part of Other Income (within Miscellaneous) under Other Operating Income account in the statement of profit or loss, when the Bank's right to receive dividends is established, it is probable that the economic benefits associated with the dividend will flow to the Bank, 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.

The Bank can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Bank is 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 Bank's business model will be effected only at the beginning of the next reporting period following the change in the business model.

(b) Recognition of Interest Income Using Effective Interest Rate Method

Interest income on financial assets at amortized cost and financial assets at FVOCI (beginning January 1, 2018), is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired and those that are purchased or originated credit-impaired assets.

The effective interest rate 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 effective interest rate is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of effective interest rate. The Bank recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the instrument; 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 or negative adjustment to the carrying amount of the asset with an increase or reduction in interest income.

The Bank calculates interest income by applying the effective interest rate to the gross carrying amount of the financial assets, except for those that are subsequently identified as credit-impaired and or are purchased or originated 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, the calculation of interest income reverts to 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 subsequently improves.

The interest earned is recognized as part of Interest Income account in the statement of profit or loss.

(c) Classification and Measurement of Financial Assets in accordance with PAS 39

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

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

(i) Loans and Receivables

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

The Bank's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Loans and Receivables Arising from Reverse Repurchase Agreement, Loans and Receivables, and Utility deposits, Security deposits, Deposit with Philippine Clearing House Corp. (PCHC), Other investments and Petty cash fund (under Other Resources account) in the statement of financial position. Cash and cash equivalents comprise accounts with maturities of three months or less, including cash and non-restricted balances with the BSP and other banks.

For statement of cash flows purposes, cash and cash equivalents include cash and other cash items, due from BSP, due from other banks, and loans and receivables arising from reverse repurchase agreement that are unrestricted and readily available for use in the Bank's operations and are subject to insignificant risk of change in value.

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

(ii) AFS Financial Assets

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

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

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

(d) Impairment of Financial Assets under PFRS 9

From January 1, 2018, the Bank recognizes allowances for ECL on a forward-looking basis associated with its financial assets at amortized cost and debt securities at FVOCI. No impairment loss is recognized on equity investments that is designated at FVOCI.

Recognition of credit losses is no longer dependent on the Bank's identification of a credit loss event. 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.

The amount of allowance for ECL is updated at the end of each reporting period to reflect the changes in credit risk of the financial asset since initial recognition. The Bank recognizes lifetime ECL when there has been a SICR since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Bank measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the end of the reporting period.

The Bank's ECL model follows a three-stage impairment approach, which guide in the determination of the loss allowance to be recognized in the financial statements. The staging of financial assets, definition of default for purposes of determining ECL, and credit risk assessment are further discussed in Note 4.

ECL is a function of the probability of default (PD), loss-given default (LGD), and exposure-at-default (EAD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgement. These elements are discussed more fully in Notes 4.1.6(a) and 4.1.6(b).

The Bank calculates ECL on a collective basis. For modelling ECL parameters which were carried out on a collective basis, the financial instruments are grouped on the basis of shared credit risk characteristics, such as but not limited to instrument product type, collateral type, and historical net charge-offs of the borrowers or counterparties.

Also, the Bank applies a simplified ECL approach for its accounts receivables wherein the Bank uses a provisioning matrix that considers historical changes in the behavior of the portfolio of credit exposures based on internally collected data to predict conditions over the span of a given observation period. These receivables include claims from various counterparties, which are not originated through the Bank's lending activities. For these instruments, the Bank measures the loss allowance of an amount equal to lifetime ECL.

The Bank recognizes an impairment loss in profit or loss for all financial instruments subjected to ECL impairment assessment with a corresponding adjustment to their carrying amount through a loss allowance account. With respect to investments in debt securities that are measured at FVOCI, the related loss allowance account is recognized in other comprehensive income and accumulated in the Revaluation Reserve account, and does not reduce the carrying amount of the financial asset in the statement of financial position.

(e) Impairment of Financial Assets under PAS 39 Prior to January 1, 2018

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

The Bank recognizes impairment loss based on the category of financial assets as stated below.

(i) Carried at Amortized Cost – Loans and Receivables

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

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

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

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

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

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude).

The methodology and assumptions used for estimated future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When possible, the Bank seeks to restructure loans rather than to take possession of the collateral. This may involve extending the payment arrangement and agreement for new loan conditions. Once the terms have been renegotiated and satisfactory track record of payment of principal and/or interest is achieved, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria evidencing the good quality of the loan are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

The difference between the recorded carrying amount of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized as part of Impairment Losses (Recoveries) account in profit or loss.

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

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

(ii) Carried at Cost – AFS Financial Assets

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

(iii) Carried at Fair Value – AFS Financial Assets

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

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

(f) Derecognition of Financial Assets

(i) Modification of Loans

When the Bank derecognizes a financial asset through renegotiation or modification of contractual cash flows of loans to customers, the Bank assesses whether or not the new terms are substantially different to the original terms.

The Bank considers, among others:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- Whether any substantial new terms are introduced that will affect the risk profile of the loan;
- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change in the interest rate;
- Change in the currency the loan is denominated in; and/or,
- Insertion of collateral, other security or credit enhancements that will significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognizes the financial asset and recognizes a “new” asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are recognized as gain or loss on derecognition of financial assets in profit or loss. As to the impact on ECL measurement, the expected fair value of the “new” asset is treated as the final cash flow from the existing financial asset at the date of derecognition; such amount is included in the calculation of cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows of the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

As to the impact on ECL measurement, the derecognition of the existing financial asset will result in the expected cash flows arising from the modified financial asset to be included in the calculation of cash shortfalls from the existing financial asset.

(ii) Derecognition other than Modification of Loans

A financial asset (or where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party.

If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

(g) *Financial Liabilities at Amortized Cost*

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

Financial liabilities are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method, for maturities beyond one year less settlement payments. All interest-related charges on financial liabilities are recognized as an expense in the statement of profit or loss under the caption Interest Expense. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period when they arise.

(h) *Derecognition of Financial Liabilities*

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

2.4 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when the Bank currently has legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on 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.

2.5 Bank Premises, Furniture, Fixtures and Equipment

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

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

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.14).

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

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

2.6 Investment Properties

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

Investment properties are stated at cost, less accumulated depreciation and any impairment losses (see Note 2.14). The cost of an investment property comprises its purchase price and directly attributable costs incurred. For these assets, the cost is recognized initially at the lower of the outstanding loan balance or bid price, which should not be higher than the appraised value of the property.

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

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

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

2.7 Assets Held-for-Sale

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

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

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

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

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

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

2.8 Intangible Assets

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

Acquired branch license is classified as intangible assets with indefinite useful life, hence, is not subject to amortization but would require an annual test for impairment (see Note 2.14). Branch license is subsequently carried at cost less accumulated impairment losses, if any.

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

The costs of any internally generated software development are recognized as intangible assets. Any capitalized internally developed software that is not yet complete is not amortized but is subject to impairment testing as described in Note 2.14. Amortization commences upon completion of the asset.

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

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

2.9 Other Resources

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

2.10 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation.

The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

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

2.11 Other Income and Expense Recognition

Prior to January 1, 2018, revenue is recognized to the extent that the revenue can be reliably measured; it is probable that future economic benefits will flow to the Bank; and the expenses and costs incurred and to be incurred can be measured reliably.

In 2018, revenue is recognized only when (or as) the Bank satisfies a performance obligation by transferring control of the promised services to the customer. A contract with a customer that results in a recognized financial instrument in the Bank's financial statements may partially be within the scope of PFRS 9 and partially within the scope of PFRS 15. In such case, the Bank first applies PFRS 9 to separate and measure the part of the contract that is in-scope of PFRS 9, and then applies PFRS 15 to the residual part of the contract. Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset, if any.

The Bank also earns service fees and commissions on various banking services, and gains on sale of properties, which are supported by contracts approved by the parties involved. These revenues are accounted for by the Bank in accordance with PFRS 15. For revenues arising from various banking services, which are to be accounted for under PFRS 15, the following provides information about the nature and timing of satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies:

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

(b) Gains from assets acquired/exchanged are from the disposals of bank premises, furniture, fixtures and equipment, investment properties, or assets held-for-sale, if any. The Bank recognizes gain on sale at a point in time, subject to the following additional criteria:

- when control of the asset is transferred to the buyer;
- when the Bank does not retain either continuing managerial involvement to the degree usually associated with ownership, or effective control over the assets sold; and,
- when the collectability of the entire sales price is reasonably assured.

These are recognized in profit or loss, as part of Miscellaneous under Other Operating Income.

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

Collections from accounts, which did not qualify from revenue recognition, are treated as customers' deposits and are included as part of Accounts payable under Other Liabilities account in the statement of financial position.

2.12 Leases

The Bank accounts for its leases as follows:

(a) *Bank as Lessee*

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

(b) *Bank as Lessor*

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

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

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

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

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

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

2.13 Foreign Currency Transactions and Translation

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

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

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

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

2.14 Impairment of Non-financial Assets

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

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested for impairment either individually or at the cash-generating unit level.

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use.

In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Bank's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

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

2.15 Employee Benefits

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

(a) Post-employment Defined Benefit Plan

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

The liability recognized in the statement of financial position for defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rate of a zero coupon government bond that is denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. In 2018, the interest rate is based from the reference rate published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL); and, by Philippine Dealings and Exchange Corp. (PDEx) in 2017 and prior years. BVAL provides evaluated prices that are based on market observations from contributed sources.

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

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

(b) Post-employment Defined Contribution Plans

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

(c) Termination Benefits

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

(d) Compensated Absences

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

2.16 Income Taxes

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

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

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

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

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

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

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

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

2.17 Related Party Transactions and Relationships

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

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

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

2.18 Equity

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

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

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

As adopted from SEC Financial Reporting Bulletin 006 issued in 2012 and amended in 2013 and 2017, the Bank does not consider a deposit on future subscription as an equity instrument unless all of the following elements are present:

(i) The unissued authorized capital of the entity is insufficient to cover the amount of shares indicated in the contract;

(ii) There is BOD's approval on the increase in authorized capital stock (for which a deposit was received by the Bank);

(iii) There is stockholders' approval of said proposed increase; and,

(iv) The application for the approval of the proposed increase has been presented for filing or has been filed with the SEC.

If any or all of the foregoing elements are not present, the transaction should be recognized as a liability. The amount of deposits for future stock subscription will be reclassified to equity account when the Bank meets the foregoing criteria.

Revaluation reserves comprise of the following:

(a) Net unrealized fair value gain arising from remeasurements of financial assets at FVOCI (2018) and AFS Securities (2017); and,

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

Reserve for trust business represents the accumulated amount set aside by the Bank under prevailing regulations, requiring the Bank to carry to surplus 10% of its net profits accruing from trust business until the surplus shall amount to 20% of its authorized capital stock. The reserve shall not be paid out in dividends, but losses accruing in the course of the trust business may be charged against this reserve.

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

In pursuant to BSP Circular No.1011, *Guidelines on the Adoption of PFRS 9*, which requires financial institutions to set up general loan loss provision (GLLP) equivalent to 1.00% of all outstanding 'Stage 1' on-balance sheet loan accounts. GLLP pertains to the appropriation of the Surplus account, brought about by cases when the allowance for credit losses on 'Stage 1' loan accounts computed under the requirements of PFRS 9 is less than the 1.00% GLLP required by the BSP. No appropriation was made since "Stage 1" loan accounts is more than 1.00% of the GLLP required by BSP.

2.19 Loss per Share

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

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

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

2.20 Events After the End ofthe Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Bank's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) *Evaluation of Business Model Applied in Classifying Financial Instruments*

The Bank manages its financial assets based on business models that maintain adequate level of financial assets to match its expected cash outflows, largely its core deposit funding arising from customers' withdrawals and continuing loan disbursements to borrowers, while maintaining a strategic portfolio of financial assets for trading activities consistent with its risk appetite.

The Bank's business models reflect how it manages its portfolio of financial instruments. The Bank's 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 (i.e., group of financial instruments that are managed together by the Bank) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument), except for designation of equity instruments at FVOCI.

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

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 its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessary 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 Bank's objective for the business model.

(b) *Testing the Cash Flow Characteristics of Financial Assets*

In determining the classification of financial assets, 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 SPPI 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.

(c) Distinguishing Investment Properties and Owner-occupied Properties

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

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

(d) Distinguishing Operating and Finance Leases

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

(e) Classifying and Determining Fair Value of Acquired Properties

The Bank classifies its acquired properties as bank premises, furniture, fixtures and equipment if used in operations, as assets held for sale included as part of Non-financial assets under the Other Resources account if the Bank expects that the properties will be recovered through sale rather than use, as Investment Properties if held for currently undetermined future use and is regarded as held for capital appreciation, or as financial assets in accordance with PFRS 9. At initial recognition, the Bank determines the fair value of acquired properties through internally and externally generated appraisal. The appraised value is determined based on the current economic and market conditions, as well as the physical condition of the property. The Bank's methodologies in determining the fair value of acquired properties are further discussed in Note 6.

The Bank provides additional criterion for booking personal and chattel properties to Assets held-for-sale such that the personal and chattel properties should have a ready buyer before it can be booked as Assets held-for-sale or the Bank is committed to dispose the properties through active marketing and disposal program in case the sale will not happen within one year.

Accounts with no ready buyers were classified as Investment Properties for real properties and as Assets held-for-sale under Other Resources account for other properties. When the Bank expects to dispose the assets within one year or is committed to dispose the assets through an active disposal program.

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

3.2 Key Sources of Estimation Uncertainty

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

(a) Estimation of Allowance for ECL on Financial Assets (2018)

When measuring allowance for ECL for relevant categories of financial assets, management applies judgment in defining the criteria in assessing whether a financial asset has experienced SICR since initial recognition, and in the estimation of the contractual cash flows due from counterparty and those that the Bank would expect to receive, taking into account the cash flows from the realization of collateral and integral credit enhancements. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions about future economic conditions and credit behaviour of counterparties (e.g., the likelihood of counterparties defaulting and the resulting losses).

The computation of the ECL also consider the use of reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other that may result in different levels of loss allowance.

Significant factors affecting the estimates on the ECL model include:

- criteria for assessing if there has been an SICR and when a financial asset will be transferred between the three stages;
- the Bank's definition of default for different segments of credit exposures that considers the regulatory requirements;
- establishing groups of similar financial assets (i.e., segmentation) for the purposes of measuring ECL on a collective basis;
- establishment of LGD parameters based on historical recovery rates of claims against defaulted counterparties across different group of financial instruments; and,
- establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL.

Explanation of the inputs, assumptions and estimation used in measuring ECL, and the analysis of the allowance for ECL on various groups of financial instruments is further detailed in Notes 4.1.6 and 4.1.7, respectively.

(b) Estimating Impairment Losses on Loans and Receivables (2017 and 2016)

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

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

(c) Fair Value Measurement for Financial Instruments

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the end of the reporting period.

The carrying values of the Bank's financial assets at FVOCI and the amounts of fair value changes recognized on those assets are disclosed in Notes 6 and 10, respectively.

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

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

The carrying amounts of these assets are presented in Notes 12, 13 and 14. Based on management's assessment as at December 31, 2018 and 2017, there is no change in the estimated useful lives of these assets during the year. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(e) Fair Value Measurement for Investment Properties

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

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

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

(f) *Determining Realizable Amount of Deferred Tax Assets*

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

(g) *Estimating Impairment of Non-financial Assets*

Except for intangible assets with indefinite useful lives, which are tested for impairment at least annually, PFRS requires that an impairment review be performed when certain impairment indications are present. In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.14).

Though management believes that the assumptions used in the estimation of fair values of non-financial assets are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amount and any resulting impairment loss could have a material adverse effect on the Bank's results of operations.

Based on management's assessment, certain non-financial assets related to jewelry items were found impaired as of December 31, 2018 and 2017; hence, adequate amounts of allowance for impairment loss have been recognized, as discussed in Note 14.1.

(h) *Valuation of Post-employment Defined Benefit Plan*

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

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

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The Bank also trades financial instruments where it takes positions in traded and over-the-counter instruments, to take advantage of short-term market movements in equities and bonds.

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

4.1 Credit Risk

Credit risk is the risk that the counterparty in a transaction may default in payments and it arises from lending, treasury, and other activities undertaken by the Bank. The Bank manages its credit risk and loan portfolio through the Accounts Management Department (AMD), which undertakes several functions with respect to credit risk management. Impairment provisions are provided for losses that have been incurred at the end of the reporting period.

Significant changes in the economy, or in the health of a particular industry segments that represents a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the end of the reporting period. Management, therefore, carefully manages its exposure to credit risk.

4.1.1 Credit Quality Analysis

The following table sets out information about the credit quality of loans and other receivables, HTC financial assets and financial assets at FVOCI in 2018 and AFS financial assets in 2017 based on PFRS 9 and PAS 39 description, respectively. As of December 31, 2018 and 2017, there are no purchased or originated credit-impaired financial assets in the Bank's financial statements.

	2018				2017
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Total
Loans and other receivables					
Performing:					
Current	P 1,327,592,889	P 41,685,728	P 6,245,414	P1,375,524,031	P 1,541,253,396
Past due	-	439,095,734	-	439,095,735	328,819,328
Non-performing:					
Past due	-	497,818	105,845,674	106,343,492	174,779,237
Items in litigation	-	557,726	21,943,179	22,500,905	39,121,869
	1,327,592,889	481,837,006	134,034,268	1,943,464,163	2,083,973,830
Expected credit loss allowance	(15,888,655)	(12,718,602)	(48,004,210)	(76,611,467)	(96,876,125)
Carrying amount	**P 1,311,704,234**	**P 469,118,404**	**P 86,030,057**	**P 1,866,852,695**	P 1,987,097,705
HTC financial assets (2018)					
Carrying amount	**P 72,177,756**	**P -**	**P -**	**P 72,177,756**	P -
Financial assets at FVOCI (2018)					
Carrying amount	**P 418,633,887**	**P -**	**P -**	**P 418,633,887**	P -
AFS Securities (2017)					
Carrying amount	**P -**	**P -**	**P -**	**P -**	P 419,726,370

Presented below is the comparative information on the Bank's financial assets as of December 31, 2017 based on PAS 39 credit quality description.

	Neither Past Due nor Specifically Impaired			
	High Grade	Standard Grade	Past Due and Individually Impaired	Total2
Cash and other cash items	P 67,206,772	P -	P -	P 67,206,772
Due from BSP	586,867,698	-	-	586,867,698
Due from other banks	371,071,330	-	-	371,071,330
Loans and receivables arising from reverse repurchase agreement	237,908,872	-	-	237,908,872
AFS securities (debt securities)	212,293,701	-	50,000	212,343,701
Loans and receivables (gross)	1,878,041,517	14,754,899	193,808,725	2,086,605,141
Other resources	11,997,598	-	-	11,997,598
	P 3,365,387,488	P 14,754,899	P 193,858,725	P3,574,001,112

4.1.2 Concentration of Credit Risk

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

	Due from BSP, Other Banks and Loans and Reverse Repurchase Agreements	**Loans and Receivables**	**Investment Securities**
December 31, 2018			
Financial intermediaries	P 979,919,609	P 5,000,000	P -
Other community, social and personal activities	-	378,417,557	-
Consumption	-	261,363,050	-
Real estate, renting and other related activities	-	847,919,852	-
Wholesale and retail trade	-	200,320,811	-
Agriculture, fishing and forestry	-	35,251,815	-
Manufacturing (various industries)	-	37,481,411	-
Others	-	178,917,069	272,951,523
	P 979,919,609	**P 1,944,671,565**	**P 272,951,523**

	Due from BSP, Other Banks and Loans and Reverse Repurchase Agreements	**Loans and Receivables**	**AFS Securities**
December 31, 2017			
Financial intermediaries	P 1,195,847,900	P 8,793,761	P -
Other community, social and personal activities	-	214,306,978	-
Consumption	-	251,208,324	-
Real estate, renting and other related activities	-	812,619,558	-
Wholesale and retail trade	-	235,367,710	-
Agriculture, fishing and forestry	-	38,439,240	-
Manufacturing (various industries)	-	40,164,010	-
Others	-	484,705,560	212,343,701
	P 1,195,847,900	P 2,086,605,141	P 212,343,701

4.1.3 Credit Risk Management

The AMD undertakes credit analysis and review to ensure consistency in the Bank's risk assessment process. The AMD performs (a) risk ratings for corporate accounts and (b) risk scoring for consumer accounts. It also ensures that the Bank's credit policies and procedures are adequate to meet the demands of the business. The AMD is also responsible for developing procedures to streamline and expedite the processing of credit applications.

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

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

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

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

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

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

(a) *Unclassified*

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

(b) *Loans Especially Mentioned (LEM)*

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

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

(c) Substandard

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

(d) Doubtful

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

(e) Loss

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

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

4.1.4 Credit Risk Measurement

The Bank's credit risk measurement is performed on different segments of financial asset portfolio such as: (a) corporate and retail loans, which generally include corporate, individual, housing and auto loans, (b) debt securities that are measured at amortized cost and at FVOCI; and, (c) jewelry loans. The Bank also established credit risk assessment procedures for sales contract receivables and other risk assets including accounts receivables.

(a) Corporate and Retail Loans

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 assessment of credit risk of a portfolio of assets requires further estimations as to the PDs occurring, of the associated loss ratios, and of default correlations between counterparties; accordingly, such credit risk is measured using PD, EAD, and LGD, for purposes of measuring ECL.

The Bank determine any evidence of potential deterioration in the quality of an instrument that take into consideration both quantitative and qualitative criteria. 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 and under the BSP Circular No. 1011, i.e., Especially Mentioned, Substandard, Doubtful or Loss. These guidelines are used by the Bank to assign the individually assessed loan or a group of loans within a particular portfolio segment to a specific stage category under the PFRS 9 loan impairment standards (i.e. Stage 1, 2, 3).

(b) *Debt Securities Classified as Financial Assets at FVOCI and HTC Financial Assets*

For the Bank's debt securities, credit ratings published by reputable external rating agency (such as 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.

(c) *Jewelry Loans*

The ECL of jewelry loans is computed using loss rate approach. The provision rates are based on historical experience on sale of repossessed jewelry.

4.1.5 Expected Credit Loss Management

(a) *Assessment of Significant Increase in Credit Risk (SICR)*

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank assesses the change in the risk of a default occurring over the remaining life of the financial instrument. In making this assessment, the Bank assesses on a periodic basis both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information as appropriate. These may include macroeconomic conditions, economic sector and geographical region relevant to the counterparty or borrower and other factors that are counterparty-specific.

As the Bank holds various arrays of financial instruments, the extent of assessment may depend on the materiality of the financial instrument or the complexity of the portfolio being assessed.

The Bank's ECL model follows a three-stage impairment approach in determining the loss allowance to be recognized in the financial statements:

(i) Stage 1 – comprises of all credit exposures that are considered 'performing' and with no observed SICR since initial recognition. These include those financial instruments with low credit risk. For these financial instruments, the loss allowance is determined based on a 12-month ECL.

(ii) Stage 2 – comprises of all financial instruments assessed to have SICR since initial recognition based on the Bank's quantitative and qualitative criteria, though not yet deemed to be credit-impaired. With reference to the Bank's credit risk assessment, Stage 2 includes credit exposures that are considered 'under-performing' in which risk ratings were downgraded to LEM. Stage 2 financial instruments may also include those financial instruments where the credit risk has improved and have been reclassified from Stage 3 subject to the Bank's observation period on the creditworthiness of the counterparty. A lifetime ECL is recognized for these financial instruments.

(iii) Stage 3 – comprises credit exposures which are assessed as 'credit-impaired', thus considered by the Bank as 'non-performing', which is assessed consistently with the Bank's definition of default for each loan portfolio. Generally, this includes accounts that are classified as Substandard, Doubtful and Loss. The Bank recognizes a lifetime ECL for all credit-impaired financial assets.

The Bank considers low credit risk for listed debt security when its credit risk rating is equivalent to a globally understood definition of 'investment grade' (which should be from at least one major rating agency); other debt securities are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

Financial assets that are credit-impaired on initial recognition are classified as purchased or originated credit-impaired assets. ECL is only recognized or released to the extent that there is a subsequent change in the ECLs.

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's internal credit assessment, the borrower or counterparty is determined to have well-defined credit weaknesses.

For portfolios in respect of which the Bank has limited historical data particularly debt securities and government bonds, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL include exposures to low default borrower segments.

(b) *Definition of Default*

(i) Loans and Receivables

The Bank defines a financial asset as in default, which is aligned with the definition of credit-impaired asset, when it meets one or more of the following criteria:

- *Quantitative* – in this criterion, the Bank defines a loan instrument as in default, which is aligned with the definition of credit-impaired, when the borrower is more than 90 days past due on its contractual payments, except for the 30 days past due threshold for retail loans.

- *Qualitative* **–** this includes instances where the borrower is unlikely to pay its obligations and is deemed to be in significant financial difficulty, which include cases of: (i) loan restructuring for economic or legal reasons relating to the borrower's financial difficulty on terms that the Bank would not consider otherwise; (ii) borrower's death; (iv) breach of financial covenant/s; or, (v) the borrower entering bankruptcy or financial reorganization.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

An instrument is considered to be no longer in default or have cured when the borrower is able to repay the installments in arrears and the account no longer meets any of the default criteria for a consecutive period of 180 days within which the borrower shall make consecutive payments.

These criteria have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. Such definition has been consistently applied in determining PD, EAD, and LGD throughout the ECL calculations of the Bank.

(ii) Debt Securities Classified as Financial Assets at FVOCI and HTC Financial Assets

Investments in debt securities is assessed as credit-impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of an event that occurred after the initial recognition of the security (a "loss event") and that loss event has impact on the estimated future cash flows of the securities. Losses expected as a result of future events, shall also be considered in estimating the ECL.

Objective evidence that the security is impaired includes observable data that comes to the attention of the holder of the security about the following loss events:

- significant financial difficulty of the issuer or obligor;
- breach of contract, such as a default or delinquency in interest or principal payments;
- the financial institution, for economic or legal reasons relating to the issuer's financial difficulty, granting to the issuer a concession that the financial institution would not otherwise consider;
- it becoming probable that the issuer will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that security because of financial difficulties; or,
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of securities since the initial recognition of those assets, although the decrease cannot yet be identified with the individual securities in the portfolio, including adverse change in the payment status of issuers in the portfolio; or national or local economic conditions that correlate with defaults on the securities in the portfolio.

The disappearance of an active market because a financial institution's held securities are no longer publicly traded is not an evidence of impairment. A downgrade of an issuer's credit rating is not, by itself, evidence of impairment, although it may be evidence of impairment when considered with other available information. A decline in the fair value of a security below its cost or amortized cost is not necessarily evidence of impairment (for example, a decline in fair value of an investment in debt security that results from an increase in the risk-free interest rate).

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors:

- the market's assessment of creditworthiness as reflected in the bond yields;
- the rating agencies' assessment of creditworthiness;
- the country's ability to access the capital markets for new debt issuance;
- the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness; or,
- the internal support mechanism in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfill the required criteria.

4.1.6 Expected Credit Loss Measurement Inputs

Integral in the Bank's established policies in measuring and calculating ECL on financial instrument is the use of appropriate model for each segment of financial asset that applies relevant inputs and assumptions, including forward-looking information as appropriate.

(a) Key Inputs and Assumptions in the Expected Credit Loss Model

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

(i) PD represents 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. In determining PD, the Bank performed segmentation of its credit exposures based on homogenous characteristics. PD of individually assessed credit exposures is determined based on the historical losses incurred over total exposure while PD of collectively assessed credit exposure is determined based on the net flow rate which is developed from historical movements between one days past due bucket to the next.

(ii) LGD pertains to estimate of loss related to the amount that may not be recovered after the borrower defaults. The Bank estimates LGD parameters based on historical recovery rates of claims against defaulted counterparties, which takes into consideration the realization of any collateral that is integral to the financial asset.

(iii) EAD represents the gross carrying amount of the exposure in the event of default which include the amortized cost of an instrument and any accrued interest receivable. For lending commitments, the EAD includes the amount of drawn and undrawn irrevocable loan commitments under the contract, which are estimated based on historical observations and forward-looking forecast.

These three components are multiplied together and adjusted for the likelihood of survival (i.e., the exposure has not been prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to and summed at the end of the reporting period. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

(b) Overlay of Forward-looking Information

The Bank incorporates forward-looking information (FLI) in its assessment of significant increase in credit risk and calculation of ECL. The Bank has performed historical analysis and has identified the key macroeconomic variables (MEVs) impacting credit risk associated with its borrowers.

The MEVs and their associated impact on the PD, LGD and EAD vary by financial instrument. The impact of these MEVs on the PD, LGD, and EAD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

The MEVs considered by the Bank includes economic data and forecasts published by government bodies (e.g., BSP and Philippine Statistics Authority). Accordingly, the Bank has identified key drivers for credit risk for each portfolio. Using an analysis on historical data, the Bank has estimated relationships between MEVs and credit risk and credit losses. Accordingly, the Bank has identified key drivers for credit risk for its corporate loans portfolio, which is gross domestic product. On the other hand, the key drivers for the Bank's retail loans portfolio include unemployment rates, employment rates, consumer price indices and retail price indices.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore, the actual outcomes may be significantly different to those projections. The Bank considers these forecasts to represent its best estimate of the possible outcomes.

4.1.7 Allowance for Expected Credit Losses

The following tables show the reconciliation of the loss allowance for ECL by class of financial instruments at the beginning and end of 2018.

(a) Loans and Receivables

	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2018, as restated	P 15,150,202	P 19,288,838	P 57,611,424	P 92,050,464
Transfers:				
From Stage 1 to Stage 2	(7,771,526)	7,771,526	-	-
From Stage 1 to Stage 3	(118,372)	-	118,372	-
From Stage 2 to Stage 1	666,968	(666,968)	-	-
From Stage 2 to Stage 3	-	(2,598,914)	2,598,914	-
From Stage 3 to Stage 2	-	238,348	(238,348)	-
New financial assets originated:				
Remained in Stage 1	8,774,949	-	-	8,774,949
Moved to Stages 2 and 3	-	2,047,088	2,174,766	4,221,854
Financial assets derecognized or repaid during the year	(813,566)	(13,361,316)	(14,260,918)	(28,435,800)
	738,453	(6,570,236)	(9,607,214)	(15,438,997)
Balance at December 31, 2018	**15,888,655**	**12,718,602**	**48,004,210**	**76,611,467**

(b) HTC financial assets and financial assets at FVOCI

For the Bank's HTC financial assets, the Bank has recognized ECL amounting to P0.38 million in 2018. No ECL was recognized for financial assets at FVOCI during the year.

(c) Loan commitments

Allowance for ECL recognized by the Bank related to undrawn loan commitments as of December 31, 2018 amounted to P0.29 million is presented as part of Miscellaneous under the Other Liabilities account (see Note 16). Related ECL amounting to P0.29 million is presented as part of Impairment Losses (Recoveries) in the 2018 statement of profit and loss.`

The information on how the significant changes in the gross carrying amount of the financial instruments contributed to the changes in the amount of allowance for ECL are presented in Note 4.1.8.

4.1.8 Significant Changes in Gross Carrying Amount Affecting Allowance for ECL

The tables below provides information how the significant changes in the gross carrying amount of financial instruments in 2018 contributed to the changes in the allowance for ECL (net of unearned interests, discounts and other charges).

(a) Loans and receivables

	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2018	P 1,520,033,341	P 423,747,892	P 140,192,597	P 2,083,973,830
Transfers:				
From Stage 1 to Stage 2	(151,144,189)	151,144,189	-	-
From Stage 1 to Stage 3	(4,662,320)	-	4,662,320	-
From Stage 2 to Stage 1	68,449,940	(68,449,940)	-	-
From Stage 2 to Stage 3	-	(25,517,179)	25,517,179	-
From Stage 3 to Stage 2	-	4,209,765	(4,209,765)	-
New financial assets originated:				
Remained in Stage 1	774,342,635	-	-	774,342,635
Moved to Stages 2 and 3	-	61,071,140	24,735,819	85,806,959
Financial assets derecognized or repaid during the year	(879,426,518)	(64,368,860)	(56,863,882)	(1,000,659,261)
	(192,440,452)	(58,089,115)	(6,158,329)	(140,509,667)
Balance at December 31, 2018	**1,327,592,889**	**481,837,006**	**134,034,268**	**1,943,464,163**

(b) HTC financial assets and financial assets at FVOCI

There was no significant movement in the Bank's HTC financial assets and financial assets at FVOCI during the year that affected the allowance for ECL (see Note 10).

4.2 Liquidity Risk

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

The analysis of the maturity profile of resources, liabilities and off-statement of financial position items as of December 31, 2018 and 2017 in accordance with the account classification of the BSP, are presented in the succeeding page.

	Up to three months	More than three months to one year	More than one year to five years	More than five years	Total
December 31, 2018					
Resources:					
Cash and other cash items	P 60,299,656	P -	P -	P -	P 60,299,656
Due from BSP	279,146,370	-	-	-	279,146,370
Due from other banks	442,057,439	77,715,800	-	-	519,773,239
Loans and receivables arising from reverse repurchase agreement	181,000,000	-	-	-	181,000,000
Financial assets at FVOCI	-	-	339,758,870	78,875,017	418,633,887
HTC financial assets – net	9,862,694	24,699,128	37,615,934	-	72,177,756
Loans and receivables	367,667,672	479,461,271	452,587,178	567,136,574	1,866,852,695
Other resources	53,327,078	99,490,816	174,573,219	114,790,293	442,181,406
Total Resources	1,393,360,909	681,367,015	604,535,201	1,160,801,884	3,840,065,009
Liabilities and Equity:					
Deposit liabilities	2,877,027,115	100,678,949	107,624,868	-	3,085,330,932
Other liabilities	67,216,339	-	10,073,352	-	77,289,691
Total liabilities	2,944,243,454	100,678,949	117,698,220	-	3,162,620,623
Equity	-	-	-	677,444,386	677,444,386
Total Liabilities and Equity	2,944,243,454	100,678,949	117,698,220	677,444,386	3,840,065,009
On-book gap	(1,550,882,545)	580,688,066	486,836,981	483,357,498	-
Cumulative on-book gap	(1,550,882,545)	(859,070,798)	(451,218,343)	-	-
Contingent assets	107,481,409	-	-	-	107,481,409
Contingent liabilities	(143,566,597)	(37,434,958)	(1,018,828,256)	(86,391,067)	(1,286,220,878)
Off-book gap	(36,085,188)	(37,434,958)	(1,018,828,256)	(86,391,067)	(1,178,739,469)
Cumulative off-book gap	(36,085,188)	(73,520,146)	(1,092,348,402)	(1,178,739,469)	-
Cumulative total gap	**(P 1,510,151,933)**	**(P 932,590,944)**	**(P1,543,566,745)**	**(P 1,178,739,469)**	**P -**
December 31, 2017					
Resources:					
Cash and other cash items	P 67,206,772	P -	P -	P -	P 67,206,772
Due from BSP	586,867,698	-	-	-	586,867,698
Due from other banks	352,922,838	18,148,492	-	-	371,071,330
Loans and receivables arising from reverse repurchase agreement	237,908,872	-	-	-	237,908,872
AFS securities	138,712,486	-	22,081,821	258,932,063	419,726,370
Loans and receivables	483,039,675	500,259,101	513,440,624	490,358,305	1,987,097,705
Other resources	56,165,843	104,911,125	184,011,003	121,024,431	466,112,402
Total Resources	1,922,824,184	623,318,718	719,533,448	870,314,799	4,135,991,149
Liabilities and Equity:					
Deposit liabilities	3,114,222,700	185,815,229	61,771,756	-	3,361,809,685
Other liabilities	67,872,676	-	13,825,060	-	81,697,736
Total liabilities	3,182,095,376	185,815,229	75,596,816	-	3,443,507,421
Equity	-	-	-	692,483,728	692,483,728
Total Liabilities and Equity	3,182,095,376	185,815,229	75,596,816	692,483,728	4,135,991,149
On-book gap	(1,259,271,192)	437,503,489	643,936,632	177,831,071	-
Cumulative on-book gap	(1,259,271,192)	(821,767,703)	(171,831,071)	-	-
Contingent assets	129,308,047	-	-	-	129,308,047
Contingent liabilities	(14,442,549)	(2,016,800)	(896,298,788)	(25,160,078)	(937,918,216)
Off-book gap	114,865,498	(2,016,800)	(896,298,788)	(25,160,078)	(808,610,168)
Cumulative off-book gap	114,865,498	112,848,698	(783,450,090)	(808,610,168)	-
Cumulative total gap	(P 1,144,405,694)	(P 708,919,005)	(P 961,281,161)	(P 808,610,168)	P -

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

The contractual maturities of the Bank's financial liabilities as of December 31, 2018 and 2017, are presented below.

	Up to three months	More than three months to one year	More than one year to five years	Total
December 31, 2018				
Deposit liabilities	P 2,877,027,115	P 100,678,949	P 107,624,868	3,085,330,932
Other liabilities	64,832,381	-	-	64,832,381
	P 2,941,859,496	**P 100,678,949**	**P 107,624,868**	**P3,150,163,313**
December 31, 2017				
Deposit liabilities	P 3,114,222,700	P 185,815,229	P 61,771,756	P 3,361,809,685
Other liabilities	68,849,899	-	-	68,849,899
	P 3,183,072,599	P 185,815,229	P 61,771,756	P3,430,659,584

4.3 Foreign Exchange Risk

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

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

Foreign currency-denominated assets and liabilities as of December 31, 2018 and 2017 translated to closing rates consist of the following:

	2018		2017	
	US Dollar	**Philippine Peso**	US Dollar	Philippine Peso
Cash and other cash items	**$ 5,171,750**	**P271,930,663**	$ 5,838,077	P291,495,169
Loans and receivables - net	**11,312**	**594,713**	9,904	494,496
Deposit liabilities	**(5,175,220)**	**(272,113,048)**	(5,842,739)	(291,727,967)
Other liabilities	**(7,842)**	**(412,328)**	(5,224)	(260,799)
Short-term exposure	**$ -**	**P -**	$ 18	P 899

The sensitivity of the net profit before tax and equity in regards to the Bank's financial assets and financial liabilities and the US dollar – Philippine peso exchange rate assumes a +/- 11.14% change and +/- 12.93% change in the Philippine peso/US dollar exchange rate for the years ended December 31, 2018 and 2017, respectively. These percentage changes have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months, estimated at 99% confidence level.

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

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

4.4 Interest Rate Risk

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

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

	Sensitivity Rate +/- %	Loss Before Tax	Equity
December 31, 2018			
Loans and receivables	0.11%	(P 2,023,075)	P 1,416,152
Financial assets at FVOCI	0.12%	(240,353)	168,247
HTC financial assets	0.12%	(86,613)	60,629
Due from other banks	0.07%	(359,163)	251,414
		(P 2,709,204)	**P 1,896,442**
December 31, 2017			
Loans and receivables	0.04%	(P 879,474)	P 615,632
AFS securities – bonds	0.04%	(128,820)	90,174
Due from other banks	0.06%	(550,671)	385,470
		(P 1,558,965)	P 1,091,276

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

4.5 Operational Risk

Operational risks are risks arising from the potential inadequate information systems and systems, operations or transactional problems (relating to service or product delivery), breaches in internal controls, fraud, or unforeseen catastrophes that may result in unexpected loss. Operational risks include the risk of loss arising from various types of human or technical error, settlement or payments failures, business interruption, administrative and legal risks, and the risk arising from systems not performing adequately.

The RMC of the Bank assists management in meeting its responsibility to understand and manage operational risk exposures. The RMC applies a number of techniques to efficiently manage operational risks. Among these are enumerated below.

- Each major business line has an embedded operational risk management officer who acts as a point person for the implementation of various operational risk tools. The operational risk officers attend annual risk briefings conducted by the RMC to keep them up-to-date with different operational risk issues, challenges and initiatives.

- With RMC's bottom up self-assessment process, which is conducted at least annually, areas with high risk potential are highlighted and reported, and control measures are identified. The results of said self-assessment exercise also serve as one of the inputs in identifying specific key risk indicators (KRIs).

- KRIs are used to monitor the operational risk profile of the Bank and of each business unit, and alert the management of impending problems in a timely fashion.

- Internal loss information is collected, reported and utilized to model operational risk.

- The RMC reviews product and operating manuals, policies, procedures and circulars, thus allowing the embedding of desired operational risk management practices in all business units.

a. Reputational Risk

Reputation risk is the risk to earnings or capital arising from negative public opinion. This affects the Bank's ability to establish new relationships or services, or to continue servicing existing relationships. This risk can expose the Bank to litigation, financial loss, or damage to its reputation. Reputation risk arises whenever technology-based banking products, services, delivery channels or processes may generate adverse public opinion such that it seriously affects the Bank's earnings or impairs its capital. This risk is present in activities such as asset management and regulatory compliance.

The Bank adopted a reputation risk monitoring and reporting framework to manage public perception.

b. Legal Risk and Regulatory Risk Management

Changes in laws and regulations and fiscal policies could adversely affect the Bank's operations and financial reporting. In addition, the Bank faces legal risks in enforcing its rights under its loan agreements, such as foreclosing of collateral. Legal risk is higher in new areas of business where the law remains untested by the courts. The Bank uses a legal review process as the primary control mechanism for legal risk. Such a legal review aims to verify and validate the existence, genuineness and due execution of legal documents, and verify the capacity and authority of counterparties and customers to enter into transactions. In addition, the Bank seeks to minimize its legal risk by using stringent legal documentation, imposing certain requirements designed to ensure that transactions are properly authorized, and consulting internal and external legal advisors.

Regulatory risk refers to the potential for the Bank to suffer financial loss due to changes in the laws or monetary, tax or other governmental regulations of the country. The Bank's Compliance Program, the design and implementation of which is overseen and coordinated by the Compliance Officer, is the primary control process for regulatory risk issues. The Compliance Officer is committed to safeguard the integrity of the Bank by maintaining a high level of regulatory compliance. It is responsible for communicating and disseminating new rules and regulations to all units, assessing and addressing identified compliance issues, performing periodic compliance testing on branches and head office units, and reporting compliance findings to the Audit Committee and the BOD.

4.6 Anti-Money Laundering Controls

The Anti-Money Laundering Act (AMLA) or RA No. 9160 was passed in September 2001 and was amended by RA No. 9194, RA No. 10167, and RA No. 10365 in March 2003, June 2012 and February 2013, respectively. Under the AMLA, as amended, the Bank is required to submit "Covered Transaction Reports" to the Anti-Money Laundering Council (AMLC) involving single transactions in cash or other equivalent monetary instruments in excess of P0.5 million within one banking day. The Bank is also required to submit "Suspicious Transaction Reports" to the AMLC in the event that circumstances exist and there are reasonable grounds to believe that the transaction is suspicious. Furthermore, terrorist financing was criminalized in RA No. 10168. In addition, the AMLA requires that the Bank safe keeps, as long as the account exists, all the Know Your Customer (KYC) documents involving its clients, including documents that establish and record the true and full identity of its clients. Likewise, transactional documents must be maintained and stored for five years from the date of the transaction. In cases involving closed accounts, the KYC documents must be kept for five years after their closure. Meanwhile, all records of accounts with court cases must be safe kept until there is a final resolution.

On January 27, 2011, BSP Circular No. 706 was implemented superseding all policies on AMLA. The Circular requires the Bank to adopt a comprehensive and risk-based Money Laundering and Terrorist Financing Prevention Program (MLPP) designed according to the covered institution's corporate structure and risk profile.

In an effort to further prevent money laundering activities, the Bank revised its KYC policies and guidelines in order to comply with the aforementioned Circular. Under the guidelines, each business unit is required to validate the true identity of a customer based on official or other reliable identifying documents or records before an account may be opened. Likewise, the Bank is required to risk profile its clients to Low, Normal or High with its corresponding due diligence of Reduced, Average or Enhanced, in compliance with the risk-based approach mandated by the Circular. Decisions to enter into a business relationship with a high risk customer requires senior management approval, and in some cases such as a politically exposed person or a private individual holding a prominent position, Credit and Collection Department Group Head approval is necessary.

The Bank's procedures for compliance with the AMLA are set out in its MLPP. The Bank's Compliance Officer, through the Compliance Department, monitors AMLA compliance and conducts regular compliance testing of business units.

The Compliance Officer regularly reports to the Audit Committee and to the BOD results of their monitoring of AMLA compliance.

5. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.1 Carrying Amounts and Fair Values by Category

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

		2018		2017	
	Notes	**Carrying Amounts**	**Fair Values**	Carrying Amounts	Fair Values
Financial Assets					
At amortized cost:					
Cash and other cash items		**P 60,299,656**	**P 60,299,656**	P 67,206,772	P 67,206,772
Due from BSP	7	**279,146,370**	**279,146,370**	586,867,698	586,867,698
Due from other banks	8	**519,773,239**	**519,773,239**	371,071,330	371,071,330
Loans and receivables arising from reverse repurchase agreement	9	**181,000,000**	**181,000,000**	237,908,872	237,908,872
Loans and receivables - net	11	**1,866,852,695**	**1,945,490,471**	1,987,097,705	2,127,790,114
HTC financial assets	10	**72,177,756**	**70,614,673**	-	-
Other resources	14	**11,627,492**	**11,627,492**	11,997,598	11,997,598
		2,990,877,208	**3,067,951,901**	3,262,149,975	3,402,842,384
At fair value:					
Financial assets at FVOCI		**418,633,887**	**418,633,887**	-	-
AFS Securities		-	-	346,183,518	346,183,518
		P 3,409,511,095	**P 3,486,585,788**	P 3,608,333,493	P 3,749,025,902
Financial Liabilities					
At amortized cost:					
Deposit liabilities	15	**P 3,085,330,932**	**P 3,085,330,932**	P 3,361,809,685	P 3,361,809,685
Other liabilities	16	**68,234,144**	**68,234,144**	68,849,899	68,849,899
		P 3,153,565,076	**P 3,153,565,076**	P 3,430,659,584	P 3,430,659,584

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

5.2 Offsetting of Financial Assets and Financial Liabilities

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

	Gross amounts recognized in statements of financial position	Related amounts not set off in the statements of financial position the Financial Instruments	Collateral received	Net amount
Loans and receivables – Receivables from customers				
December 31, 2018	**P 1,866,852,695**	**(P 12,600,855)**	**P -**	**P 1,854,251,840**
December 31, 2017	P 1,987,097,705	(P 23,651,103)	P -	P 1,963,446,602

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

	Gross amounts recognized in statements of financial position	Related amounts not set off in the statements of financial position the Financial Instruments	Collateral received	Net amount
Deposit liabilities –				
December 31, 2018	**P 3,085,330,932**	**(P 12,600,855)**	**P -**	**P 3,072,730,077**
December 31, 2017	P 3,361,809,685	(P 23,651,103)	P -	P 3,338,158,582

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

6. FAIR VALUE MEASUREMENT AND DISCLOSURES

6.1 Fair Value Hierarchy

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

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

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

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

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

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

6.2 Financial Instruments Measurement at Fair Value

The table below shows the fair value hierarchy of the Bank's classes of financial assets measured at fair value in the statements of financial position on a recurring basis as of December 31, 2018 and 2017.

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Financial Assets at FVOCI:				
Debt securities				
Corporate bonds	P133,466,135	P -	P -	P 133,466,135
Government securities	66,828,252	-	-	66,828,252
Equity securities	128,339,500	-	50,000,000	128,339,500
Proprietary club shares	-	40,000,000	-	90,000,000
	P328,633,887	**P 40,000,000**	**P -**	**P 418,633,887**
December 31, 2017				
Financial Assets at FVOCI:				
Debt securities				
Corporate bonds	P 88,427,428	P -	P -	P 88,427,428
Government securities	100,373,421	-	-	100,373,421
Equity securities	133,332,669	-	-	133,332,669
Proprietary shares	-	24,050,000	-	24,050,000
	P322,133,518	**P 24,050,000**	**P -**	**P 346,183,518**

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

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

Described below are the information about how the fair values of the Bank's Financial assets at FVOCI in 2018 (AFS securities in 2017) are determined.

(a) Equity securities

The fair values quoted equity securities included in Level 1 were valued based on their market prices quoted in the Philippine Stock Exchange at the end of each reporting period while the fair value of unquoted equity security under Level 3 represents the discounted amount of estimated future cash flow expected to be received.

(b) Debt Securities

The fair value of the Bank's debt securities which consist of government bonds categorized within Level 1 is determined directly based on published closing prices available from the electronic financial data service providers which had been based or referenced on price quoted or actually dealt in an active market (i.e., BVAL reference rates for 2018, and PDEx for 2017) at the end of each reporting period.

(c) Propriety Club Shares

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

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

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

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Financial assets:				
At amortized cost:				
Cash and other cash items	P 60,299,656	P -	P -	P 60,299,656
Due from BSP	279,146,370	-	-	279,146,370
Due from other banks	519,773,239	-	-	519,773,239
Loans and receivables arising from reverse repurchase agreement	181,000,000	-	-	181,000,000
Loans and receivables - net	-	-	1,945,490,471	1,945,490,471
HTC financial assets	52,957,537	-	17,657,136	70,614,673
Other resources	-	-	11,627,492	11,627,492
	P 1,093,176,802	**P -**	**P 1,974,775,099**	**P 3,067,951,901**
Financial liabilities:				
At amortized cost:				
Deposit liabilities	P -	P -	P 3,085,330,932	P 3,085,330,931
Other liabilities	-	-	68,234,144	68,234,144
	P -	**P -**	**P 3,153,565,076**	**P 3,153,565,076**
December 31, 2017				
Financial assets:				
At amortized cost:				
Cash and other cash items	P 67,206,772	P -	P -	P 67,206,772
Due from BSP	586,867,698	-	-	586,867,698
Due from other banks	371,071,330	-	-	371,071,330
Loans and receivables arising from reverse repurchase agreement	237,908,872	-	-	237,908,872
Loans and receivables - net	-	-	2,127,790,114	2,127,790,114
Other resources	-	-	11,997,598	11,997,598
	P 1,263,054,672	**P -**	**P 2,139,787,712**	**P 3,402,842,384**
Financial liabilities:				
At amortized cost:				
Deposit liabilities	P -	P -	P 3,361,809,685	P 3,361,809,685
Other liabilities	-	-	68,849,899	68,849,899
	P -	**P -**	**P 3,430,659,584**	**P 3,430,659,584**

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

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

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

(b) *Loans and Receivables and Other Resources*

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

(c) *Held-to-Collect Financial Assets*

HTC financial assets consist of government and corporate bonds. The fair value of these investment securities is determined by direct reference to published price quoted in an active market for traded securities (i.e., BVAL reference rates for 2018, and PDEX for 2017 and prior years).

(d) *Deposit Liabilities*

The estimated fair value of demand deposits with no stated maturity, which includes noninterest-bearing deposits, is the amount repayable on demand. The estimated fair value of interest-bearing deposits without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The carrying amounts of deposits which are generally short-term in nature approximate their fair values.

(e) *Other Liabilities*

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

6.4 Fair Value Disclosures for Investment Properties

The total estimated fair values of the Bank's investment properties amounted to P117.6 million and P94.1 million as of December 31, 2018 and 2017, respectively. The fair value hierarchy of those properties categorized as Level 3, are shown below.

	2019	2018
Land	**P 87,097,316**	P 83,034,689
Buildings	**38,671,179**	**34,557,607**
	P 125,768,495	P 117,592,296

The fair value disclosed for the Bank's investment properties as of December 31, 2018 and 2017 was based on the appraisals performed by the Bank's in-house and independent and qualified appraisers having appropriate and recent experience in the fair value measurement of similar properties in the relevant locations. To some extent, the valuation process was conducted by the appraisers in discussion with the Bank's management with respect to the determination of the inputs such as the size, age, and condition of the land and building, and the comparable prices in the corresponding property location. In estimating the fair values of the investment properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Bank's investment properties is their current use.

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

(a) Fair Value Measurement for Land

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

(b) Fair Value Measurement for Buildings

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

There has been no change to the valuation techniques used during the year. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2018 and 2017.

7. DUE FROM BANGKO SENTRAL NG PILIPINAS

The balance of this account consists of the following:

	2019	2018
Demand deposit	**P 192,888,938**	P 229,146,370
Term deposit facility	**0**	50,000,000
Overnight deposit liability	**20,000,000**	-
	P 212,888,938	P 279,146,370

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

Interest-bearing deposits with the BSP bear annual interest at rates ranging from 2.50% to 5.20% in 2018, 2.50% to 3.50% in 2017 and 2.50% in 2016. Total interest earned from these deposits amounted to P9.3 million, P8.9 million, P7.7 million in 2018, 2017 and 2016, respectively, and is shown as part of the Interest Income on Due from BSP and Other Banks and Receivables Arising from Reverse Repurchase Agreement account in the statements of profit or loss.

8. DUE FROM OTHER BANKS

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

	2019	2018
Time deposits	**P 352,557,497**	P 455,987,838
Demand deposits	**429,644**	63,785,401
Savings deposits	**65,548,275**	
	P 418,535,416	P 519,773,239

Savings deposits represent clearing and other depository accounts with other banks, which bear annual interest rates ranging from 0.13% to 0.88% in 2018, and 0.25% to 0.88% in both 2017 and 2016.

Time deposits include special savings deposits, which bear annual effective interest rates ranging from 0.25% to 6.88% in 2018, and 1.00% to 2.16% in both 2017 and 2016 and have average maturities of one to 12 months.

Interest income earned from these savings and time deposits amounted to P8.1 million in 2018, P2.0 million in 2017, and P1.5 million in 2016 and is shown as part of Interest Income on Due from BSP and Other Banks and Receivables Arising from Reverse Repurchase Agreement account in the statements of profit or loss.

The breakdown of this account by currency is as follows:

	2019	2018
Philippine peso	**P 166,820,304**	P 241,437,625
United States dollar	**251,715,112**	278,335,614
	P 418,535,416	P 519,773,239

For statements of cash flows purposes, deposits amounting to P77.7 million and P18.1 million as of December 31, 2018 and 2017, respectively, are not considered as cash and cash equivalents since these have maturities of more than three months (see Note 26).

9. LOANS AND RECEIVABLES ARISING FROM REVERSE REPURCHASE AGREEMENT

The Bank has loans and receivables from BSP as of December 31, 2018 and 2017 from overnight lending from excess liquidity, which earn annual effective interest of 4.75% in 2018, and 3.0% in both 2017 and 2016. These loans normally mature within 30 days. Interest income earned from these financial assets amounted to P5.9 million in 2018, P3.4 million in 2017 and P1.5 million in 2016, and are shown as part of Interest Income on Due from BSP and Other Banks and Receivables Arising from Reverse Repurchase Agreement account in the statements of profit or loss.

10. INVESTMENT SECURITIES

10.1 Held-to-Collect Financial Assets

HTC financial assets as of December 31, 2018 consist of:

Government debt securities:	
Quoted	P 55,000,000
Unquoted	17,657,136
	72,657,136
Unamortized discount	(102,973)
Allowance for impairment	(376,407)
	P 72,177,756

The maturity profile of this account is presented below.

Within one year	P 9,862,694
Between two years and five years	24,699,128
Beyond five years	37,615,934
	P 72,177,756

Quoted government debt securities represent debt securities issued by the Republic of the Philippines, which earn annual effective interests ranging from 3.75% to 4.85% in 2018. These securities will mature in various dates within 2019 to 2022.

Unquoted government debt securities is composed of 10 years - debt securities issued by the local government of Infanta, Quezon which will mature in 2021. These securities earn an annual effective interest rate of 5.9% in 2018.

The interest income earned by the Bank from HTC financial assets amounted to P8.0 million and is presented as part of Interest Income on Investment Securities in 2018 statement of profit or loss.

Changes in the Bank's holdings of HTC financial assets in 2018 are summarized below.

Balance at beginning of year		
As previously stated	P	-
Effect of adoption of PFRS 9 [see Notes 2.2(a)(ii)]:		
Reclassifications from AFS securities		43,572,576
Remeasurements:		
Impairment losses	(	751,534)
Accumulated unrealized loss		304,783
Amortization of discount (premium)	(	122,910)
As restated		43,002,915
Additions		34,209,517
Reversal of impairment		375,127
Maturities	(	5,886,716)
Amortization of discount (premium)		476,913
Balance at end of year	**P**	**72,177,756**

Certain government securities amounting to P10.0 million were earmarked for trust duties and tagged as non-tradable by the Bureau of Treasury (see Note 21).

10.2 Financial Assets at Fair Value Through Other Comprehensive Income

Financial assets at fair value through other comprehensive income as of June 30,2019 consist of:

Quoted:		
Government debt securities	P	76,593,309
Corporate debt securities		141,875,928
Equity securities		123,657,709
Proprietary club shares		37,000,000
	P	**379,126,946**

In 2018, the fair value gains in the Bank's financial assets at FVOCI amounted to P2.3 million which are recognized in other comprehensive income and presented in the 2018 statement of comprehensive income under items that will be reclassified subsequently to profit or loss.

Quoted government debt securities, designated as FVOCI at the adoption of PFRS 9, represent debt securities issued by the Republic of the Philippines, which earn annual effective interests ranging from 4.25% to 4.88% in 2018. These securities will mature in various dates within 2020 to 2022.

Quoted corporate bonds are marketable debt securities issued by top corporations in the Philippines. These debt securities earn annual effective interests ranging from 4.25% to 8.0% in 2018.

Quoted equity securities pertain to shares of stock of domestic corporations whose shares of stock are publicly traded in the PSE. These securities earned dividend amounting to P8.1 million in 2018 and is presented as part of Dividends under Miscellaneous income in the 2018 statement of profit or loss (see Note 18.1).

Proprietary club shares consist of golf shares of Wack Wack Golf & Country Club. Unquoted equity securities pertain to non-marketable preference shares issued by a private corporation. These securities earned dividend amounting to P4.4 million in 2018 and is recorded as part of Dividends under Miscellaneous income in the 2018 statement of profit or loss (see Note 18.1).

Changes in the Bank's holdings of financial assets at FVOCI in 2018 are summarized below.

Balance at beginning of year	
As previously stated	P -
Effect of adoption of PFRS 9 [see Notes 2.2(a)(ii)]:	
Reclassifications from AFS Financial Assets	376,153,794
As restated	376,153,794
Additions	70,000,000
Maturities	(29,806,037)
Fair value gain	2,286,130
Balance at end of year	P 418,633,887

The Bank's financial assets at FVOCI, which are subject to credit risk exposure (see Note 4.3.4), have been reviewed for indications of impairment. Based on such review, the management determines that the related losses are immaterial to the financial statements. Accordingly, the Bank did not recognize any impairment losses on these financial assets in 2018.

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

10.3 Available-for-Sale Securities (2017)

The composition of these financial assets as of June 30, 2019 as to type of instrument is shown below.

Equity securities:	
Quoted	P 123,657,709
Government debt securities:	
Quoted	76,593,309
Corporate bonds:	
Quoted	141,875,928
Quoted proprietary club shares	37,000,000
	P 379,126,946

The reconciliation of the carrying amounts of AFS securities follows:

Balance at beginning of year	P 389,723,459
Acquisitions	104,075,924
Disposal/maturity	(68,595,494)
Amortization	(10,425,420)
Fair value gains	4,947,901
Balance at end of year	P 419,726,370

Unquoted government debt securities is composed of 10 years - debt securities issued by the local government of Infanta, Quezon which will mature in 2021. These securities earn an annual effective interest rate of 5.5% in 2017, and 4.7% in 2016. This securities is carried at cost as the fair value of these securities cannot be determined.

Quoted government debt securities, designated as FVOCI at the adoption of PFRS 9, represent debt securities issued by the Republic of the Philippines, which earn annual effective interests ranging from 4.25% to 4.88% in both 2017 and 2016.

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

Quoted equity securities pertain to shares of stock of domestic corporations whose shares of stock are publicly traded in the PSE. These securities earned dividend amounting to P8.6 million in 2017 and P7.4 million in 2016 is presented as part of Dividends under Miscellaneous income in the statements of profit or loss (see Note 18.1).

Proprietary club shares consist of golf shares of Wack Wack Golf & Country Club. Unquoted equity securities pertain to non-marketable preference shares issued by a private corporation. These securities earned dividend amounting to P4.4 million in 2017 and P3.7 million in 2016 and is recorded as part of Dividends under Miscellaneous income in the statements of profit or loss (see Note 18.1).

In accordance with PFRS 9 and the Bank's business model in managing financial assets, these financial assets outstanding as of December 31, 2017 were reclassified to HTC financial assets category and Financial assets at fair value through other comprehensive income categories on January 1, 2018 [see Notes 2.2 (a)(ii)].

11. LOANS AND RECEIVABLES

The details of this account follows:

	Notes	**2019**	2018
Receivables from customers		**2,099,419,988**	P 1,817,512,313
Sales contract receivables	12, 22.5	**52,109,539**	81,243,968
Other receivables		**44,210,645**	45,915,284
		2,195,740,173	1,944,671,565
Unearned interests, discounts and other charges		**(4,473,048)**	(1,207,403)
Allowance for impairment		**(52,258,312)**	(76,611,467)
		P2,139,028,813	P 1,866,852,695

Included in receivables from customers are non-accruing loans amounting to P117.2 million and P155.4 million as of December 31, 2018 and 2017, respectively.

Receivables from customers are composed of the following:

	2019	2018
Time loans	**P 1,929,149,979**	P 1,677,180,132
Bills discounted	**14,416,930**	12,600,855
Past due loans	**77,532,659**	95,112,485
Items in litigation	**61,960,809**	21,656,953
Restructured loans	**16,359,611**	10,961,888
Bills purchased	**-**	0
	P 2,099,419,988	P 1,968,435,625

Receivables from customers bear annual effective interest rates ranging from 1.13% to 74% in 2018, and from 1.13% to 55.0% in both 2017 and 2016. Total interest earned amounted to P191.8 million, P193.0 million and P187.7 million in 2018, 2017 and 2016, respectively, and are presented as Interest income on loans and receivables in the statements of profit and loss.

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

	2018	2017
Within one year	**P 857,972,168**	P 1,010,073,403
Beyond one year:		
Within five years	**494,623,466**	601,860,423
Beyond five years	**464,916,679**	356,501,799
	P 1,817,512,313	P 1,968,435,625

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

	2018	2017
Variable interest rates	**P1,528,223,788**	P 1,671,092,644
Fixed interest rates	**289,288,525**	297,342,981
	P 1,817,512,313	P 1,968,435,625

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

	2018	2017
Secured:		
Real estate mortgage	**P 1,377,059,011**	P 1,491,648,375
Chattel mortgage	**57,341,425**	64,440,728
Hold-out deposit	**12,600,855**	23,651,103
Jewelries	**204,188,700**	199,138,137
Others	**145,450,578**	160,370,388
	1,796,640,569	1,939,248,731
Unsecured	**20,871,744**	29,186,894
	P 1,817,512,313	P 1,968,435,625

Sales contract receivables represent the outstanding balance related to the sale of investment properties (see Note 13). The terms of payment ranges from 2 to 25 years in 2018 and 2017.

Annual interest rates on these receivables range from 6.0% to 16.8% in 2018, 2017 and 2016. Sales contract receivable as of December 31, 2015 includes the outstanding balance of the receivable from a certain related party in relation to the sale of a certain parcel of land (see Note 12). This bears an annual effective interest of 7.0% and is fully collected in 2016.

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

	2018	2017
Balance at beginning of year as previously stated	**P 96,876,125**	P 70,088,960
Effect of adoption of PFRS 9 – reversal of allowance for impairment [Note 2.2(a)(11)]	**(4,825,661)**	-
Balance at beginning of year as restated	**92,050,464**	70,088,960
Impairment loss	**2,023,225**	35,178,029
Impairment recoveries	**(15,435,179)**	(2,000,000)
Transfer of allowance due to foreclosures	**(2,027,043)**	(6,390,864)
Balance at end of year	**P 76,611,467**	P 96,876,125

The Bank recovered certain loans and receivable, previously provided with allowances amounting to P15.4 million and P2.0 million in 2018 and 2017, respectively.

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

	2018	2017
Receivables from customers	**P 66,932,532**	P 80,568,678
Sales contract receivables	**497,305**	501,115
Other receivables	**9,181,630**	15,806,332
	P 76,611,467	P 96,876,125

12. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment at the beginning and end of 2018 and 2017 are shown below.

	Land	Building and Improvements	Office Furniture, Fixtures and Equipment	Leasehold Improvements	Construction in Progress	Total
June 30, 2019						
Cost	**71,375,102**	**137,406,349**	**174,558,246**	**41,633,360**	**0**	**424,973,057**
Accumulated Depreciation		**(57,023,782)**	**(153,127,163)**	**(32,110,490)**		**(242,261,435)**
	71,375,102	**80,382,567**	**21,431,083**	**9,522,870**		**182,711,622**
December 31, 2018						
Cost	P 71,375,102	P 137,587,349	P 174,744,588	P 42,467,183	P -	P 426,174,222
Accumulated depreciation and amortization	-	(55,349,173)	(147,650,104)	(30,354,806)	-	(233,354,083)Net
carrying amount	**P 71,375,102P 82,238,176**		**P 27,094,484**	**P 12,112,377**	**P -**	**P 192,820,139**
December 31, 2017						
Cost	P 71,375,102	P 137,597,653	P 159,313,116	P 41,955,540	P -	P 410,241,411
Accumulated depreciation and amortization	-	(51,230,491)	(134,034,619)	(23,528,300)	-	(208,793,410)
Net carrying amount	P 71,375,102	P 86,367,162	P 25,278,497	P 18,427,240	P -	P 201,448,001
January 1, 2017						
Cost	P 71,375,102	P 147,304,379	P 159,284,004	P 33,458,425	P 117,190	P 411,539,100
Accumulated depreciation and amortization	-	(56,677,876)	(121,864,608)	(18,372,097)	-	(196,914,581)
Net carrying amount	P 71,375,102	P 90,626,503	P 37,419,396	P 15,086,328	P 117,190	P 214,624,519

A reconciliation of the carrying amounts of bank premises, furniture, fixtures and equipment at the beginning and end of 2018 and 2017, is shown in the succeeding page.

	Land	Building and Improvements	Office Furniture, Fixtures and Equipment	Leasehold Improvements	Construction in Progress	Total
Balance at January 1, 2018, net of accumulated depreciation and amortization	P 71,375,102	P 86,367,162	P 25,278,497	P 18,427,240	P -	P 201,448,001
Additions	-	18,500	14,445,808	517,293	-	14,981,601
Reclassification/Transfer	-	-	622,594	-	-	622,594
Depreciation and amortization charges for the year	-	(4,147,486)	(13,252,414)	(6,832,157)	-	(24,232,057)
Balance at December 31, 2018, net of accumulated depreciation and amortization	**P 71,375,102**	**P 82,238,176**	**P 27,094,485**	**P 12,112,376**	**P -**	**P192,820,139**
Balance at January 1, 2017, net of accumulated depreciation and amortization	P 71,375,102	P 90,626,503	P 37,341,897	P 15,086,328	P 117,190	P 214,547,020
Additions	-	545,773	1,366,202	9,063,647	124,172	11,099,794
Reclassification/Transfer	-	-	505,755	-	-	505,755
Disposals	-	(26,704)	(632,190)	-	(241,362)	(900,256)
Depreciation and amortization charges for the year	-	(4,778,410)	(13,303,167)	(5,722,735)	-	(23,804,312)Balance
at December 31, 2017, net of accumulated depreciation and amortization	P 71,375,102	P 86,367,162	P 25,278,497	P 18,427,240	P -	P 201,448,001

Depreciation and amortization expenses amounting to P24.2 million, P23.8 million, P24.1 million in 2018, 2017, 2016, respectively, and are shown as part of the Depreciation and Amortization account in the statements of profit or loss.

As of December 31, 2018 and 2017, the gross carrying amount of the Bank's fully-depreciated assets that are still used in operations amounts to P140.0 million and P114.1 million, respectively.

In 2017, the Bank sold certain bank premises, furniture, fixtures and equipment with carrying amount of P0.90 million. The gain arising from this transaction amounting to P408,172 is presented as part of Miscellaneous Income under Other Operating Income in the statements of profit or loss (see Note 18.1). No similar transaction was noted during 2018.

The BSP requires that investments in fixed assets do not exceed 50% of the Bank's unimpaired capital. As of December 31, 2018 and 2017, the Bank has satisfactorily complied with this BSP requirement.

13. INVESTMENT PROPERTIES

The gross carrying amounts and accumulated depreciation and impairment of investment properties at the beginning and end of 2018 and 2017 are shown below.

June 30, 2019	Land	Buildings	Total
Cost	87,097,316	38,671,179	125,768,495
Accumulated Depreciation	0	(11,253,157)	(11,253,157)
Allowance for impairment	0.	(1,677,975)	(1,677,975)
Net Carrying Amount	87,097,316	25,740,048	112,837,363

	Land	Buildings	Total
December 31, 2018			
Cost	P 83,034,689	P 34,557,607	P 117,592,296
Accumulated depreciation	-	(8,945,276)	(8,945,276)
Allowance for impairment	-	(1,677,975)	(1,677,975)
Net carrying amount	**P 83,034,689**	**P 23,934,356**	**P 106,969,045**
December 31, 2017			
Cost	P 52,265,758	P 34,807,933	P 87,073,691
Accumulated depreciation	-	(4,472,630)	(4,472,630)
Allowance for impairment	(550,090)	-	(550,090)
Net carrying amount	P 51,715,668	P 30,335,303	P 82,050,971

January 1, 2017			
Cost	P 63,677,207	P 11,520,587	P 75,197,794
Accumulated depreciation	-	(5,121,170)	(5,121,170)
Allowance for impairment	(550,090)	-	(550,090)
Net carrying amount	P 63,127,117	P 6,399,417	P 69,526,534

A reconciliation of the carrying amounts of investment properties at the beginning and end of 2018 and 2017 is shown below.

	Land	Buildings	Total
Balance at January 1, 2018, net of accumulated depreciation and impairment	P 51,715,668	P 30,335,303	P 82,050,971
Additions	40,132,746	9,486,295	49,619,041
Disposals	(9,363,815)	(9,389,549)	(18,753,364)
Depreciation charges for the year	-	(4,819,718)	(4,819,718)
Impairment recoveries (losses)	550,090	(1 677,975)	(1,127,885)
Balance at December 31, 2018, net of accumulated depreciation and impairment	**P 83,034,689**	**P 23,934,356**	**P 106,969,045**
Balance at January 1, 2017, net of accumulated depreciation and impairment	P 63,127,117	P 6,399,417	P 69,526,534
Additions	5,998,159	34,689,727	40,687,886
Disposals	(17,409,608)	(5,432,993)	(22,842,601)
Depreciation charges for the year	-	(5,320,848)	(5,320,848)
Balance at December 31, 2017, net of accumulated depreciation and impairment	P 51,715,668	P 30,335,303	P 82,050,971

Additions in 2018 and 2017 include real and other properties acquired through foreclosure of assets value based on the carrying amount of the related loan and receivable (see Note 11). There were no similar transactions recognized in 2016.

In 2018, the Bank recognized impairment losses (recoveries) – net in the statements of profit or loss. No similar transactions in 2017 and 2016.

The Bank disposed certain investment properties which resulted in a gain of P6.9 million, P12.8 million and P5.2 million in 2018, 2017 and 2016, respectively, and is presented as Net Gain from assets acquired/exchanged which part of Miscellaneous account under Other Operating Income section in the statements of profit or loss (see Note 18.1).

Income earned by the Bank from its investment properties leased to third parties under operating lease agreements amounted to P1.0 million, P1.5 million and P1.3 million in 2018, 2017 and 2016, respectively, and is presented as Rental income under the Miscellaneous Income account in the statements of profit or loss (see Notes 18.1 and 25.2).

Direct operating expenses, other than depreciation expense, incurred on these investment properties amounted to P3.7 million, P4.2 million and P2.5 million for the years ended December 31, 2018, 2017 and 2016, respectively, and are presented as part of Litigation and Asset Acquired Expenses in the statements of profit or loss.

The total fair values of investment properties as of December 31, 2018 and 2017 amounted to P117.6 million and P94.1 million, respectively, as determined by the Bank's in-house and independent appraisers (see Note 6.4).

As of December 31, 2018 and 2017, there is no restriction on the realizability of investment properties or the remittance of income and proceeds of disposal therefrom. In addition, the Bank has not entered into a significant commitment to purchase, construct or develop any investment property in the near future.

14. OTHER RESOURCES

The details of this account follows:

	Notes	2019	2018
Computer software – net	14.2	**P 43,842,748**	P 45,190,106
Branch licenses	14.3	**32,500,000**	32,500,000
Assets held-for-sale – net	14.1	**23,350,589**	19837,346
Sundry debits	14.4	**5,335,398**	8,584,692
Stationery and supplies on hand		**7,726,738**	8,023,929
Security deposits	14.5, 22.4	**8,202,145**	7,701,323
Creditable withholding tax		**2,682,032**	2,640,586
Deferred tax assets – net	20	**4,001,785**	4,001,785
Prepaid expenses	14.6	**5,042,124**	3,716,073
Advance rental		**3,376,066**	2,723,545
Deposit with Philippine Clearing House Corp. (PCHC)		**2,500,000**	2500,000
Deposit to Bancnet		**2,000,000**	2,000,000
Utility deposit		**1,200,978**	1,129,836
Documentary stamps		**847,050**	973,950
Other investments		**0**	203,333
Petty cash fund		**92,960**	93,000
Miscellaneous		**3,170,733**	572,718
		P 145,871,346	P 142,392,222

The maturity profile of the Bank's other resources is as follows:

	2019	2018
Current	**P 22,215,003**	P 27,328,493
Non-current	**123,656,343**	115,063,729
	P 145,871,346	P 182,613,430

14.1 Assets Held-for-Sale

Non-financial assets include vehicles and jewelry items foreclosed from borrowers. Certain jewelries were subsequently sold in 2018, 2017 and 2016 and recognized gain on sale amounting to P2.0 million, P1.2 million and P1.8 million, respectively, and is presented as part of Miscellaneous account under Other Operating Income section in the statements of profit or loss (see Note 18.1). In 2018, the Bank recognized impairment recoveries amounting to P3.6 million and is presented as part of Impairment Losses (Recoveries) in the 2018 statement of profit or loss. No similar transaction 2017 and 2016.

The breakdown of this account is as follows:

		2018		2018
Jewelry items	P	**21,311,528**	P	17,612,301
Motor vehicles		**3,611,670**		4,179,080
		24,923,198		21,791,381
Allowance for impairment		**-**		
Accumulated depreciation	(	**(1,572,609)**	(	1,954,035)
	P	**23,350,589**	P	19,837,346

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

		2018		2017
Balance at beginning of year	P	**59,156,824**	P	64,420,354
Foreclosures		**10,434,735**		14,987,400
Disposals	(	**51,979,258)**	(	20,250,930)
Balance at end of year	P	**17,612,301**	P	59,156,824

Changes in the carrying amounts of motor vehicles are summarized below.

		2018		2017
Net carrying amount at beginning of year	P	**2,221,936**	P	687,005
Additions		**1,849,410**		2,579,263
Reclassification to PPE	(	**622,594)**	(	505,755)
Disposal	(	**348,943)**		-
Depreciation	(	**874,764)**	(	538,577)
Net carrying amount at end of year	P	**2,225,045**	P	2,221,936

14.2 Computer Software

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

The movements in the Computer software account follow:

		2019		2018
Balance at beginning of year	P	**45,190,106**	P	45,790,162
Additions		**4,255,956**		9,962,496
Amortization charges for the year	(	**5,603,314)**	(	10,562,552
Disposals		**-**	(	0
Balance at end of year	P	**43,842,748**	P	45,190,106

Amortization of computer software amounting to P10.6 million in 2018, P9.8 million in 2017 and P8.6 million in 2016 are shown as part of the Depreciation and Amortization account in the statements of profit or loss.

14.3 Branch License

Branch licenses pertain to the cost of licenses acquired by the Bank in 2004 and in 2006 for a consideration of P11.0 million and P20.0 million, respectively. The Bank also incurred P1.5 million representing relocation costs of the branches acquired in 2004. The Bank has utilized the branch license by establishing the branch banking operations on which the Bank will continuously operate. Accordingly, no impairment loss is required to be recognized in 2018 and 2017.

14.4 Sundry Debits

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

14.5 Security Deposits

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

14.6 Prepaid Expenses

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

15. DEPOSIT LIABILITIES

Savings deposits have interest rate of 0.25% per annum in 2018, 2017 and 2016. Peso term deposit interest rates ranging from 2.50% to 4.00% per annum in 2018, and 0.31 to 3.25% per annum in both 2017 and 2016. US Dollar term deposit interest rates ranging from 1.25% to 0.60% per annum in 2018 and 0.025% to 1.30% per annum in both 2017 and 2016.

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

	2019	2018	2017
Savings:			
Philippine peso	**P 16,852,237**	P 29,641,353	P 25,067,893
US dollar	**11,160**	23,534	
Time:			
Philippine peso	**3,087,486**	4,714,322	2,277,653
US dollar	**1,904,508**	3,672,910	949,695
Demand	**575,014**	993,670	837,995
	P 22,430,405	P 29,156,770	P 38,995,234

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

	2019	2018
Philippine peso	**P 2,769,198,442**	P 2,813,217,883
US dollar	**252,485,790**	272,113,049
	P3,021,684,232	P 3,3085,330,932

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

	2018	2018
Within one year	**P2,026,180,683**	P 2,977,706,064
Beyond one year but within five years	995,503,549	107,624,868
	P3,021,684,232	P 3,085,330,932

Under existing BSP regulations, deposit liabilities are subject to regular and liquidity reserve of 8.00% in both 2018 and 2017. The Bank has reserves from its balance in Due from BSP account amounting to P279.2 million and P268.9 million as of December 31, 2018 and 2017, respectively (see Note 7). The Bank is in compliance with these BSP regulations as of the end of reporting period.

16. OTHER LIABILITIES

This account consists of the following:

	Notes	**2019**	2018
Accounts payable	16.1	**P 26,829,338**	P 24,350,695
Accrued expenses	16.2	**29,630,912**	23,568,958
Cashiers and manager's checks		**58,465,817**	14,676,552
Post-employment benefit obligation	19.2	**0**	9,055,547
Deposit for future stock subscription	17.1	**3,200,000**	3.200.000
			1,078,724
Sundry credits	14.4	**1,931,635**	
Security deposits		**929,305**	995,305
Income tax payable			0
			363,910
Miscellaneous		1,796,594	77,289,691
		122,783,601	

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

	2018	2017
Within one year	**P 67,216,339**	P 67,872,676
Beyond one year	**10,073,352**	13,825,060
	P 77,289,691	P 81,697,736

16.1 Accounts Payable

Accounts payable is mainly composed of collections of Social Security System (SSS) contributions from various clients of the Bank, which are remitted to SSS in the succeeding month following the month of collection, advance collections from borrowers and payable to third party vendors and contractors for purchases of goods and services.

16.2 Accrued Expenses

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

17. EQUITY

17.1 Capital Stock

As of December 31, 2018 and 2017, the Bank has total authorized capital stock of 100,000,000 common shares at P10 par value per share. As of those dates, total issued and outstanding shares consisted of 99,999,800 shares amounting to P1.0 billion.

On November 28, 2001, the SEC approved the listing of the Bank's shares totaling 44,100,000. The shares were initially listed at an offer price of P11.55 per share. There are 60 holders, 53 holders and 55 holders of the Bank's total outstanding shares as of December 31, 2018, 2017, and 2016, respectively. Such listed shares closed at P10.0 per share as of December 31, 2018.

In 2017 and 2016, the BOD approved and confirmed the issuance of additional shares with P10.0 per shares from unsubscribed portion of the authorized capital stock amounting to P78,000,000 which divided into 7,800,000 shares and P180,000,000 which divided into 18,000,000 shares, respectively. The additional shares are initially classified as Deposit on Subscription Shares account (see Note 2.18).

Subsequently, the Monetary Board approved the issuance of the additional shares totaling to P258,000,000 and accordingly reclassify the Deposit on Subscription Shares amounting to P258,000,000 to Capital Stock account under the statements of changes in equity.

In 2018, the Bank's BOD approved and confirmed the issuance of additional shares from unsubscribed portion of the authorized capital stock in the amount of P14,348,020 divided into 1,434,802 shares with a par value of P10 per share.

Also in 2018, the Bank received P3,200,000 from the Bank's existing stockholders as a deposit for future stock subscription which was presented under Other Liabilities section in the statements of financial position since the Bank are still in the process of applying for the increase in authorized capital stock (see Notes 2.18, 15 and 16).

17.2 Revaluation Reserves

The components and reconciliation of items of other comprehensive income presented in the 2018 statements of changes in equity at their aggregate amount under Revaluation Reserves account, are shown below.

	Financial asset at FVOCI	Defined Benefit Plan	Total
Balance as of January 1, 2018	P 17,388,289	P 4,806,535	P 22,194,824
Effect of PFRS 9 [see Note 2.2(a)]	304,783	-	304,783
Balance as of January 1, 2018 as restated	17,693,072	4,806,535	22,499,607
Remeasurements of defined benefit post-employment plan	-	6,584,422	6,584,422
Fair value gain on financial asset at FVOCI	2,286,129	-	2,285,129
Other comprehensive income before tax	2,286,129	6,584,422	8,870,551
Tax income (expense)	464,741	(1,975,327)	(1,510,586)
Other comprehensive income after tax	2,750,870	4,609,095	7,359,965
Balance as of December 31, 2018	**P 20,443,942**	**P 9,415,630**	**P 29,859,572**

Presented below are the comparative components and reconciliation of items of other income presented in the 2017 and 2016 statements of comprehensive income.

	AFS Securities	Defined Benefit Plan	Total
Balance as of January 1, 2017	P 13,942,386	(P 513,924)	P 13,428,462
Remeasurements of defined benefit post-employment plan	-	7,600,655	7,600,655
Fair value gain on AFS securities	4,947,901	-	4,947,901
Fair value loss on impaired on AFS securities	340,000		340,000
Fair value gains on disposed of AFS financial assets reclassified to profit or loss	(1,283,303)	-	(1,283,303)
Other comprehensive income before tax	4,004,598	7,600,655	11,605,253
Tax income (expense)	(558,695)	(2,280,196)	(2,838,892)
Other comprehensive income after tax	3,445,903	5,320,459	8,766,362
Balance as of December 31, 2017	P 17,388,289	P 4,806,535	P 22,194,824
Balance as of January 1, 2016	P 10,968,545	(P 1,678,933)	P 9,289,612
Remeasurements of defined benefit post-employment plan	-	1,664,299	1,664,299
Fair value gain on AFS securities	6,311,376	-	6,311,376
Fair value gains on disposed of AFS financial assets reclassified to profit or loss	(3,021,890)	-	(3,021,890)
Other comprehensive income before tax	3,289,486	1,664,299	4,953,785
Tax expense	(315,645)	(499,290)	(814,935)
Other comprehensive income after tax	2,973,841	1,165,009	4,138,850
Balance as of December 31, 2016	P 13,942,386	(P 513,924)	P 13,428,462

17.3 Capital Management and Regulatory Capital

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

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

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

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

(c) deferred tax asset or liability;

(d) goodwill;

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

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

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

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

	2018	2017	2016
Tier 1 Capital	**P 543,121,066**	P 546,974,158	P 667,566,803
Tier 2 Capital	**12,937,352**	16,604,532	18,247,440
Total Qualifying Capital	**P 556,058,418**	P 563,578,690	P 685,814,243
Total Risk Weighted Assets	**P3,502,455,195**	P3,468,456,203	P2,962,611,157
Total qualifying capital expressed as a percentage of total risk weighted assets	**15.88%**	16.25%	23.15%
Tier 1 Capital Adequacy Ratio (CAR)	**15.51%**	15.77%	22.53%

** Computed CAR includes the Deposit for Subscription of Shares amounting to P258.0 million and P180.0 million in 2017 and 2016, respectively.*

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

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

17.4 Compliance with the Minimum Capital Regulatory Requirement

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

In view of the foregoing, the Bank's Board of Directors (BOD) has implemented various measures to improve the Bank's operating condition within a reasonable period. These measures include formulation of a capital build up plan in compliance with BSP Circular No. 854 and implementation of business improvement plan.

On June 26, 2018, the Board of Directors approved to amend the Articles of Incorporation increasing the authorized capital stock from P1.0 billion to P1.4 billion subject to the approval of the stockholders on the next annual stockholders meeting. In addition, the Bank implemented the following during the year:

- obtained additional cash infusion from existing stockholders amounting to P3.2 million in 2018 which is recognized as deposit for future stock subscription pending application by the Bank for the increase in the authorized capital stock;
- implemented programs and policy to strengthen the Bank's marketing strategy on its loan products;
- strengthening the risk management oversight through regular meeting of the Risk Oversight Committee; and,
- rationalization and review of the Bank's business relationship with its related parties.

18. MISCELLANEOUS INCOME AND MISCELLANEOUS EXPENSES

Presented below are the details of these accounts:

18.1 Miscellaneous Income

	Notes	**2019**	2018	2017
Penalty on loans	5	P 5,243,425	P30,791,348	15,873,863
Dividends	10	**0**	12,557,921	12,868,001
Income from trust department	21	4,714,994	6,362,666	4,634,590
Net gain from assets acquired/ exchanged	13,14	**2.532,284**	4,854,421	13,958,370
Legal and appraisal fees			2,632,723	33,097
Income from re-ordered and pre-encoded checks			1,137,873	1,225,400
Rental income	13, 25.2	**1,025,182**	1,090,825	1,476,314
Foreign exchange gains – net			606,026	43,376
Interbank ATM transactions			(71,496)	2,229,438
Trading gain	10	133,477	9,376	1,283,303
Gain on sale of bank premises	12	-	0	408,172
Others		5,071,752	4,444,232	3,316,618
		P 18,721,115	P 57,350,542	P 42,885,317

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

18.2 Miscellaneous Expenses

	Note	**2019**	2018	2017
Management and professional fees		**P 1,098,400**	P 2,925,434	P1,433,706
Fines and penalties		**84,800**	2,863,754	2,018,308
Office supplies		**1,422,806**	2,457,070	3,866,472
Meals and other incentives			1,865,324	3,626,328
Representation and entertainment		**835,300**	1,461,141	957,832
BSP supervision fees		**733,173**	1,378,292	1497,885
Annual fees for PSE, SEC,				
Transportation and travel		**213,111**	789,525	946,007
Interest expense on post-employment defined benefit obligation	19.2		730,144	816,300
Christmas party expenses			726,665	630,973
Bancnet			685,269	1,708,623
PCHC charges			528,629	3,633,338
Association dues			345,032	0
Advertising and publicity		**49,192**	193,320	483,171
Loss on sale of acquired assets			-	0
Rental fee on motor vehicles			45,646	0
Loss on sale of bank premise				0
Others		**9,247,998**	14,380,363	3,317,229
		P 13,684,780	P31,375,568	P 23,268,752

Others includes seminar and training expense, penalty on BSP - Agri-Agra loan compliance, Bank giveaways and other branch related expenses.

19 EMPLOYEE BENEFITS

19.1 Salaries and Employee Benefit Expense

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

	2018	2017	2016
Short-term employee benefits	**P 97,269,749**	P 97,890,463	P 99,827,366
Post-employment defined benefits	**4,271,675**	5,237,332	4,930,984
	P101,541,424	P103,127,795	P104,758,350

19.2 Post-employment Defined Benefit Plan

(a) Characteristics of the Defined Benefit Plan

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

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

(b) *Explanation of Amounts Presented in the Financial Statements*

Actuarial valuations are made annually to update the post-employment benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2018 and 2017.

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

	2018	2017
Present value of the obligation	**P 19,359,028**	P 22,652,779
Fair value of plan assets	**(10,303,481)**	(9,843,233)
	P 9,055,547	P 12,809,546

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

	2018	2017
Balance at beginning of year	**P 22,652,779**	P 25,848,233
Current service cost	**3,541,531**	4,421,032
Interest expense	**1,291,208**	1,390,635
Remeasurements – actuarial gains arising from:		
Experience adjustments	**(3,589,795)**	(2,577,818)
Changes in financial assumptions	**(3,274,393)**	(5,392,187)
Benefits paid	**(1,262,302)**	(1,037,116)
Balance at end of year	**P 19,359,028**	P 22,652,779

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

	2018	2017
Balance at beginning of year	**P 9,843,233**	P 10,675,364
Contributions to the plan	**1,441,252**	-
Benefits paid	**(1,262,302)**	(1,037,116)
Interest income	**561,064**	574,335
Return on plan assets (excluding amounts included in net interest)	**(279,766)**	(369,350)
Balance at end of year	**P 10,303,481**	P 9,843,233

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

	2018	2017
Cash and cash equivalents	**P 674,465**	P 1,937,601
Quoted equity securities –		
Holding firms	**3,121,113**	3,312,999
Debt securities –		
Corporate bonds	**6,440,000**	4,592,633
Miscellaneous Receivable	**67,903**	-
	P 10,303,481	P 9,843,233

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

The plan assets earned returns of P0.3 million in both 2018 and 2017, and P0.4 million in 2016.

Plan assets of the post-employment plan include cash deposits of P0.6 million and P1.6 million maintained in the Bank as of December 31, 2018 and 2017, respectively.

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

	2018	2017	2016
Reported in profit or loss:			
Current service cost	**P 3,541,531**	P 4,421,032	P 4,271,901
Net interest expense	**730,144**	816,300	659,083
	P 4,271,675	P 5,237,332	P 4,930,984
Reported in other comprehensive income (loss):			
Actuarial gains (losses) arising from changes in:			
Experience adjustments	**P 3,589,795**	P 2,577,818	P 1,496,004
Financial assumptions	**3,274,393**	5,392,187	409,981
Return on plan assets (excluding amounts included in net interest expense)	**(279,766)**	(369,350)	(241,686)
	P 6,584,422	P 7,600,655	P 1,664,299

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

The net interest expense is presented in Interest expense on post-employment defined benefit obligation under Other Operating Expenses account (see Note 18.2).

Amounts recognized in other comprehensive income were included within item that will not be reclassified subsequently to profit or loss.
In determining the amounts of the defined benefit post-employment obligation, the following significant actuarial assumptions were used:

	2018	2017
Discount rates	**7.50%**	5.70%
Expected rate of salary increases	**3.50%**	3.50%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 25 years.

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

(c) *Risks Associated with the Retirement Plan*

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

(i) Investment and Interest Risks

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. As of end of 2018, the plan investments are 62% placed in corporate debt securities with the remaining assets invested in cash, equity securities and miscellaneous. Due to the long-term nature of the plan obligation, a level of continuing equity investments is still an appropriate element of the Bank's long-term strategy to manage the plan efficiently.

(ii) Longevity and Salary Risks

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

(d) *Other Information*

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

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2018 and 2017 are as follows:

	Impact on Post-employment Defined Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
December 31, 2018			
Discount rate	**+/-1.0 %**	**(P 1,676,592)**	**P 1,390,484**
Salary growth rate	**+/-2.0 %**	**3,644,439**	**(2,573,650)**
December 31, 2017			
Discount rate	+/-1.0 %	(P 2,295,497)	P 2,786,347
Salary growth rate	+/-2.0 %	6,014,972	(4,193,915)

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

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

(ii) Asset-liability Matching Strategies

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

A larger portion of the plan assets as of December 31, 2018 and 2017 are invested in corporate debt and equity securities. In view of the long-term nature of the plan obligation, the Bank may re-allocate its plan assets and increase the level of its investments in equity and debt securities. The Bank believes that a combination of corporate debt securities and equity securities offer the best returns over the long term with an acceptable level of risk. Corporate debt securities and equities included in the plan assets are investments in a diversified portfolio of local blue chip entities.

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

(iii) Funding Arrangements and Expected Contributions

The plan is currently underfunded by P9.1 million based on the latest actuarial valuation. While there are no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about ten years' time when a significant number of employees is expected to retire.

The Bank expects to make contribution of P4.5 million to the plan during the next reporting period.

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

	2018	2017
Within one year	**P 3,394,978**	P 1,777,002
More than one year to five years	**6,241,853**	4,896,465
More than five years to ten years	**15,075,336**	20,656,754
More than 10 years to 15 years	**18,833,304**	24,657,214
More than 15 years to 20 years	**48,480,963**	42,999,300
More than 20 years	**338,674,679**	366,469,318
	P 430,701,113	P 461,456,053

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

20 CURRENT AND DEFERRED TAXES

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

	2018	2017	2016
Reported in the statement of profit or loss:			
Current tax expense:			
Final tax at 20% and 15%	**P 4,337,642**	P 4,284,893	P 4,471,997
Minimum corporate income tax (MCIT) at 2% – RBU	**2,392,314**	2,532,460	2,114,705
Regular corporate income tax (RCIT) – FCDU	**894,314**	27,862	4,325
	7,624,688	6,845,215	6,591,027
Deferred tax income relating to origination and reversal of temporary differences	**2,120,064**	823,339	(2,971,390)
	P 9,744,752	P 7,668,554	P 3,619,637

	2018	2017	2016
Reported in the statement of other comprehensive income:			
Deferred tax (income) expense relating to:			
Remeasurement of defined benefit post-employment plan	**P 1,975,327**	P 2,280,197	P 499,290
Fair valuation of Financial assets at FVOCI (AFS securities in 2017 and 2016)	**(464,741)**	558,695	315,645
	P 1,510,586	P 2,838,892	P 814,935

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

	2018	2017	2016
Tax on pretax loss at 30%	**(P 9,414,446)**	(P 23,815,620)	(P 29,167,343)
Adjustments for income subjected to lower income tax rates	**(7,860,313)**	(2,177,962)	(2,254,436)
Tax effects of:			
Unrecognized deferred tax assets	**23,909,540**	34,549,342	35,462,619
Tax exempt income	**(1,928,587)**	(4,383,890)	(3,328,687)
Non-deductible interests and other expenses	**4,963,884**	3,728,996	3,073,770
Non-taxable income	**74,674**	(232,312)	(166,286)
	P 9,744,752	P 7,668,554	P 3,619,637

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

	2018	2017
Deferred tax assets:		
Allowance for impairment	**P 8,026,146**	P 8,026,146
Defined benefit post-employment obligation	**2,716,663**	3,842,864
Accrued rent under PAS 17	**203,810**	1,821,494
Unamortized past-service cost	**-**	50,630
	10,946,619	13,741,134
Deferred tax liabilities:		
Profit on assets sold under installment method	**(5,714,005)**	(3,873,130)
Fair value gains on AFS securities	**(1,770,829)**	(2,235,570)
Accrued rent under PAS 17	**-**	-
	(6,944,833)	(6,108,700)
Net deferred tax assets	**P 4,001,785**	P 7,632,434

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

	Profit or Loss			Other Comprehensive Income		
	2018	2017	2016	**2018**	2017	2016
Accrued rent under PAS 17	**P 1,617,684**	(P 1,564,117)	(P 1,433,027)	**-**	P -	P -
Defined benefit post-employment obligation	**(849,126)**	2,989,194	(1,299,253)	**1,975,327**	2,280,197	499,290
Profit on assets sold under installment method	**1,300,876**	(1,296,218)	(333,590)	**-**	-	-
Allowance for impairment		600,000				
Past-service cost amortization	**50,630**	94,480	94,480	**-**	-	-
Fair value gains on financial assets at FVOCI (AFS securities in 2017 and 2016)	**-**	-	-	**(464,741)**	558,695	315,645
Net deferred tax expense (income)	**P 2,120,064**	P 823,339	(P 2,971,390)	**P 1,510,586**	P 2,838,892	P 814,935

The Bank is subject to the MCIT, which is computed at 2% of gross income, as defined under the tax regulations, or RCIT, whichever is higher. For the years ended December 31, 2018, 2017 and 2016, the Bank is liable for MCIT of P2.4 million, P2.5 million and P2.1 million, respectively since it is in taxable loss position in those years.

Based on the financial and operating forecasts of the Bank, management believes that it may not be able to generate taxable income in the near future, enough to utilize in full the benefits of certain temporary differences, MCIT and NOLCO after it has applied the remaining and available MCIT and NOLCO incurred in prior years. Accordingly, the Bank has not recognized the corresponding deferred tax assets as of December 31, 2018 and 2017 as follows:

	2018		2017	
	Tax Base	**Tax Effect**	Tax Base	Tax Effect
NOLCO	**P 239,578,148**	**P 71,873,444**	P 255,353,468	P 76,606,041
Allowance for impairment	**71,800,280**	**21,540,085**	74,275,670	22,282,701
MCIT	**7,039,897**	**7,039,897**	6,193,795	6,193,795
	P 318,418,325	**P100,453,426**	P 335,822,933	P 105,082,537

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

Year Incurred	**Amount**	**Expired**	**Balance**	**Year of Expiry**
2018	P 2,392,732	P -	P 2,392,732	2021
2017	2,532,460	-	2,532,460	2020
2016	2,114,705	-	2,114,705	2019
2015	1,546,630	(1,546,630)	-	
	P 8,586,527	**(P 1,546,430)**	**P 7,039,897**	

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

Year Incurred	Original Amount	Expired	Remaining Balance	Year of Expiry
2018	P 94,462,733	P -	P 94,462,733	2021
2017	65,681,606	-	65,681,606	2020
2016	79,433,809	-	79,433,809	2019
2015	110,238,053	(110,238,053)	-	-
	P 349,816,201	**(P 110,238,053)**	**P 239,578,148**	

The Bank claimed itemized deductions in all years presented.

21 TRUST OPERATIONS

Investments amounting to P1.3 billion and P924.9 million held by the Bank as of December 31, 2018 and 2017, respectively, in fiduciary or agency capacity (for a fee) for its customers are not included in the statements of financial position since these are not resources of the Bank (see Note 25.3).

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

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

(b) A certain percentage of the Bank's trust income is transferred to surplus reserve. This yearly transfer is required until the surplus reserve for trust function is equivalent to 20% of the Bank's regulatory capital. As of December 31, 2018, 2017 and 2016, the reserve for trust operations amounted to P2.6 million, P1.9 million and P1.5 million, respectively, and is shown as Surplus Reserves in the statements of changes in equity.

Income from trust operations, net of the related expenses amounted to P6.4 million, P4.6 million and P3.8 million for the years ended December 31, 2018, 2017 and 2016, respectively, and are shown as part of Miscellaneous Income in the statements of profit or loss (see Note 18.1).

22 RELATED PARTY TRANSACTIONS

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

The summary of the Bank's significant transactions and the related outstanding balances with DOSRI and other related parties as of and for the years ended December 31, 2018 and 2017 are as follows (in thousands):

Related Party Category	Notes	Amounts of Transaction 2018	2017	2016	Outstanding Balance 2018	2017
Stockholders:	22.2					
Deposit liabilities		**P 6,216**	P 5,308	P 9,048	**P 534**	P 3,974
Interest expense		**36**	290	290	**36**	-
Related Parties Under Common Ownership:						
Deposit liabilities	22.2,22.3	**981,297**	572,526	368,744	**1,348,428**	569,619
Insurance expense	22.5	**10,667**	27,017	9,670	**10,667**	-
Loans and receivables	22.1	**18,913**	16,108	41,456	**15,574**	13,455
Rent expense	22.4	**15,652**	13,186	14,355	**15,652**	500
Medical, dental and hospitalization	22.6	**1,734**	2,026	1,466	**1,734**	-
Interest income	22.1	**2,052**	1,744	5,897	**2,052**	-
Rent income	22.4	**1,152**	1,734	1,255	**1,152**	1,734
Interest expense	22.2	**1,844**	815	742	**-**	815
Security Services		**16,056**	-	-	**16,056**	-
Officers and Employees:						
Loans and receivables	22.1	**4,498**	2,805	4,667	**3,404**	2,805
Deposit liabilities	22.2	**562**	2,427	5,986	**260**	2,127
Interest expense	22.2	**173**	10	10	**173**	-
Key Management Personnel –						
Compensation	22.7	**11,360**	12,269	11,816	**-**	-

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

22.1 Loans to Related Parties/DOSRI

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

The following additional information relates to the DOSRI loans:

	2018	2017	2016
Total outstanding DOSRI loans	**P 38,422,205**	P 16,260,306	P 41,156,537
% to total loan portfolio	**2.00%**	0.01%	1.70%
% of unsecured DOSRI loans to total DOSRI loans	**0.00%**	0.00%	0.00%
% of past due DOSRI loans to total DOSRI loans	**0.00%**	0.00%	0.00%
% of non-performing DOSRI loans to total DOSRI loans	**0.00%**	0.00%	0.00%

DOSRI loans bear annual interest rates of 8.13% to 19.30%, 11.08% to 19.30%, 11.08% to 19.30% in 2018, 2017 and 2016, respectively. Existing loans are secured and are payable within three to 20 years.

Total loan releases and collections in 2018 amounted to P3.3 million and P3.4 million, respectively. In 2017, there were no additional loan releases and total collections amounted to P24.9 million.

22.2 Deposit Liabilities to Related Parties/DOSRI

As of December 31, 2018 and 2017, deposit liabilities to related parties amount to P1.9 billion and P575.7 million, respectively. In 2015, P300.0 million of such deposits are being held by the Bank as collateral against loans and receivables from related parties. The hold-out deposit was released and the related loans and receivables was paid in 2016. The related interest expense incurred by the Bank from these deposits amounted to P2.1 million in 2018, and P0.8 million in 2017 and 2016.

22.3 Transactions with the Retirement Plan

The Bank's retirement fund for its defined benefit post-employment plan maintained for qualified employees, is administered and managed by the Bank's Trust Department under a trust agreement. The carrying amount and the composition of the plan assets as of December 31, 2018 and 2017 is disclosed in Note 19.2.

Total deposits of the retirement fund to the Bank amounted to P0.04 million and P1.6 million as of December 31, 2018 and 2017, respectively.

Equity securities of the retirement fund consist of investments in corporations listed in the PSE, which includes P0.4 million investments in the shares of stock of the Bank as of December 31, 2018 and 2017, while debt securities is composed of investments in corporate bonds.

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

The contributions made by the Bank to the retirement plan amounted to P1.4 million in 2018 (nil in 2017), (see Note 19.2).

22.4 Lease Transactions

The Bank, as a lessee, has lease agreements with related parties under common ownership (see Note 25.1). In relation to these lease agreements, the Bank made certain security deposits totaling P7.8 million and P8.0 million as of December 31, 2018 and 2017, respectively, and are presented as part of Other Resources account in the statements of financial position (see Note 14). Rent expense arising from these leases are presented as part of Occupancy in the statements of profit or loss.

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

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

22.5 Insurance Expense

The Bank is covered by life and non-life insurance policies provided by its related parties under common ownership. These include group life insurance, fidelity insurance, money, securities and payroll robbery insurance, and commercial general liability. The related insurance expense incurred by the Bank is presented as part of Insurance in the statements of profit or loss. No related outstanding liability as of December 31, 2018 and 2017.

22.6 Medical, Dental and Hospitalization

The Bank has an existing agreement with a related party under common ownership to provide comprehensive health care for its employees. The related expense incurred by the Bank under this agreement is presented as part of Salaries and Employee Benefit Expense in the statements of profit or loss. No related outstanding liability as of December 31, 2018 and 2017.

22.7 Key Management Personnel Compensation

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

	2018	2017	2016
Short-term employee benefits	**P 11,359,742**	P 10,516,595	P 11,032,406
Post-employment benefits	**764,682**	1,752,766	783,861
	P 12,124,424	P 12,269,361	P 11,816,267

23 LOSSES PER SHARE

Losses per share is computed as follows:

	2018	2017	2016
Net loss	**(P 41,126,237)**	(P 87,053,953)	(P 100,844,114)
Divided by the weighted average number of outstanding common shares	**99,998,000**	72,764,998	72,764,998
Loss per share	**(P 0.41)**	(P 1.20)	(P 1.39)

The Bank has no potentially dilutive shares (i.e., options, warrants, convertible instruments, contingently issuable shares if the conditions are satisfied, etc.); hence, no information on diluted loss per share is presented as it is the same with the basic loss per share.

24 SELECTED PERFORMANCE INDICATORS

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

	2018	2017	2016
Return on average equity	**-6.00%**	-12.57%	-15.49%
Return on average resources	**-1.03%**	-2.09%	-2.22%
Net interest margin	**6.48%**	6.18%	4.98%
Net profit margin	**-18.17%**	-40.26%	-47.70%
Interest rate coverage	**22.61%**	-134.51%	-138.60%
Debt-to-equity	**466.85%**	497.27%	507.47%
Resources-to-equity	**566.85%**	597.27%	607.47%
CAR	**15.95%**	16.25%	23.15%

25 COMMITMENTS AND CONTINGENCIES

25.1 Operating Lease Commitments – Bank as Lessee

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

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

	2018	2017
Within one year	**P 23,442,300**	P 21,758,896
After one year but not more than five years	**56,868,814**	59,329,894
More than five years	**39,871,144**	42,275,247
	P 120,182,258	P 123,364,037

The Bank's total rent expense (shown as Occupancy account in the statements of profit or loss) amounted to P36.4 million, P30.1 million and P28.7 million in 2018, 2017 and 2016, respectively.

25.2 Operating Lease Commitments – Bank as Lessor

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

	2018	2017
Within one year	**P 767,402**	P 2,448,055
After one year but not more than five years	**306,741**	4,458,675
	P 1,704,143	P 6,906,730

The total rent income on investment properties amounted to P1.0 million, P1.5 million and P1.3 million in 2018, 2017 and 2016, respectively, and is presented as Rental income under Miscellaneous in the statements of profit or loss (see Notes 13, 18.1 and 22.4).

25.3 Others

In the normal course of the Bank's operations, there are other outstanding commitments and contingent liabilities such as guarantees and commitments to extend credit, which are not reflected in the financial statements. Management believes that as of December 31, 2018, losses, if any, which may arise from these commitments and contingencies will not have a material effect on the Bank's financial statements.

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

	Note	**2019**	2018
Trust department accounts	21	**P 1,347,230,995**	P 1,286,183,310
Commitments		**40,000,000**	106,047,027
Others		**3,105,770**	1,471,950

26 NOTES TO STATEMENTS OF CASH FLOWS

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

	Notes	**2018**	2017	2016
Settlement of loans receivable arising from property/jewelry foreclosures	13, 14	**P 61,903,186**	P 55,675,286	P 83,177,667
Unrealized fair value losses on AFS securities	10	**(2,750,871)**	(3,198,379)	(7,738,506)

For statements of cash flows purposes, the amount of due from other banks as of December 31, 2018 and 2017 considered as cash and cash equivalents follows:

	Note	**2018**	2017
Due from other banks	8	**P 519,773,239**	P 371,071,330
Due from other banks not considered as cash and cash equivalents	8	**(77,715,800)**	(18,148,492)
		P 442,057,439	P 352,922,838

27 EVENT AFTER THE REPORTING PERIOD

On February 20, 2019, Republic Act No. 11232, *An Act Providing for the Revised Corporation Code of the Philippines* (the Revised Corporation Code), was signed into law. Among the provisions of the Revised Corporation Code, the following would impact the Bank's financial statements:

- removal of the 50-year maximum corporate term, hence, stock corporation may have unlimited life unless otherwise provided in the articles of incorporation; and,

- removal of the subscription requirement of 25% of authorized capital stock and paid-up capital requirement of 25% of subscribed capital stock.

The management deems further that other amendments and new provisions contained in the Revise Corporation Code is not material to the Bank.

28 SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

The following supplementary information on to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS. All information are presented in their absolute amounts.

On taxes, duties and license fees paid or accrued during the taxable year required under RR No. 15-2010:

(a) *Gross Receipts Tax (GRT)*

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

In 2018, the Bank reported total GRT amounting to P6,945,834, which is shown as part of Taxes and Licenses account in the 2018 statement of profit or loss [see Note 27(f)].

(b) *Documentary Stamp Tax (DST)*

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

For the year ended December 31, 2018, DST affixed amounted to P18,947,905 representing documentary stamps imposed mainly on debt instruments documents issued during the year, of which P8,916,931 were charged to the Banks's clients, hence, not reported as part of Taxes and Licenses in the 2018 statement of profit or loss [see Note 27(f)].

(c) *Customs Duties and Tariff Taxes*

The Bank has not paid or accrued any customs duties and tariff fees as it has no importation for the year ended December 31, 2018.

(d) *Excise Tax*

The Bank did not have any transaction in 2018 which is subject to excise tax.

(e) Withholding Taxes

The details of total withholding taxes for the year ended December 31, 2018 are shown below.

Compensation and employee benefits	P	2,278,344
Final		5,502,099
Expanded		3,075,928
	P	**10,856,371**

(f) Taxes and Licenses

The details of Taxes and Licenses account shown in the 2018 statement of profit or loss follows:

	Note		
DST	27(b)		10,030,975
GRT	27(a)	P	6,945,838
Local taxes and business permits			2,481,886
Real property taxes			223,495
		P	**19,682,194**

(g) Deficiency Tax Assessments and Tax Cases

As of December 31, 2018, the Bank does not have any final deficiency tax assessment from the BIR nor does it have tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open taxable years.

CITYSTATE SAVINGS BANK, INC.

SUMMARY OF AGING FOR ACCOUNTS RECEIVABLES

As of June 30, 2019

Accountee	Below 30 days	31 to 90 days	91 to 120 days	121 to 180 days	181 to 360 days	361 days or more	Total
HEAD OFFICE	5,861,914.67	-	-	-	-	8,523,475.54	14,385,390.21
HEAD OFFICE BRANCH	5,107.00	-	-	-	-	27,359.02	32,466.02
CHINO ROCES	-	-	-	-	-	793.00	793.00
BINONDO	-	-	-	-	-	-	-
PANADEROS	-	-	-	-	-	-	-
PACO	-	-	-	-	-	-	-
GUADALUPE	-	-	-	-	-	-	-
MABINI	-	-	-	-	-	-	-
BACLARAN	-	-	-	-	-	-	-
PASAY	-	-	-	-	-	-	-
SHAW	-	-	-	-	-	-	-
CUBAO	-	-	-	-	-	-	-
MUNTINLUPA	-	-	-	-	-	-	-
CALOOCAN	-	-	-	-	-	-	-
STA LUCIA	203.99	-	-	-	-	-	203.99
BLUMENTRITT	-	-	-	-	-	-	-
GREENHILLS	-	-	-	-	-	-	-
LAS PINAS	-	-	-	-	-	-	-
PASAY ROAD	-	-	-	-	-	-	-
ANTIPOLO	-	-	-	-	-	-	-
KATIPUNAN	41.22	-	-	-	-	-	41.22
TAGUIG	-	-	-	-	-	-	-
DAGUPAN	8,551.00	-	-	-	-	-	8,551.00
URDANETA	2,590.00	-	-	-	-	-	2,590.00
BALIUAG	359.69	-	-	-	-	-	359.69
MEYCAUYAN	-	-	-	-	-	-	-
PLARIDEL	-	-	-	-	-	-	-
BATANGAS	-	-	-	-	-	-	-
PALAWAN	34,350.00	-	-	-	-	-	34,350.00
STA ROSA	-	-	-	-	-	-	-
CEBU	-	-	-	-	-	-	-
						-	
TOTAL	**5,913,117.57**	**-**	**-**	**-**	**-**	**8,551,627.56**	**14,464,745.13**