

**Yuanta Savings Bank Philippines, Inc.**

**ANNUAL REPORT  
AS OF DECEMBER 31, 2018**

## **I. CORPORATE POLICY**

On 22 April 2019, the Bank's Board of Director approved the revised vision and mission statements of the Bank and adopted its corporate values as follows:

### **Vision**

Being part of the Yuanta Financial Holdings group in Taiwan, Yuanta Savings Bank Philippines adopts the core values of the conglomerate and is aspired to become a mid-tiered thrift bank in the Philippines in terms of asset scale through sound risk management and operational efficiency, serving primarily Filipinos, Koreans, and Taiwanese customers, driven by good corporate governance, integrity, professionalism and excellent customer service.

### **Mission**

To become a mid-tiered thrift bank in the Philippines and to create value for our clients, employees, and shareholders by:

1. Providing a broad range of excellent and value-added financial products and services to our customers;
2. Creating an environment of hardworking, competent, highly motivated and honest individuals by providing excellent career opportunities and professional development;
3. Maximizing shareholders value, taking advantages of its market niche to assist its stakeholders in creating wealth and achieving their financial dreams.

### **Corporate Values**

1. Seize opportunities and build client wealth
2. Enhance performance and promote employee welfare
3. Create value and increase shareholders return
4. Encourage teamwork and discipline in achieving our goals

## II. CORPORATE INFORMATION

### a. Background

**Yuanta Savings Bank Philippines, Inc.** (the Bank) was formerly known as TongYang Savings Bank, Inc. It was formally registered in the Securities and Exchange Commission (SEC) on 1 August 1997 and was granted its thrift bank license by the Bangko Sentral ng Pilipinas on 24 October 1997. The Bank started its commercial operations on 5 November 1997.

On 5 August 2015, the Bank became a wholly owned subsidiary of Yuanta Commercial Bank in Taiwan, a company under the umbrella of Yuanta Financial Holdings due to its acquisition of the 100% equity shares of the Bank from Yuanta Securities Korea Co., Ltd (formerly: TONGYANG Securities, Inc.).

On 18 July 2016, the SEC approved the change of its name from TongYang Savings Bank, Inc. to Yuanta Savings Bank Philippines, Inc.

The Bank was accredited by the Philippine Retirement Authority as one of its Partner Banks in its Special Resident Retiree Visa Program.

To further expand its banking operations, the Bangko Sentral ng Pilipinas granted the Bank its Foreign Currency Deposit Unit (FCDU) License on 14 June 2007 giving the Bank the authority to accept foreign currency deposits. On 9 May 2008, the Bank opened its first branch strategically located in Madrigal Business Park, Alabang, Muntinlupa City. Subsequently on 16 May 2011, the Bank opened its second branch located in Ortigas Center, Pasig City.

### b. Ownership Structure

The Bank has an authorized capital stock of PHP1,200,000,000.00 of which PHP1,000,000,000.00 is subscribed and paid up. Par value per share is PHP1.00.

As of 31 December 2018, the following is the distribution of the subscribed and paid up capital stocks:

Name	Nationality	Amt. Subscribed/ % of Stockholdings	Voting Status
Yuanta Commercial Bank Co., Ltd.	Taiwanese	P999,999,995.00 / 99.99%	Voting shares
Jin-Tang Wu	Taiwanese	1.00	Voting share
Tsai-Yu Chang	Taiwanese	1.00	Voting share
Regina V. Saga	Filipino	1.00	Voting share
Paulino Y. Tan	Filipino	1.00	Voting share
Anna Teresa G. Valdes	Filipino	1.00	Voting share
TOTAL		P1,000,000,000.00	

On 1 February 2019, Mr. Wen-Jeng Chang became a shareholder in lieu of the 1 voting share of Mr. Tsai-Yu Chang. Likewise, on 15 March 2019, Mr. Arturo E. Manuel Jr. and Mr. Senen L. Matoto became a shareholder in lieu of the 1 voting share of Ms. Anna-Teresa G. Valdes and Paulino Y. Tan, respectively.

### **c. Organizational Structure**

#### **i. Board of Directors and Corporate Officers**

Jin-Tang Wu	-	Chairman of the Board
Wen-Jeng Chang <sup>1/</sup>	-	Member
Regina V. Saga	-	Member
Arturo E. Manuel Jr. <sup>2/</sup>	-	Independent Director
Senen L. Matoto <sup>3/</sup>	-	Independent Director
Chun-Lung Wu	-	Chief Operating Officer / Acting President
Michael B. Samson	-	Corporate Secretary
Belen E. Asuncion	-	Treasurer
Reynold B. Mabanta	-	Chief Compliance Officer
Joelle Celline Reyes	-	Internal Auditor

1/ - Elected as Director on 1 February 2019 in lieu of Tsai-Yu Chang

2/ - Elected as Independent Director on 15 March 2019 in lieu of Anna-Teresa Gozon Valdes

3/ - Elected as Independent Director on 15 March 2019 in lieu of Paulino Y. Tan

#### **ii. Department Heads**

Chun-Lung Wu	-	Chief Operating Officer/Acting President
Belen E. Asuncion	-	Head, Treasury Dept.
Analiza K. Ramos	-	Head, Marketing Dept.
Michael B. Samson	-	Head, Accounting Department
Reynold B. Mabanta	-	Chief Compliance Officer
Kun-Nung Chen	-	Information Security Officer
Shyh-Chang Cheng	-	Chief Risk Officer
Charisse B. Sy	-	Branch Manager – Main Branch
Jung Jae Heo	-	Branch Manager, Alabang Branch
Hee Do Chae	-	Branch Manager, Ortigas Branch
Nak Seung Back	-	Bank Security Officer
Vannesa H. Gomez	-	OIC, Loans Dept.
Edmond J. Mallari	-	OIC, Collection Dept.
Roslyn L. Agustin	-	Head, Credit Dept.
Joelle Celline Reyes	-	Internal Audit Head
Chona G. Boyles	-	Head, HR and Admin Dept.
Carla Jean L. Pinili	-	Head of Information Technology Dept.
Vacant	-	Head, Legal Dept.

Each Department Head is directly reporting to the Bank's Acting President and COO except for Internal Audit Head, Chief Compliance Officer, and Chief Risk Officer who are functionally reporting to the Audit Committee/Board of Directors and administratively to the Acting President and CEO.

### **iii. Manpower Composition**

Total Number of Employees	-	87
Officers	-	15
Rank and File	-	72

### **d. Products and Services**

#### **Deposit Products**

Demand Deposit

Savings Account (Peso and US Dollar)

Special Savings Account (SSA) – Regular SSA (Peso and US Dollar)

Special Savings Account under Philippine Retirement Authority (US Dollar)

#### **Consumer Loans**

Personal loan

Auto Loan

Condominium Loan

#### **Commercial Loans**

Corporate Loan

Credit Line

Back-to-Back Loan

SME Loan

#### **Other Services**

Payroll Services

Automated Teller Machine (ATM)

Overseas and Local Remittance

US Dollar-Peso Exchanges

### **e. Bank Directory and Website**

#### **Head Office**

Ground Floor, Chatham House Building,

116 Valero corner Rufino Streets, Salcedo Village, Makati City

Tel. No. 845 3838, Fax No. 845 3839

#### **Alabang Branch**

Unit G3, Park Trade Center, Investment Drive,

Madrigal Business Park, Alabang, Muntinlupa City

Tel. No. 804-3628, 804-3692, Fax No. 804-3629

**Ortigas Branch**

Commercial Unit 4, East of Galleria Bldg.,  
Topaz St., Ortigas Center, Pasig City  
Tel. No. 655 5630, 477 7474, Fax No. 655 5690

**Bank Website**

<http://www.yuanta.com.ph/>

**III. FINANCIAL HIGHLIGHTS**

Minimum Required Data	Consolidated	
	2018	2017
<b>Profitability</b>		
Total Net Interest Income	79,150,141	76,842,171
Total Non-Interest Income	26,956,802	22,800,289
Total Non-Interest Expense	154,302,204	165,997,006
Pre-Provision Profit/(Loss)	(48,195,261)	(66,354,546)
Allowance for credit losses	733,016	993,193
Net Income/(Loss)	(48,928,277)	(67,347,739)
<b>Selected Balance Sheet Data</b>		
Liquid Assets	1,871,193,391	1,824,477,182
Gross Loans and Receivables	692,198,624	593,281,380
Total Assets	2,658,967,061	2,488,904,955
Deposits	1,752,694,620	1,526,102,849
Total Equity	872,900,050	921,723,095
<b>Selected Ratios</b>		
Capital Adequacy Ratio	47.29%	54.76%
<b>Others</b>		
Cash Dividend Declared		-
Total Headcount	87	91

#### IV. PRESIDENT’S REPORT

Dear shareholders and other stakeholders,

The Bank’s total resources increased by P170M, from P2.489B in Dec. 2017 to P2.659B in Dec. 2018. This was mainly due to increase in deposit liabilities by P227M, from P1.526B in Dec. 2017 to P1.753B in Dec. 2018. Gross loans and receivables also increased by P99M, from P593M in Dec. 2017 to P692M in Dec. 2018. Subsequently, the Bank reported a strong liquidity position from P1.824B in Dec. 2017 to P1.871B in December 2018. This comprises mainly of cash and due from other banks – P894M, due from BSP – P332M, investment securities at fair value through other comprehensive income (FVOCI) – P298M, and investment securities at amortized cost – P347M.

The year 2018 was quite tough but we are optimistic that the Bank will be able to generate profits for the next two to three years. For the year 2018, the Bank reported a total net loss of P48.9M. This amount is lower as compared to P67.3M net loss for the year 2017. For the year 2019, the Bank will concentrate primarily on enhancing its operational efficiency and risk management system in order to have a stable and profitable operations in the coming years.

From the year 2018, the Bank reported a total interest income of P95.5M, interest expense of P16.3M, and a net interest income of P79.2M. During the said period, the reported total other income was P27M, while the operating expenses & provision for impairment losses was P128M.

The Bank has maintained its strong capital position. Its solo basis capital adequacy ratio (CAR) and Tier 1 ratio were 47.29% and 46.37% as of 31 December 2018 respectively, which are significantly higher than the required 10%. Total qualifying capital was P945.81M. This comprised of P927.37M net tier 1 capital and P18.44M net tier 2 capital (pertains to general loan loss provision).

Net tier 1 capital comprised of the following:

<b>Tier 1 Capital</b>	<b>Amount (In Million PHP)</b>
Paid up common stock	1,000.000
Additional paid-in capital	9.000
Retained earnings and undivided profits	(67.026)
Cumulative foreign currency translation	1.958
Sub-total	943.932
<b>Deductions from Core Tier 1 Capital</b>	
Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI, net of allowance for credit losses	0.327
Deferred tax asset, net of deferred tax liability	16.234
<b>Total Deductions</b>	<b>16.561</b>

<b>Total Core Tier 1 Capital</b>	927.371
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The Bank's credit risk-weighted asset was P1,846.49M while its operational risk-weighted asset was P153.58M (computed using the Basic Indicator Approach), with minimum capital requirements of P184.65M and P15.36M, respectively (computed based on the required 10% of the total credit and operational risk-weighted assets). No market risk weighted assets and market risk capital requirements were computed as of December 31, 2018.

In year 2017, the Bank implemented the Phase 1 of its new core banking system in order to improve the effectiveness and efficiency of its operation. The Phase 2 of the project which pertains to Treasury System is currently ongoing and is targeted to be completed in June 2019. The new Anti-Money Laundering System is also ongoing and is targeted to be completed in December 2019 in order to strengthen the Bank's money laundering and terrorist financing prevention program. These initiatives are for the improvements of the Bank's present internal control, risk management, compliance, and operational efficiency with the ultimate objective of enhancing shareholder's value for the long run.

**Chun-Lung Wu**

Acting President and COO



## **V. CORPORATE GOVERNANCE**

### **a. Overall Governance Framework**

The business and operations of the Bank shall be conducted in accordance with the principles and best practices of good corporate governance, and exercising accountability, fairness and transparency across all operations and dealings. The Board of Directors, Management and staff members of the Bank commit themselves to these principles and policies, and acknowledge that the same will guide the Bank in attaining its corporate objectives.

The objectives of the Bank's corporate governance are as follows:

- Promoting appropriate ethics and values within the organization;
- Ensuring effective organizational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organization; and
- Coordinating the activities of and communicating information among the board, external and internal auditors, and management.

The Board of Directors and shareholders, management and employees believe that corporate governance is a necessary component of sound strategic business management and for long-term shareholder value. The Board of Directors believes that compliance with the principles of good governance emanates at the Board level. The Board considers it as their primary responsibility to foster the long-term success of the Bank and secure its sustained competitiveness in a manner consistent with the fiduciary responsibility, which it shall exercise in the best interest of the Bank and its shareholders. The Bank has formulated the following policies and procedures to ensure observance of good corporate governance: (a) corporate governance manual (b) policy on related party transactions (c) guidelines on the prevention of conflict of interest and unsafe and unsound business practices, (d) financial consumer protection framework, and (e) whistle blowing policy.

### **b. Selection Process for the Board of Directors and Senior Management**

Cognizant that a Director and Senior Management is a position of trust and confidence, the Bank adheres to a selection process that ensures a mix of competent individuals at the controls of the Bank. The Director and Senior Management must be fit and proper for the said position with consideration on the following matters: integrity/probity, physical/mental fitness, competence, relevant education/financial literacy/training, possession of competencies relevant to the job, such as knowledge and experience, skills, diligence and independence of mind, and sufficiency of time to fully carry out responsibilities. The screening process is being conducted by the Bank's Board of Directors, Senior Management, and its parent company.

### **c. Board of Directors Responsibility**

The Board of Directors leads in establishing the tone of good governance from the top and in setting corporate values, codes of conduct and other standards of appropriate behavior for

itself, the Senior Management and Bank employees. It is primarily responsible for approving and overseeing the implementation of the Bank's strategic objectives, risk strategy, corporate governance and corporate values. The Board ensures expeditious resolution of compliance issues and consistent adoption of corporate governance policies and procedures. The Board is also responsible for monitoring and overseeing the performance of Senior Management.

The Board of Directors is responsible for approving the Bank's objectives and strategies, including long-term financial interests, its level of risk tolerance, and ability to manage risks effectively, and in overseeing management's implementation through a system for measuring performance against plans which includes the conduct of monthly business performance review and board meeting.

The Board also defines the Bank's corporate culture and values and establish a code of conduct and ethical standards in the Bank, and institutionalizes a system that will allow reporting of concerns or violations to an appropriate body through its present whistle blowing policy. The Board conducts the affairs of the Bank with a high degree of integrity and plays a leading role in establishing the Bank's corporate culture and values. It establishes, actively promotes, and communicates a culture of strong governance in the Bank, through adopted policies and displayed practices, ensuring that the Senior Management champion the desired values and conducts, and actively supports the Bank's Senior Management in its initiatives to enhance its corporate governance, risk management, and control processes through providing adequate resources and necessary trainings to its employees, and ensuring that the internal and external issues noted have been immediately acted upon.

The Chairperson of the Board of Directors provides leadership in the Board and ensure its effective functioning as a body, including maintaining a relationship of trust with members of the Board. He ensures that the meeting agenda focuses on strategic matters including discussion on risk appetites, and key governance concerns and ensures a sound decision making process.

#### **d. Composition of the Board of Directors**

The Bank has five (5) Board of Directors as follows:

Name	Type of Directorship	No. of Years Served as Director	No. of Direct Shares Held	% of Direct Shares Held
Jin-Tang Wu	Non-Executive /Chairman	2	1	0.0000001%
Wen-Jeng Chang	Non-Executive	1	1	0.0000001%
Regina V. Saga	Non-Executive	2	1	0.0000001%
Arturo E. Manuel Jr.	Ind. Director	1	1	0.0000001%
Senen L. Matoto	Ind. Director	1	1	0.0000001%

**e. Profile of Directors and Executives:**

<b>Name</b>	<b>Age</b>	<b>Nationality</b>	<b>Summary of Qualification</b>
Jin-Tang Wu, Chairman	58	Taiwanese	<b>Educational Background:</b> Bachelor of Science in Chemistry (Soochow University, Taiwan), Master in Business Administration (University of Mississippi, USA)
			<b>Work Experience:</b> 20 years of experience in banking and securities businesses. Present Executive Vice President of Yuanta Commercial Bank, Senior Vice President of Yuanta Financial Holdings Co., Ltd.
Regina V. Saga Director	44	Filipino	<b>Educational Background:</b> LLB and LLM (University of Buckingham – UK), Master of Studies in Legal Research and obtained units in Doctor of Philosophy in law (University of Oxford - UK)
			<b>Work Experience:</b> 15 years of experience in legal fields and financial services. Currently Assistant Vice President of Yuanta Commercial Bank.
Wen-Jeng Chang Director	55	Taiwanese	<b>Educational Background:</b> Department of Diplomacy (National Chengchi University – Taiwan), Master in Business Administration (George Washington University - Washington, D.C.)
			<b>Work Experience:</b> With more than 26 years of banking experience. Present Vice President and Director of Overseas Business Division of Yuanta Commercial Bank
Arturo E. Manuel Jr. Independent Director	61	Filipino	<b>Educational Background:</b> AB-BSC Major in Management of Financial Institutions (De La Salle University), Strategic Business Economics (University of Asia and Pacific).
			<b>Work Experience:</b> With 31 years of experience in banking and management consultancy and a Fellow of Institute of Corporate Directors
Senen L. Matoto Independent Director	71	Filipino	<b>Educational Background:</b> Bachelor of Science in Business Administration (University of the Philippines), Master in Business Administration (Asian Institute of Management)
			<b>Work Experience:</b> With 30 years of experience in banking, finance and investment management and a Fellow of Institute of Corporate Directors
Chun-Lung Wu Acting President and COO	52	Taiwanese	<b>Educational Background:</b> Bachelor in Banking and Insurance (National Taipei College of Business), Executive Master of Business Administration (National Dong Hwa University).

			<b>Work Experience:</b> With 29 years of banking experience.
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#### **f. Board Level Committees**

Since the Bank is currently categorized as simple or non-complex banks, only audit committee and related party transaction committee are the constituted board level committees.

Atty. Anna Teresa G. Valdes, Dr. Paulino Y. Tan and Atty. Regina V. Saga were the members of the audit committee and related party transaction committee. The audit committee was chaired by Atty. Anna Teresa G. Valdes. The audit committee oversees the Bank's financial reporting framework, monitors and evaluates the adequacy and effectiveness of the internal control system, oversee the internal and external audit function, oversees the implementation of corrective actions, investigates significant issues/concerns raised, and establishes a whistleblowing mechanism.

The related party transaction (RPT) committee was chaired by Dr. Paulino Y. Tan. The RPT committee is in charge of the evaluation on an ongoing basis existing relation between and among businesses and counterparties to ensure that all related parties are continuously identified, related party transactions (RPTs) are monitored, and subsequent changes in relationships with counterparties are captured. This committee is also in charge of evaluating all material RPTs under the approving authority of the board of directors to ensure that these are not undertaken on more favourable economic terms.

On March 15, 2019, Mr. Arturo E. Manuel Jr. and Mr. Senen L. Matoto were elected as the Bank's new independent directors during a special meeting of the stockholders. As a result, the aforementioned committees were reconstituted. The audit committee is chaired by Mr. Senen L. Matoto with Mr. Arturo E. Manuel Jr. and Atty. Regina V. Saga as members. The RPT committee is chaired by Mr. Arturo E. Manuel Jr. with Mr. Senen L. Matoto and Atty. Regina V. Saga as members.

#### **g. Board and Board Level Committee Meetings**

In 2018, a total of 14 board meetings and 7 audit committee meetings were held. The attendance of the Board and Board level committee meetings are shown below:

<b>Name of Directors</b>	<b>Board</b>	<b>%</b>	<b>Audit Committee</b>	<b>%</b>
	Number of Meetings Attended		Number of Meetings Attended	
Jin-Tang Wu	12	86%	-	-
Yu-Sheng Tsai <sup>1/</sup>	9	100%	-	-
Tsai-Yu Chang <sup>2/</sup>	5	100%		
Regina V. Saga	13	93%	100%	

Anna Teresa Gozon-Valdes	9	64%	86%	
Paulino Y. Tan	9	64%	43%	

1/ - Director until 31 July 2018

2/ - Director effective 1 August 2018

The Related Party Transaction Committee did not convene in year 2018 as there were no related party transaction entered into during the year.

#### **h. Performance Assessment Program**

The Bank conducts a semi-annual and annual performance appraisal for its Senior Management. The results of the established key performance indicators (KPI) for each department formed part of the Bank's performance appraisal system.

Likewise, the Board of Directors, Board level Committees, and various Management Committees conducts an annual self-assessment to ensure the effectiveness in carrying out of their respective functions. The results are reported to the Board of Directors as the basis for improvement moving forward.

#### **i. Orientation and Education Program**

The duties and responsibilities of the Board of Directors have been discussed and duly acknowledged by the concerned directors prior to his/her appointment. All directors are required to undergo a one-day training on corporate governance conducted by an institution duly accredited by the BSP.

The Bank ensures to conduct employee orientation program within 15 days upon boarding of the employees which includes discussion of the following matters: institutional overview, responsibilities of all employees, employment requirements, senior management, process of employee regularization, work-related tips, fringe benefit program, employees code of conduct and the corresponding sanction for its violation, code of conduct for consumer protection, bank products and services, anti-money laundering, information security awareness, business continuity awareness, and secrecy on bank deposit.

The Board of Directors approved the Bank's annual training program. This includes in-house seminar on topics such as anti-money laundering, sound credit risk management, fraud risk and control awareness, information security, business continuity management, bank security, financial consumer protection, data privacy, signature verification, customer service, cash operation training, fair debt collection practices, problem solving and conflict resolution, and pandemic awareness and wellness seminar.

Specific external training program to enhance the knowledge of the concerned employee in their respective field is also in place.

#### **j. Retirement and Succession Policy**

An employee may be retired upon reaching the retirement age of 60 years old or unless sooner offered by the Bank. The Bank offers retirement pay for its employees who have worked for at least five (5) consecutive years.

There is no retirement age set for the Bank's Board of Directors for as long as he/she is still fit and proper for the said position.

The Board of Directors shall be elected during annual meeting of stockholders and shall hold office for one (1) year and until their qualified successors are elected. There is no limit set for the term of the members of the Board, except in the case of Independent Directors who may only serve as such for a maximum cumulative term of nine (9) years. After which, the Independent Director shall be perpetually barred from serving as Independent Director in the Bank, but may continue to serve as regular Director. The nine (9) year maximum cumulative term for independent directors shall be reckoned from year 2012.

The Bank maintains a succession management plan for each department which is being updated at least every year or as needed, with primary consideration on the qualification, knowledge, skills, and experience of the employee.

#### **k. Remuneration Policy**

The Bank pays salaries commensurate to the individual's qualifications and experience, nature of the job, employee performance, role, and level of responsibilities and activities with reference to an approved salary scale.

The Bank ensures that its compensation package for non-officers or rank and file employees are linked to both performance and the Bank's obligation under the law.

The remuneration of the executive and non-executive directors, President and CEO, and its highly compensated management officers has been determined and approved by the Bank's parent company.

The independent directors shall receive a monthly retainer's fees and a reasonable per diem allowance for his/her attendance at each regular meeting actually attended in such reasonable amount as may from time to time be fixed by at least a majority of the Board of Directors during its regular or special meeting, and subject to such existing regulations promulgated by the Bangko Sentral ng Pilipinas.

#### **l. Related Party Transaction**

The Bank has a Board approved Related Party Transactions (RPT) Policy. Under the said Policy, the Bank may enter into related party transactions provided, that these are done on an arm's length basis. The Bank shall exercise appropriate oversight and implement effective control systems for managing said exposures as these may potentially lead to abuses that are

disadvantageous to the Bank and its depositors, creditors, fiduciary clients, and other stakeholders.

The Bank has a board-level Related Party Transactions Committee whose main function includes evaluation on an ongoing basis, existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured; and evaluation of all material RPTs under the approving authority of the Board of Directors to ensure that these are not undertaken on more favorable economic terms and that no corporate or business resources of the bank are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions. The Committee is composed of three (3) members of the Board of Directors, two (2) of whom are Independent Directors.

The Bank's RPT Policy captures a broader spectrum of transactions, covering not only those that give rise to credit and/or counterparty risks but also those that could pose material/special risk or potential abuse to the Bank and its stakeholders. Transactions that were entered into with an unrelated party that subsequently becomes a related party may be excluded from the limits and approval process required in Bank's RPT Policy, but still subject for evaluation to ensure that said transactions are still in an arm's length terms. However, any alteration to the terms and conditions, or increase in exposure level, related to these transactions after the non-related party becomes a related party shall subject the RPT to the requirements of the Bank's RPT policy.

The Management and Board of Directors shall ensure that RPTs are conducted in the regular course of business and not undertaken on more favourable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances. In this regard, an effective price discovery mechanism to ensure that transactions are engaged into at terms that promote the best interest of the Bank and its stakeholders shall be observed. The price discovery mechanism may include, but not limited to the following:

- Acquiring the services of an external expert;
- Opening the transaction to a bidding process. The minimum bid price shall be based on its market value;
- Publication of available property for sale;
- Determining the market value of the securities based on its market price;
- Conducting independent or internal appraisal as basis for the value of the personal and real properties. If the RPT transaction involves at least PHP3 Million pesos or if the property involved is not usual or a technical one such as machineries and equipment, independent appraisal is a must.

The Management and the Board shall also ensure the proper identification, prevention or management of potential or actual conflicts of interest which may arise. The members of the board, stockholders, and management shall disclose to the board whether they directly, indirectly or on behalf of third parties, have a financial interest in any transaction or matter

affecting the Bank. Directors and officers with personal interest in the transaction shall abstain from the discussion, approval and management of such transaction or matter affecting the Bank.

All Bank officers and directors shall execute an Oath of Office to ensure proper identification, prevention or management of conflict of interest. All members of the Credit Committee shall also execute an Oath of Office to avoid conflict of interest in any loan transactions which they approved. The Bank's employee code of conduct also includes provisions for conflict of interest which incorporates the corresponding employee disciplinary action in case of violation.

The Bank did not enter into related party transactions from January 2018 to December 2018. There were no outstanding balances, including off-balance sheet commitments to related parties as of 31 December 2018.

#### **m. Self-Assessment Functions**

The Bank has an independent audit and compliance functions, through which the Bank's Board of Directors, Senior Management, and Stockholders may be provided with reasonable assurance that its risk management, control, governance, and compliance processes are effective, appropriate, and in compliance with the prescribed internal and external regulations.

The internal audit function is being headed by the Internal Audit Head who is currently reporting to the Audit Committee and the Board, and has unrestricted access to all functions, records, property, and personnel, and have full and free access to the Audit Committee. Its main function is to provide independent, objective assurance and consulting services designed to add value and improve the Bank's operations. It helps the organization accomplish its objectives by bringing systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The Bank also has its compliance function headed by the Chief Compliance Officer who is directly reporting to the Audit Committee and the Board. Its main task is to oversee and coordinate the implementation of the Bank's compliance system, which includes the identification, monitoring and controlling of the Bank's business and compliance risk. It also has unrestricted access to all functions, records, property, and personnel and have full and free access to the Board.

The Bank's Board of Directors is ultimately responsible for ensuring that Senior Management establishes and maintains an adequate, effective, and efficient internal control framework commensurate with the size, risk profile and complexity of operations of the Bank. The Board of Director ensures that the Bank's independent audit function has an



appropriate stature and authority within the Bank and is provided with adequate resources to enable it to effectively carryout its assignments with objectivity.

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

#### **n. Dividend Policy**

Dividends shall be declared and paid out of the unrestricted retained earnings which shall be payable in cash, property, or stock to all stockholders on the basis of outstanding stock held by them, as often and at such times as the Board of Directors may determine and in accordance with law and applicable rules and regulations, and results of the Bank's operation. Since the Bank incurred a loss for the year 2018, there was no dividend declared for the said year.

#### **o. Corporate Social Responsibility**

In May 2018, the Bank made a donation to the Foundation for the Advancement of Surgical Education, Inc., a non-stock non-profit corporation whose purpose is to generate funds for the needs of the indigent patients in the Philippine General Hospital (PGH) Surgery Ward and to provide continuing medical education, training, and research for both residents and faculty of the Department of Surgery in PGH to further provide quality services to the beneficiaries of the PGH.

#### **p. Consumer Protection Practices**

The Bank value the right of its customer as a consumer of financial products and services. For this reason, the Bank aims to provide them with the highest level of satisfaction.

The Board and Senior Management are responsible for developing the Bank's consumer protection strategy and establishing an effective oversight over the Bank's consumer protection program.

The Board of Directors are responsible for approving and overseeing the implementation of the Bank's consumer protection policies as well as mechanism to ensure compliance with said policies, and for monitoring and overseeing the performance of Senior Management in managing the day-to-day consumer protection activities of the Bank. Likewise, Senior Management are responsible for the implementation of the consumer protection policies approved by the Board, overseeing the implementation of the Bank's consumer protection policies, as well as mechanism to ensure compliance with said policies.

The Bank's consumer protection risk management system form part of the corporate-wide risk management system which includes the following process.

**a. Risk Identification**

Each consumer assistance officer identifies the consumer protection risk inherent in its operations. These include both risks to the financial consumer and to the Bank. This procedure form part of the Bank's annual Risk and Control Self-Assessment (RCSA).

There is a separate RCSA for consumer protection signed by all consumer assistance officer.

**b. Risk Measurement**

The consumer protection risk identified is being measured in terms of its likelihood and impact based on the Bank's existing RCSA Guidelines.

**c. Risk Monitoring and Control**

The Bank records and monitors the disposition of complaints received from its customer for reporting to Senior Management and Board of Directors, which includes the necessary actions to resolve the case and to prevent its recurrence.

The Bank ensures to provide accessible, affordable, independent, fair, accountable, timely and efficient means of resolving customer complaints. The Bank has appointed consumer assistance officer for various units headed by the Head Consumer Assistance Officer. It has a Consumer Assistance Mechanism which is posted on the Bank's website and at its premises to guide customers on how they can file their respective complaints and how cases are resolved. The Bank classifies the customer complaints received as either simple or complex. In case of a simple complaint, immediate explanation or action will be rendered. A resolution must be achieved within a 7-day period. However, for complex complaint that needs assessment, verification, or investigation with third party intervention, the resolution thereof is targeted to be achieved within a 45-day period.

## **VI. RISK MANAGEMENT FRAMEWORK**

**a. Overall Risk Management Culture and Philosophy**

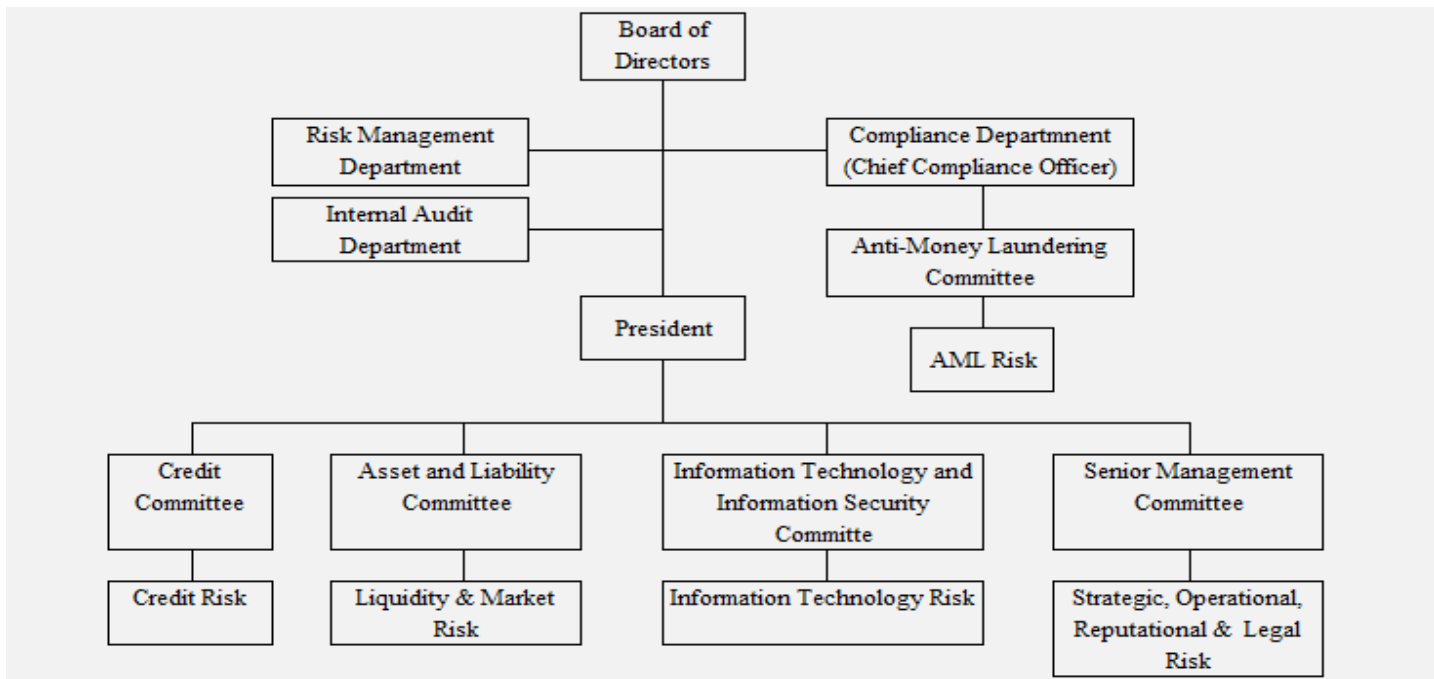
The underlying philosophy of the Bank's risk management system is that the Bank exists to provide value for its stakeholders. The Bank faces uncertainty, and the challenge for management is to determine how much uncertainty to accept as it strives to grow stakeholder value. Uncertainty presents both risk and opportunity, with the potential to erode or enhance value. The Bank's overall risk management objective is to effectively deal with uncertainty and associated risk and opportunities, with the ultimate objective of enhancing the capacity to build value.

The Bank's risk management system helps management to achieve its performance and profitability targets and prevent loss of resources. It helps to ensure effective reporting and compliance with laws and regulations, and helps avoid damage to the Bank's reputation and associated consequences. In essence, risk management system helps the Bank to get to achieve its goals while avoiding pitfalls and surprises along the way.

The Bank has established various risk management policies, limits, manual, and guidelines that lays down sound risk management practices and to guide the Bank's management and Board of Directors to understand, measure, monitor and control the risk assumed, adopt risk management practices whose sophistication and effectiveness are commensurate to the risk being monitored and controlled, and maintains capital commensurate with the risk exposure assumed.

## b. Risk Governance Structure and Risk Management Process

The Bank's risk management structure is shown below:



The Board is responsible for setting and monitoring the risk appetite for the Bank when pursuing its strategic objectives.

The Board and Senior Management of the Bank are ultimately responsible for the oversight of the Bank's risk management process. Effective Board and Senior Management oversight of the Bank's risk activities is critical to a sound risk management process. The Board is responsible for understanding the nature and the level of risks taken by the Bank and directly in-charge of the implementation of the risk management process which includes, among others, the development of various risk strategies and principles, control guidelines policies and procedures, implementation of risk measurement tools, monitoring of key risk indicators, and the imposition and monitoring of risk limits. Likewise, the Senior Management is

responsible for ensuring that risks are adequately managed both on a long-term and day-to-day basis.

The Compliance Department manages and monitors the implementation of the Bank's compliance risk management system designed to specifically identify and mitigate risks that may erode the franchise value of the Bank such as risks of legal or regulatory sanctions, material financial loss, or loss to reputation. Compliance risk management is also the responsibility and shared accountability of all personnel, officers, and the Board of Directors.

The Risk Management Department is responsible for overseeing the risk-taking activities across the Bank, as well as in evaluating whether these remain consistent with the Bank's risk-appetite and strategic direction. It ensures that the risk governance framework remain appropriate relative to the complexity of risk taking activities of the Bank. It is also responsible for identifying, measuring, monitoring, and reporting risk on an enterprise-wide basis as part of the second line of defense.

Internal Audit Department provides independent objective assurance and consulting function established to examine, evaluate and improve the effectiveness of internal control, risk management and governance systems and processes of the Bank, which helps management and the Board of Directors in protecting the Bank and its reputation. It both assess and complement the Bank's operational management, risk management, compliance and other control function.

The Credit Committee is a management-level committee established to implement the Bank's credit risk management policies and systems. It is responsible for establishing an appropriate credit risk environment, ensuring that the Bank is operating under a sound credit granting process, and maintaining appropriate credit administration, measurement, monitoring process and control over credit risk.

The Asset and Liability Committee is a management-level committee created to ensure the proper implementation of the Bank's liquidity and market risk management practices. These includes ensuring that the Bank is able to maintain a level of liquidity sufficient to meet its financial obligations in a timely manner and fulfil its legitimate funding needs, and understands, measures, monitors and controls the Bank's liquidity and market risk exposure.

The Anti-Money Laundering Committee, a management-level committee that reports directly to the Board of Directors, is created to ensure that the Bank is protected against money launderers. It ensures effective implementation of the Bank's Money Laundering and Terrorist Financing Prevention Program approved by the Board, timely reporting of covered and suspicious transactions to the AMLC, and providing adequate oversight function on the Bank's AML compliance.

The Information Technology and Information Security Committee (ITCOM), together with the Board of Directors set the overall tone and strategic direction for the Bank's information technology and information security by providing leadership, effective information security governance and oversight. It leads in establishing an information security culture that regards

security as an intrinsic part of the Bank's core business and operations. It oversees the Bank's information technology projects and development of an information security strategic plan to clearly articulate security strategies and objectives aligned with business plans.

The Senior Management Committee is an avenue in which the Department Heads interact with each other whereby their plans, issues, matters, status or activities are discussed on a regular basis, in order that the day-to-day functions of the different departments are monitored and reported to the Board as part of the latter's governance over the operations of the Bank.

### **c. Risk Appetite, Strategies and Exposure**

The Bank's risk appetite, strategies and exposures are summarized below:

#### **Strategic Risk**

The Bank recognizes the importance of embedding risk into strategy setting. Better understanding of risks and uncertainties provides a strong foundation in setting key assumptions for strategic planning and during the development of new products and services. The Board and Senior Management of the Bank are ultimately responsible for setting the Bank's strategies after evaluation of its threats and vulnerabilities, costs vs. potential benefits, its economic, political, social, and technological dimensions, complemented by an assessment of the Bank's core competencies, strengths, and business opportunities in order to provide sound basis for the Bank's strategic and business plans.

#### **Operational Risk**

Operational risk is the current and prospective risk to earnings or capital arising from fraud, error, and the inability to deliver products or services, maintain a competitive position, and manage information. Risk is inherent in efforts to gain strategic advantage, and in the failure to keep pace with changes in the financial services marketplace.

Operational risk is being managed for each product and service offered by the Bank. It is being observed during product development and delivery, operational processing, systems development, computing systems, complexity of products and services, and the internal control environment.

Bank's exposure to operational risk is controlled by having an adequate and effective internal control to manage risk and to increase the likelihood that established objectives and goals will be achieved. Management regularly monitors its compliance with control policies and procedures and exposure to operational risk through ongoing management activities, separate evaluations (i.e. independent examination by Internal Auditor and/or Compliance Officer) or both. The Bank has created a Risk Management Department who will monitor and report the Bank's operational risk exposure to Senior Management and the Board. The Bank also maintains an operational loss and customer complaints database in order to immediately address control lapses and weaknesses which resulted to losses or customer complaints.

An Annual Risk and Control Self Assessment (RCSA) is conducted by each department, in order to identify, assess and manage the Bank's risk exposure. The Internal Audit Department validates the RCSA conducted by each department. The result of the RCSA is being discussed to the Senior Management and Board of Directors as part of their oversight function. Each department head is in charge in disseminating the results of the assessment with their employees. The Bank is also conducting risk and control seminar for all employees.

As of 31 December 2018, the Bank's operational risk-weighted asset was P153.57M (computed using the Basic Indicator Approach).

### Credit Risk

The Bank has maintained credit risk management system. Its credit risk strategy is aligned with the Bank's profitability, deposits and loan portfolio growth targets, target customer, credit risk tolerance, and overall business goals. The Bank also considers its existing liquidity profile while granting loans to customer.

The following were performed by the Bank in order to manage credit risk:

- The Bank offers loan products to qualified individuals or business entities based on sound and prudent bank practices and in accordance with its existing policies.
- Extending loan facilities to qualified individuals or business entities, by taking into consideration the cash flow, character, capacity, collateral and financial condition of each borrower.
- For loans that are secured by collaterals, the Bank ensures that it can annotate its mortgage and therefore, protect its legal interest thereto.
- The Bank ensures compliance with internal single borrower's limit of (PHP200 million or 24% of the Bank's net worth whichever is lower, including group exposure).
- The Bank ensures that loans are approved by the Credit Committee (CRECOM) or Board of Directors based on set limits.

The Bank has a credit risk management structure that clearly delineates lines of authority, and establishes the accountabilities and responsibilities of individuals involved in the different phases of the credit risk management process.

The Bank has a Credit Department, independent of the Marketing Department who is in charge of the credit underwriting procedures. This includes the analysis and verification of the applicant's background, integrity, cash flow/financial capacity, character and collateral offered for the loan. The evaluation and approval of the loan up to P10 million pesos is being made by the Credit Committee (CRECOM). The CRECOM also serves as the oversight function for the Bank's credit underwriting procedures, reviews the Bank's Credit Policies and Procedures, and informs the Board of Directors on accounts approved by CRECOM despite deviation from credit policies and procedures. The Board of Directors is the final approver of credit policy, credit limits, credit risk management policy and loan exceeding P10 million pesos.

The Risk Management Departments is in charge of preparing monthly credit risk management report in order to inform the Bank's Senior Management and Board of Directors on its present credit risk exposure and results of stress testing. This also serves as a tool in monitoring the effectiveness of the Bank's existing credit policies and procedures.

The Bank adopted its internal credit scoring model for individual borrowers since the Bank's present customers are mostly retail clients. The credit scoring model considers both the internal rating (70% of the total risk score) and external credit bureau rating – TransUnion Credit Bureau (30% of the total risk score). The following factors are considered in the internal rating: credit history, capacity to pay, loan exposures, adverse findings, and demography such as employment status, employment industry, home ownership, marital status, age, and gender. The scoring model is subject for periodic validation by the internal auditor. In 2018, the Bank also implemented a credit rating system for corporate borrowers. The following factors are considered in the said credit rating system: cash flow and profitability, financial leverage, guarantor, management/character, and collection history.

In order to reduce the Bank's non-performing loan (NPL) levels, past due loans are regularly monitored by the Bank's Collection and Legal Department. Collection activities are reported to Senior Management on a monthly basis, including progress report for borrowers with substantial loan balance. The Bank has implemented a more stringent credit policies and procedures, with the objectives of improving the level of its current/good quality loan portfolio. In July 2018, the Bank temporarily stopped the offering of its unsecured salary loan products due to high probability of default. Internal NPL ratio limit has also been set for each type of loan and any breach has been monitored and reported to Senior Management and the Board.

The Bank also conducted a quarterly credit stress testing to determine the impact on the Bank's capital upon the occurrence of certain scenarios which was developed based on the Bank' present loan portfolio level and past experiences.

Independent credit review function is being done by the Compliance and Internal Audit Departments in order to assess the quality of individual credits and compliance with regulatory and internal policies and procedures.

As of 31 December 2018, the Bank's balance sheet credit risk exposure and credit risk weighted assets are shown as follows:

Nature of Item (Amounts in Million PHP)	Credit Risk Exposure (Net Carrying Amount)	Credit Risk Weighted Assets
a. Loans to individuals for housing purpose, fully secured by first mortgage on residential property that is or will be occupied by the borrower, which are not classified as non-	76.623	38.311

performing – 50% risk weight		
b. Non-performing loans to individuals for housing purpose, fully secured by first mortgage on residential property that is or will be occupied by the borrower – 100% risk weight	0.002	0.002
c. All non-performing loans (except non-performing loans to individuals for housing purpose, fully secured by first mortgage on residential property that is or will be occupied by the borrower), all non-performing sales contract receivables, and all non-performing debt securities – 150% risk weight	14.037	21.055
d. Net Other Assets - 100% risk weight	1,787.124	1,787.124
Total	1,877.786	1,846.492

## Market Risk

The Bank's exposure to market risk is relatively low since it does not engage in any trading activities and derivatives operations. Interest rate movements and the level of foreign exchange risk have minimal impact on the Bank's earnings and capital. It follows a prudent policy in managing its assets and liabilities in order to ensure that its exposure to fluctuations in interest rates and foreign exchange fluctuations is kept within reasonable limits.

The Bank has a Board-approved Market Risk Management Manual, Interest Rate Policy, and market risk limits for the effective discharge of market risk management function. The Bank measures its market risk exposure through monthly re-pricing gap analysis and quarterly stress testing on changes in interest and foreign exchange rate which is being done and monitored by the Treasury and Risk Management Department. A monthly report on the Bank's market risk exposure and limit breaches, if any, are being discussed during the Asset and Liability Committee (ALCO) and Board of Directors meeting.

The Bank set a monthly re-pricing gap limit of 35% and 85% of the Bank's total interest rate sensitive assets or liabilities for RBU and FCDU books, respectively. Any excess thereon shall be communicated to the ALCO for proper action. The Bank also monitors its foreign exchange position in order to avoid large exposure in case of foreign exchange fluctuations.

Independent market risk review function is being done by the Internal Audit Department in order to assess the level of compliance with prescribed regulatory and internal policies and procedures.

## Liquidity Risk

The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to



ensure that short-term statutory and liquidity funding requirements are met and by maintaining a balanced loan portfolio which is repriced on a regular basis. The Bank's level of liquidity is aligned on its present deposits and loans volume. The Bank has enough liquidity level and ensures that the required deposit reserve has been met.

There is a Board approved Liquidity Risk Management Manual for the effective discharge of liquidity risk management function. The Bank's Treasury and Risk Management Department measures its liquidity risk exposure through the preparation of monthly maturity matching report, quarterly projected volume and sources of liquidity needs, quarterly stress testing, and computation of various liquidity ratios. The Bank sets a liquid asset to deposit ratio limits of at least 30%.

Periodic reports on the Bank's liquidity risk exposure are being discussed during the monthly Asset and Liability Committee (ALCO) and Board of Directors meeting.

Independent review of the liquidity risk management function is being done by the Internal Audit Department in order to assess the level of compliance with prescribed regulatory and internal policies and procedures.

As of 31 December 2018, the Bank's liquid assets stand at P1.871B. This comprises mainly of cash and due from other banks – P894M, due from BSP – P332M, investment securities at fair value through other comprehensive income (FVOCI) – P298M, and investment securities at amortized cost – P347M.

The Bank's has a liquidity contingency plan which addresses two (2) crisis scenarios classified according to prospective length or duration: a) short-term liquidity crisis, and b) medium-term liquidity crisis. The Bank's liquidity contingency plan will trigger if withdrawals on deposit liabilities from either regular banking unit or foreign currency deposit unit (FCDU) unit exceeding 40% of the Bank's total deposit liabilities for a period of up to 3 months (short-term liquidity crisis) or for a period of > 3 months to 2 years (medium-term liquidity crisis).

On the Bank's liquidity stress testing as 31 December 2018 with an assumption of 50% decrease in its deposit liabilities, the Bank will be able to satisfy its liquidity needs at a minimal amount of projected cost of financing/amount of loss revenue amounting to P5.2M.

### Legal Risk

The Management believes that, liabilities or losses, if any, arising from the Bank's currently identified legal risk, would not have a material effect on the financial position and results of operations of the Bank. The Bank's risk management system covers policies and procedures in handling legal risk which are strictly implemented. The Bank has a Legal Department who is in charge of the management and prevention of legal risk and has retainer services agreement with a law firm to provide legal services.

### Compliance Risk

The Bank's exposures to compliance risk are properly addressed. The Bank adopted a compliance risk management system and its Board of Directors generally addresses key aspects of compliance risk. Appropriate actions have been undertaken to comply with banking laws, BSP rules and regulations, and other regulatory requirements. The Board of Directors appointed Chief Compliance Officer to oversee the implementation of compliance function. Likewise, the Bank's Compliance Program was formulated and it adequately and generally covers compliance issues and concerns.

The Chief Compliance Officer is responsible in cascading compliance matters to the concerned personnel. Each department also has their respective compliance coordinator to disseminate/circulate all relevant regulations in a timely and efficient manner. Reporting of compliance matters is being reported by the Chief Compliance Officer to Senior Management and Board of Directors on a monthly basis.

The Senior Management and Board of Directors are responsible in setting the tone at the top focusing on ethical climate and compliance culture among all personnel.

#### Reputational Risk

Reputational risk is the current and prospective impact on earnings or capital arising from negative public opinion. This affects the Bank's ability to establish new relationships or services or continue servicing existing relationships.

In the banking sector where business relationships are based on trust and confidence, the management of reputational risk is crucial. Given that reputational risk issues generally are an outcome of operational lapses and concerns, reputational risk management is largely centered on strengthening banking service delivery. It is the Bank objective to always provide reliable, professional, efficient and customer-oriented services. The Bank also has a Consumer Assistance Mechanism to address client concerns and customer complaints, and has a proactive solicitation of customer feedback. Significant issues are required to be immediately reported to Senior Management, Board of Directors, and parent company for timely and proper management of the issues.

#### **d. AML Governance and Culture**

The Bank has its Money Laundering and Terrorist Financing Prevention Program (MTPP) approved by the Board which needs to be observed by all concerned personnel. The Board and Senior Management exercise its oversight function in the effective implementation of the Bank's MTPP which is being managed by the Bank's Compliance Department. It also provides for appropriate monitoring, management information system, and effective implementation to ensure that the Bank is not being use as a medium to legitimize proceeds of unlawful activity or to facilitate or finance terrorism. AML internal controls and audit is also in place to ensure adequate and effective implementation of the Bank's MTPP. The Bank also conducted an annual AML training program for its employees as well as AML orientation program to all newly hired employees.

Independent Auditors' Report and  
Audited Financial Statements  
As at December 31, 2018 and December 31, 2017 and for period  
ended December 31, 2018 and December 31, 2017



Isla Lipana & Co.

## Independent Auditor's Report

To the Board of Directors and Shareholder of  
**Yuanta Savings Bank Philippines, Inc.**  
(A wholly-owned subsidiary of Yuanta Commercial Bank Co., Ltd.)  
G-1A/B, Chatham House Condominium  
116 Valero cor. V.A. Rufino Streets  
Salcedo Village, Makati City 1227  
Philippines

017 0830 0000010 012120

BENNY JAMES P. GIRON

## Report on the Audits of the Financial Statements

### Our Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Yuanta Savings Bank Philippines, Inc. (the "Bank") as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

### What we have audited

The financial statements of the Bank comprise:

- the statements of financial position as at December 31, 2018 and 2017;
- the statements of total comprehensive income for the years ended December 31, 2018 and 2017;
- the statements of changes in equity for the years ended December 31, 2018 and 2017;
- the statements of cash flows for the years ended December 31, 2018 and 2017; and
- the notes to the financial statements, which include a summary of significant accounting policies.

### Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

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Isla Lipana & Co.

Independent Auditor's Report  
To the Board of Directors and Shareholder of  
Yuanta Savings Bank Philippines, Inc.  
(A wholly-owned subsidiary of Yuanta Commercial Bank Co., Ltd.)  
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***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



Isla Lipana & Co.

Independent Auditor's Report

To the Board of Directors and Shareholder of

Yuanta Savings Bank Philippines, Inc.

(A wholly-owned subsidiary of Yuanta Commercial Bank Co., Ltd.)

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As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



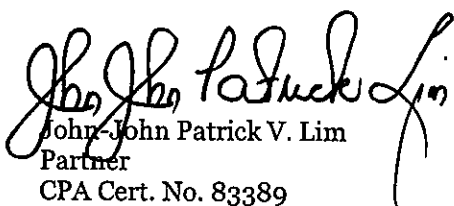
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Independent Auditor's Report  
To the Board of Directors and Shareholder of  
Yuanta Savings Bank Philippines, Inc.  
(A wholly-owned subsidiary of Yuanta Commercial Bank Co., Ltd.)  
Page 4

**Report on the Bureau of Internal Revenue Requirement**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 25 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**Isla Lipana & Co.**



John-John Patrick V. Lim  
Partner

CPA Cert. No. 83389

P.T.R. No. 0007706, issued on January 9, 2019, Makati City

SEC A.N. (firm) as general auditors 0009-FR-5, Category A; effective until June 20, 2021

TIN 112-071-386

BIR A.N. 08-000745-17-2018, issued on December 10, 2018; effective until December 9, 2021

BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City  
March 15, 2019

# ***Yuanta Savings Bank Philippines, Inc.***

(A wholly-owned subsidiary of  
Yuanta Commercial Bank Co., Ltd.)

**Financial Statements**

**As at and for the years ended December 31, 2018 and 2017**



**Yuanta Savings Bank Philippines, Inc.**  
(A wholly-owned subsidiary of Yuanta Commercial Bank Co., Ltd.)

Statements of Financial Position  
December 31, 2018 and 2017  
(All amounts in Philippine Peso)

	Notes	2018	2017
<b><u>ASSETS</u></b>			
Cash and other cash items	2	32,332,315	30,482,474
Due from Bangko Sentral ng Pilipinas (BSP)	2	331,958,742	483,648,589
Due from other banks	2,3	861,589,197	658,287,623
Investment securities at fair value through other comprehensive income (FVOCI)	4	297,800,280	-
Investment securities at amortized cost	4	347,512,857	-
Available-for-sale (AFS) investments	4	-	299,907,400
Held-to-maturity investments	4	-	352,151,096
Loans and receivables, net	5	598,554,634	478,210,695
Bank premises, furniture, fixtures and equipment, net	6	122,298,703	129,243,213
Deferred tax assets, net	16	16,233,631	32,246,097
Other assets, net	7	50,686,702	24,727,768
<b>TOTAL ASSETS</b>		<b>2,658,967,061</b>	<b>2,488,904,955</b>
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>LIABILITIES</b>			
Deposit liabilities	8	1,752,694,620	1,526,102,849
Manager's checks		2,734,424	13,444,951
Accrued interest and other expenses	9	12,645,625	8,765,533
Income tax payable	16	437,488	407,232
Retirement benefit obligation	17	10,329,331	7,822,973
Other liabilities	10	7,225,523	10,638,322
<b>Total liabilities</b>		<b>1,786,067,011</b>	<b>1,567,181,860</b>
<b>EQUITY</b>			
Capital stock	11	1,000,000,000	1,000,000,000
Additional paid-in capital	11	9,000,000	9,000,000
Deficit		(115,954,361)	(82,148,459)
Other comprehensive losses, net	12	(20,145,589)	(5,128,446)
<b>Total equity</b>		<b>872,900,050</b>	<b>921,723,095</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2,658,967,061</b>	<b>2,488,904,955</b>

(The notes on pages 1 to 63 are integral part of these financial statements)

**Yuanta Savings Bank Philippines, Inc.**  
(A wholly-owned subsidiary of Yuanta Commercial Bank Co., Ltd.)

Statements of Total Comprehensive Income  
For the years ended December 31, 2018 and 2017  
(All amounts in Philippine Peso)

	Notes	2018	2017
<b>INTEREST INCOME</b>			
Loans and receivables	5	37,559,934	42,543,887
Due from BSP and other banks	2,3	28,096,163	31,824,518
Investment securities at amortized cost	4	15,749,943	-
Investment securities at FVOCI, net	4	14,085,966	-
Held-to-maturity investments	4	-	14,098,043
Available-for-sale investments	4	-	3,415,151
		95,492,006	91,881,599
<b>INTEREST EXPENSE</b>	8	16,341,865	15,039,428
<b>NET INTEREST INCOME</b>		79,150,141	76,842,171
<b>PROVISION FOR IMPAIRMENT LOSSES</b>			
Loans and receivables	5	733,016	993,193
<b>NET INTEREST INCOME AFTER IMPAIRMENT LOSSES</b>		78,417,125	75,848,978
<b>OTHER INCOME</b>			
Service charges and fees	13	16,352,604	13,739,072
Foreign exchange gain, net		9,611,855	8,207,192
Miscellaneous income, net		992,343	854,025
		26,956,802	22,800,289
<b>OPERATING EXPENSES</b>			
Compensation and employee benefits	17	64,738,164	61,443,928
Depreciation and amortization	6,7	18,816,645	14,161,737
Taxes and licenses		11,978,015	7,000,286
Reconciliation (gain) loss on Due from BSP	15	(6,166,481)	20,518,423
Other expenses	14	37,879,856	36,805,029
		127,246,199	139,929,403
<b>LOSS BEFORE INCOME TAX</b>		(21,872,272)	(41,280,136)
<b>INCOME TAX EXPENSE</b>	16	(27,056,005)	(26,067,603)
<b>NET LOSS FOR THE YEAR</b>		(48,928,277)	(67,347,739)
<b>OTHER COMPREHENSIVE LOSS</b>			
Items that may be subsequently reclassified to profit or loss			
Unrealized fair value loss on investment in debt securities measured at FVOCI, net of tax	4	(13,883,160)	-
Unrealized fair value loss on AFS investments, net of tax	4	-	(1,484,024)
Item that will not be reclassified to profit or loss			
Unrealized fair value loss on on investments in equity securities measured at FVOCI, net of tax	4	(148,630)	-
Remeasurement gain (loss) on retirement benefits, net of tax	17	277,587	(405,742)
Total other comprehensive loss		(13,754,203)	(1,889,766)
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		(62,682,480)	(69,237,505)

(The notes on pages 1 to 63 are integral part of these financial statements)

**Yuanta Savings Bank Philippines, Inc.**  
(A wholly-owned subsidiary of Yuanta Commercial Bank Co., Ltd.)

Statements of Changes in Equity  
For the years ended December 31, 2018 and 2017  
(All amounts in Philippine Peso)

	Capital Stock (Note 11)	Additional Paid-in Capital (Note 11)	Deficit	Other Comprehensive Losses, net (Note 12)	Total
Balance at January 1, 2017	1,000,000,000	9,000,000	(14,800,720)	(3,238,680)	990,960,600
Total comprehensive loss					
Net loss for the year	-	-	(67,347,739)	-	(67,347,739)
Other comprehensive loss	-	-	-	(1,889,766)	(1,889,766)
Total comprehensive loss for the year	-	-	(67,347,739)	(1,889,766)	(69,237,505)
Balance at December 31, 2017	1,000,000,000	9,000,000	(82,148,459)	(5,128,446)	921,723,095
Effect of adoption of new standard (Note 24)	-	-	15,122,375	(1,262,940)	13,859,435
Balance at January 1, 2018, as restated	1,000,000,000	9,000,000	(67,026,084)	(6,391,386)	935,582,530
Total comprehensive loss					
Net loss for the year	-	-	(48,928,277)	-	(48,928,277)
Other comprehensive loss	-	-	-	(13,754,203)	(13,754,203)
Total comprehensive loss for the year	-	-	(48,928,277)	(13,754,203)	(62,682,480)
Balance at December 31, 2018	1,000,000,000	9,000,000	(115,954,361)	(20,145,589)	872,900,050

(The notes on pages 1 to 63 are integral part of these financial statements)

**Yuanta Savings Bank Philippines, Inc.**  
(A wholly-owned subsidiary of Yuanta Commercial Bank Co., Ltd.)

Statements of Cash Flows  
For the years ended December 31, 2018 and 2017  
(All amounts in Philippine Peso)

	Notes	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before income tax		(21,872,272)	(41,280,136)
Adjustments for:			
Depreciation and amortization	6,7	18,816,645	14,161,737
Provision for impairment losses	5	733,016	993,193
Retirement benefits expense	17	2,902,911	2,637,907
Unrealized foreign exchange gain	23	(1,958,319)	(129,055)
Interest income	2,3,4,5	(95,492,006)	(91,881,599)
Interest received		93,875,171	84,794,646
Interest expense	8	16,341,865	15,039,428
Interest paid		(16,673,092)	(15,254,141)
Loss (gain) on disposal of Bank premises, furniture, fixtures and equipment and intangible assets		125	(1,059)
Operating income before changes in operating assets and liabilities		325,956)	1,919,079)
Changes in operating assets and liabilities			
Increase (decrease) in:			
Due from other banks		159,175,104	(251,727,736)
Loans and receivables		(207,697,320)	46,546,073
Other assets		1,488,342	14,643,320
Increase (decrease) in:			
Deposit liabilities		226,591,771	196,376,786
Manager's check		(10,710,527)	11,549,394
Accrued interest and other expenses		4,211,319	5,002,104
Other liabilities		(3,412,799)	869,809
Net cash generated from (absorbed by) operations		166,319,934	(7,659,329)
Income taxes paid		(11,155,220)	(9,671,722)
Contribution paid	17	-	(2,712,561)
Net cash provided by (used in) operating activities		155,164,714	(20,043,612)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisitions of:			
Investment securities at amortized cost	4	(96,000,000)	-
Intangible assets	7	(33,792,373)	(14,787,158)
Investment securities at FVOCI	4	(18,000,000)	-
AFS investments	4	-	(300,990,524)
Bank premises, furniture, fixtures and equipment	6	(5,527,163)	(5,911,932)
Proceeds from:			
Maturity of investment security at amortized cost	4	214,711,221	-
Proceeds from sale of Bank premises, furniture, fixtures and equipment		-	4,991
Net cash provided by (used in) investing activities		61,391,685	(321,684,623)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FOR THE YEAR		216,556,399	(341,728,235)
CASH AND CASH EQUIVALENTS, BEGINNING		726,955,219	1,069,267,547
Effect of foreign exchange rate changes on cash and cash equivalents		(3,919,725)	(584,093)
CASH AND CASH EQUIVALENTS, END	2	939,591,891	726,955,219

(The notes on pages 1 to 63 are integral part of these financial statements)

**Yuanta Savings Bank Philippines, Inc.**

(A wholly-owned subsidiary of Yuanta Commercial Bank Co., Ltd.)

**Notes to Financial Statements**

As at and for the years ended December 31, 2018 and 2017

(All amounts in Philippine Peso, unless otherwise stated)

**Note 1 - General information**

Yuanta Savings Bank Philippines, Inc. (formerly TongYang Savings Bank, Inc.) (the “Bank”) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on August 1, 1997. The Bank was authorized by the Bangko Sentral ng Pilipinas (BSP) to operate as a thrift bank on October 24, 1997 and started its commercial operations on November 5, 1997.

The Bank is engaged in the general business of savings and mortgage banking and exercises all the rights, attributes, powers and privileges, together with the assumption of all the duties and obligations of a savings and mortgage bank. As a banking institution, the Bank’s operations are regulated and supervised by the BSP. On June 14, 2007, the Monetary Board of the BSP granted the Bank the authority to operate a Foreign Currency Deposit Unit (FCDU). On August 1, 2007, the Bank started its FCDU operations.

Under Section 8 of Republic Act (RA) 7906, at least forty percent (40%) of the voting stock of a thrift bank which may be established after the approval of RA 7906 shall be owned by citizens of the Philippines. However, on December 8, 2004, the BSP through its Monetary Board (MB) approved the acquisition of the Bank’s one hundred percent (100%) common shares by Tong Yang Securities Korea Co., Ltd.

On August 30, 2013, upon the approval of the SEC, the Bank changed its name from Tong Yang Savings Bank, Inc. to TongYang Savings Bank, Inc.

The Bank was a wholly-owned subsidiary of Tong Yang Securities, Inc. (TYSI) until Yuanta Securities Korea Co. Ltd. (Parent Company) acquired TYSI’s shares in the Bank in July 2014. Yuanta Securities Korea Co. Ltd. is 54%-owned by Yuanta Security Asia Financial, a Taiwanese entity owned by Yuanta Holdings Inc., which is the Bank’s ultimate Parent Company.

On August 5, 2015, Yuanta Securities Korea Co., Ltd. (“Trustee”) and Yuanta Commercial Bank Co., Ltd. (“Trustor”) have agreed to execute a Deed of Assignment of Shares pursuant to which the Trustee shall assign, transfer and convey to the Trustor all of its rights, title and interest appurtenant to all issued and outstanding capital stock of the Bank owned by the Trustee. Furthermore, on December 7, 2015, Yuanta Commercial Bank Co., Ltd. invested additional capital to subscribe to 644 million shares at P1 par. As at December 31, 2018 and 2017, the Bank is a wholly-owned subsidiary of Yuanta Commercial Bank Co., Ltd. with total capitalization of P1 billion.

On July 18, 2016, upon the approval of the SEC, the Bank changed its name from TongYang Savings Bank, Inc. to Yuanta Savings Bank Philippines, Inc. The Bank also applied for the change of its accounting period from fiscal year ending June 30 to calendar year ending December 31 which was subsequently approved by the Bureau of Internal Revenue (BIR) on August 5, 2016.

The Bank's registered address is at G-1A/B, Chatham House Condominium, Rufino corner Valero Streets, Salcedo Village, Makati City. As at December 31, 2018 the Bank has two (2) existing branches located in Ortigas and Alabang. As at December 31, 2018, the Bank has 87 employees (2017 - 76).

The financial statements of the Bank were approved and authorized for issue by the Board of Directors (BOD) on March 13, 2019. There are no material events that occurred subsequent to March 13, 2019 until March 15, 2019.

**Note 2 - Cash and cash equivalents; Due from BSP**

Details of cash and cash equivalents presented in the statement of cash flows as at December 31 follow:

	Note	2018	2017
Cash and other cash items		32,332,315	30,482,474
Due from BSP		331,958,742	483,648,589
Due from other banks	3	575,300,834	212,824,156
		939,591,891	726,955,219

Due from BSP as at December 31 consists of:

	2018	2017
Demand deposit account (DDA)	70,958,742	68,650,255
Overnight deposit facility (ODF)	-	20,000,000
BSP - Reverse repurchase facility (RRP)	61,000,000	94,998,334
BSP - Time deposit facility (TDF)	200,000,000	300,000,000
	331,958,742	483,648,589

DDA represents reserve requirements as provided under Section 94 of Republic Act (RA) No. 7653. It also includes the Bank's respective working funds to settle transactions due to/from BSP and with other banks, which are subject to payment in legal tender upon demand, by the presentation of checks as provided under Section 58 of RA No. 7653.

Special Deposit Account (SDA) represents settlement account opened by the Bank with an average maturity of seven (7) days. With the implementation of Interest Rate Corridor System (IRC) of the BSP effective June 3, 2016, SDA was replaced by ODF. The ODF functions similar to the SDA and bears similar rate.

RRPs represents placement with the reverse repurchase facility of the BSP. With the implementation of the IRC, RRP was modified to a purely overnight RRP.

TDF represents placement with the key liquidity absorption facility of the BSP with maturity ranging from 7 to 28 days.

For the year ended December 31, 2018, interest income from due from BSP amounts to P14,958,788 (2017 - P23,452,288).

**Note 3 - Due from other banks**

The account as at December 31 consists of:

	2018	2017
Deposit accounts	134,585,885	172,566,096
Placements	727,003,312	485,721,527
	861,589,197	658,287,623

Deposit accounts generally earn interest based on daily bank deposit rates.

The Bank's placements with other banks consist of time deposits with local banks denominated in US dollar for a period of one month to three years with annual interest rates of 1.00% to 2.50% as at December 31, 2018 (2017 - 1.38% to 2.25%). Investments which have maturity date of three months or less from placement date as at December 31, 2018 amounting to P575,300,834 (2017 - P212,824,156) are considered as cash equivalents (Note 2) in the statement of cash flows.

For the year ended December 31, 2018, interest income with other banks amounts to P13,137,375 (2017 - P8,372,230).

**Note 4 - Investment Securities, net**

*Investment securities at fair value through other comprehensive income (FVOCI) (PFRS 9) / Available-for-sale (AFS) investments (PAS 39)*

The account at December 31 consists of:

	2018 (PFRS 9)	2017 (PAS 39)
Government debt securities	234,985,000	248,674,500
Corporate debt securities	61,415,280	49,882,900
Proprietary shares - Country club shares, net	1,400,000	1,350,000
	297,800,280	299,907,400

Government and corporate debt securities as of December 31, 2018 and 2017 will mature starting April 2020 to July 2023. All debt securities are non-current.

The movements in investment securities at FVOCI (PFRS 9)/ AFS investments (PAS 39) follow:

	2018 (PFRS 9)	2017 (PAS 39)
At beginning of year as previously stated	-	1,200,000
Effect of PFRS 9 adoption:		
Reclassification from AFS investments	299,907,400	-
At beginning of year as restated	299,907,400	1,200,000
Additions	18,000,000	300,990,524
Amortization of premium, net	(324,034)	(163,089)
Fair value adjustment	(19,783,086)	(2,120,035)
At end of year	297,800,280	299,907,400

For the year ended December 31, 2018, interest income from government debt securities and other debt securities amounts to P14,085,966 (2017 - P3,415,151).

*Investment securities at amortized cost (PFRS 9)/ Held-to-maturity (HTM) investments (PAS 39)*

The account at December 31 consists of:

	2018 (PFRS 9)	2017 (PAS 39)
Government debt securities		
Current	175,961,939	149,091,579
Non-current	83,679,624	152,075,599
	259,641,563	301,167,178
Corporate debt securities		
Current	37,000,000	-
Non-current	50,871,294	50,983,918
	87,871,294	50,983,918
	347,512,857	352,151,096

Debt securities carry an interest of 1.50% to 8.60% as at December 31, 2018 (2017 - 2.13% to 8.60%) with various maturity dates from 2019 to 2027.

The movements in investment securities at amortized cost (PFRS 9)/HTM investments (PAS 39) follow:

	Note	2018 (PFRS 9)	2017 (PAS 39)
At beginning of year as previously stated		-	350,904,030
Effect of PFRS 9 adoption			
Reclassifications from HTM investments		352,151,096	-
Reclassifications from Loans and receivables, net	5	111,142,873	-
At beginning of year as restated		463,293,969	350,904,030
Additions		96,000,000	-
Maturities		(214,711,221)	-
Amortization of discount, net		175,523	1,024,639
Effect of foreign exchange rate changes		2,754,586	222,427
At end of year		347,512,857	352,151,096

For the year ended December 31, 2018, interest income from these investments amounts to P15,749,943 (2017 - P14,098,043).



**Note 5 - Loans and receivables, net**

The account as at December 31 consists of:

	2018	2017
Receivable from customers		
Commercial	472,361,054	201,049,397
Consumption	179,280,455	259,098,358
Real estate	27,363,932	8,148,108
	679,005,441	468,295,863
Unearned interest and discount	(846,733)	(846,733)
	678,158,708	467,449,130
Other receivables		
Accrued interest receivables	13,156,783	13,904,893
Accounts receivables	883,133	784,484
Unquoted debt securities	-	111,142,873
	14,039,916	125,832,250
	692,198,624	593,281,380
Allowance for credit losses		
Stage 1	(11,184,227)	-
Stage 2	(119,931)	-
Stage 3	(82,339,832)	-
Specific	-	(20,572,379)
Collective	-	(94,498,306)
	(93,643,990)	(115,070,685)
	598,554,634	478,210,695

*Unquoted debt securities*

As mandated by the BSP under Manual of Regulations for Banks (MORB) Section 341, all banks are required to set aside an amount equivalent to at least twenty five percent (25%) of their loanable funds for agricultural credit in general, of which an amount equivalent to at least ten percent (10%) of the loanable funds shall be available for agrarian reform credit. As an eligible alternative compliance, the Bank acquired Agrarian Reform Bonds of the Philippine Government with issue dates after April 20, 2010. As at December 31, 2018, the Bank holds bonds issued by Land Bank of the Philippines (LBP), as alternative compliance to agricultural credit, amounting to P80,509,806 (2017 - P86,142,873).

As also mandated by the BSP under MORB Section 342, all banks shall, for a period of ten (10) years from June 17, 2008 to June 16, 2018, allocate at least eight percent (8%) for micro and small enterprise (MSEs) and at least two percent (2%) for medium enterprises (MEs) of their total loan portfolio based on their balance sheet as of the end of previous quarter, and make it available for MSME credit. In compliance with the mandatory allocation of credit resources to MSMEs, the Bank holds qualified MSME notes which are non-negotiable interest-bearing certificates of indebtedness issued by the Small Business Corporation. As at December 31, 2018, the Bank holds MSME notes amounting to P37,000,000 and (2017 - P25,000,000).

As at December 31, 2018, the unquoted debt securities are net of unamortized discount of P4,060,432 (2017 - P5,078,153).

From January 1, 2018, unquoted debt securities have been reclassified from loans and receivables, net to investment securities at amortized cost (Note 4).

Interest income on loans and receivables for the years ended December 31 consists of:

	2018	2017
Receivables from customers		
Consumption	21,133,115	25,295,345
Commercial	15,571,338	11,327,372
Real estate	855,481	221,895
	37,559,934	36,844,612
Unquoted debt securities	-	5,699,275
	37,559,934	42,543,887

Below is the breakdown of allowance for credit losses as December 31:

	2018 (PFRS 9)	2017 (PAS 39)
Receivable from customers	93,432,560	112,007,039
Accrued interest receivables	211,430	3,063,646
	93,643,990	115,070,685

The allowance for credit losses recognized in 2018 is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent “step up” (or “step down”) between 12-month and lifetime expected credit loss (ECL);
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments de-recognized in the period;
- Impact on the measurement of ECL due to changes in probability of default (PD), exposure at default (EAD) and loss given default (LGD) in the period;
- Foreign exchange translations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognized during the period and write-offs of allowances related to assets that were written off during the period.

The following tables summarize the changes in the loss allowance for loans and receivables between the beginning and the end of the annual period:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Allowance for credit losses				
At January 1, 2018				
- As previously stated				115,070,685
- Effect of PFRS 9 adoption				(20,103,160)
At January 1, 2018, as restated	9,182,209	55,759	85,729,557	94,967,525
Provision for impairment for the year				
Transfers:				
Transfer in (out of) Stage 1	(356,136)	86,337	5,183,652	4,913,853
Transfer in (out of) Stage 2	-	(15,383)	1,411,371	1,395,988
Transfer in (out of) Stage 3	646	-	(119,956)	(119,310)
New financial assets originated	5,902,687	-	-	5,902,687
Financial assets derecognized during the period	(736,873)	-	(7,735,901)	(8,472,774)
Changes in PD, EAD and LGD	(2,808,306)	(6,782)	(72,340)	(2,887,428)
	2,002,018	64,172	(1,333,174)	733,016
Foreign exchange	-	-	456,904	456,904
Other movements	-	-	(2,513,455)	(2,513,455)
At December 31, 2018	11,184,227	119,931	82,339,832	93,643,990

Significant changes in the gross carrying amount of financial assets that contributed to changes in the loss allowance were as follows:

- The high volume of new loans originated during the period, aligned with the Bank's organic growth objective, increased the gross carrying amount of the loans by 44%, with a corresponding P5.9 million increase in loss allowance measured on a 12-month basis.
- In 2018, the Bank fully collected loans classified as Stage 3 in the beginning of the year amounting to P10.2 million which resulted in the reduction of the Stage 3 loss allowance by P7.7 million.

In 2018, the BSP issued Circular 1011 which mandates among others, banks to set up general loan loss provision (GLLP) equal to 1% of all outstanding Stage 1 on-balance sheet loans, except for accounts considered as credit risk-free under existing regulations. Under the said Circular, if the PFRS 9 loan loss provision is lower than the required GLLP, the deficiency shall be recognized as an appropriation of retained earnings or surplus. The Branch has not made any appropriation at December 31, 2018 since the Bank's 1% GLLP of P5.73 million is lower as compared to the PFRS 9 loan loss provision of P11.18 million.

The reconciliation of allowance for credit losses at December 31, 2017 follows:

	Amount
At beginning of year	114,049,539
Provision during the period	993,193
Effect of foreign exchange rate changes	27,953
At end of year	115,070,685

With the foregoing level of allowance for credit losses, management believes that the Bank has sufficient allowance to cover any losses that may be incurred from the non-collection or non-realization of its receivables and other risk assets.

Relevant information for BSP prudential reporting

Details of receivables from customers as at December 31 are as follows:

*a) Concentration as to industry/economic sector (gross of unearned interest and discount)*

	2018	%	2017	%
Community, social and personal activities	219,896,493	32.39	232,912,488	49.74
Service activities	169,695,607	24.99	205,666,091	43.92
Agriculture, forestry and fishing	125,000,000	18.41	-	-
Construction	57,000,000	8.39	6,000,000	1.28
Wholesale and retail, trade, repair of motor vehicles and motorcycles	47,816,213	7.04	-	-
Real estate, renting and business activities	27,363,932	4.03	8,148,108	1.74
Others	32,233,196	4.75	15,569,176	3.32
	679,005,441	100.00	468,295,863	100.00

Others include manufacturing, accommodation and food service activities, transportation and storage, human health and social work activity, and arts, entertainment and recreation.

*b) As to collateral (gross of unearned interest and discount)*

	2018	2017
Secured by:		
Real estate	135,458,676	116,846,803
Chattel	109,291,390	81,177,207
Others	1,843,841	1,843,842
	246,593,907	199,867,852
Unsecured	432,411,534	268,428,011
	679,005,441	468,295,863

The unsecured portion of loans and receivables by collateral type is covered by post-dated checks.

Non-performing loans of the Bank, net of specific allowance for credit losses, are as follows:

	2018	2017
Non-performing loans (NPL)	105,709,543	111,281,975
Less: Allowance for credit losses	81,696,962	106,585,755
	24,012,581	4,696,220

BSP Circular 941 *Amendments to Regulations on Past Due and Non-Performing Loans* states that loans, investments, receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and if there is an evidence that full repayment of principal and interest is unlikely without foreclosure of collateral. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement. Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due. Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

**Note 6 - Bank premises, furniture, fixtures and equipment, net**

The movements and the components of the account follow:

	Bank premises	Leasehold improvement	Furniture, fixtures and equipment	Transportation equipment	Total
<b>COST</b>					
Balance at beginning of year	151,993,584	3,765,166	72,515,118	6,495,556	234,769,424
Additions	-	-	5,078,063	449,100	5,527,163
Disposal	-	-	(32,879,025)	(6,346,656)	(39,225,681)
Balance at end of year	151,993,584	3,765,166	44,714,156	598,000	201,070,906
<b>ACCUMULATED DEPRECIATION</b>					
Balance at beginning of year	53,359,751	3,534,142	42,385,419	6,246,899	105,526,211
Depreciation	3,276,569	53,313	8,939,599	202,072	12,471,553
Disposal	-	-	(32,878,920)	(6,346,641)	(39,225,561)
Balance at end of year	56,636,320	3,587,455	18,446,098	102,330	78,772,203
<b>NET CARRYING AMOUNTS, December 31, 2018</b>	<b>95,357,264</b>	<b>177,711</b>	<b>26,268,058</b>	<b>495,670</b>	<b>122,298,703</b>

	Bank premises	Leasehold improvement	Furniture, fixtures and equipment	Transportation equipment	Total
<b>COST</b>					
Balance at beginning of year	151,546,071	3,498,600	71,014,938	6,474,224	232,533,833
Additions	415,361	266,566	5,211,996	18,009	5,911,932
Reclassifications	32,152	-	-	3,323	35,475
Disposal	-	-	(3,711,816)	-	(3,711,816)
Balance at end of year	151,993,584	3,765,166	72,515,118	6,495,556	234,769,424
<b>ACCUMULATED DEPRECIATION</b>					
Balance at beginning of year	50,053,827	3,498,600	38,641,731	5,652,804	97,846,962
Depreciation	3,273,772	35,542	7,451,572	590,772	11,351,658
Reclassifications	32,152	-	-	3,323	35,475
Disposal	-	-	(3,707,884)	-	(3,707,884)
Balance at end of year	53,359,751	3,534,142	42,385,419	6,246,899	105,526,211
<b>NET CARRYING AMOUNTS, December 31, 2017</b>	<b>98,633,833</b>	<b>231,024</b>	<b>30,129,699</b>	<b>248,657</b>	<b>129,243,213</b>

Bank premises pertain to the Bank's head office in Makati and branch in Alabang.

Management believes that there are no indications that the bank premises, furniture, fixture and equipment are impaired.

**Note 7 - Other assets, net**

The account as at December 31 consists of:

	2018	2017
Computer software, net	40,827,226	13,379,950
Prepaid expenses	1,424,802	4,316,413
Miscellaneous deposits	5,798,081	4,667,282
Miscellaneous assets	2,636,593	2,364,123
	50,686,702	24,727,768

The movements of computer software follow:

	2018	2017
Cost		
At beginning of year	18,835,564	4,048,406
Additions	33,792,373	14,787,158
Disposal	(959,600)	-
At end of year	51,668,337	18,835,564
Accumulated amortization		
At beginning of year	5,455,614	2,645,535
Amortization during the year	6,345,092	2,810,079
Disposal	(959,595)	-
At end of year	10,841,111	5,455,614
Net carrying amount	40,827,226	13,379,950

Miscellaneous deposits pertain to rental deposits and other deposits to various suppliers.

Miscellaneous assets consist mainly of documentary stamp taxes and office supplies.

**Note 8 - Deposit liabilities**

The account as at December 31 consists of:

	2018	2017
Demand	467,633,168	394,950,623
Savings	347,806,307	340,903,306
Special savings	937,255,145	790,248,920
	1,752,694,620	1,526,102,849

The Bank's deposits bear annual interest at rates ranging from 0.25% to 1.50% in 2018 (2017 - 0.25% to 1.25%).

As at December 31, 2018, the Bank has complied with the required statutory and legal reserves amounting to P67.673 million (December 31, 2017 - P64.083 million) (Note 2).

The details of interest expense on deposit liabilities for the years ended December 31 are as follows:

	2018	2017
Demand	744,194	825,290
Savings	751,429	1,305,636
Special savings	14,846,242	12,908,502
	16,341,865	15,039,428

**Note 9 - Accrued interest and other expenses**

The account as December 31 consists of:

	2018	2017
Accrued interest	843,075	1,174,301
Accrued expenses		
Staff benefits	4,171,147	2,680,286
Management and other professional fees	2,726,476	2,687,356
Taxes	1,882,667	602,200
Others	3,022,260	1,621,390
	12,645,625	8,765,533

**Note 10 - Other liabilities**

The account as at December 31 consists of:

	2018	2017
Accounts payable	5,902,807	9,487,527
Withholding tax	355,837	869,275
SSS, Philhealth, and Pag-ibig contributions payable	259,210	212,420
Others	707,669	69,100
	7,225,523	10,638,322

Accounts payable mainly include unpaid purchases from various suppliers.

The Bank does not have any secured liabilities nor assets pledged as security as at December 31, 2018 and 2017.

**Note 11 - Capital stock**

The account as at December 31 consists of:

	2018	2017
Authorized capital stock	1,200,000,000	1,200,000,000
Issued and outstanding (at P1 par value per share)	1,000,000,000	1,000,000,000

Under MORB Section 111.1, the Bank has complied with the minimum capitalization set by the BSP which is P750 million for thrift banks with head office in Metro Manila with up to ten (10) branches.

Additional paid-in capital represents premium received from additional issuance of capital stock in 2003 and 2005.

**Note 12 - Other comprehensive losses, net**

The account as at December 31 consists of:

	Note	2018	2017
Cumulative actuarial losses on retirement		3,632,835	3,910,422
Unrealized fair value loss on investment securities at FVOCI	4	16,512,754	-
Unrealized fair value loss on AFS investments	4	-	1,218,024
		20,145,589	5,128,446

The amounts above are presented net of tax.

**Note 13 - Service charges and fees**

Details of service charges and fees for the years ended December 31 are as follows:

	2018	2017
Penalties	8,407,835	5,043,956
Service charges and fees from:		
Remittances	4,045,085	4,339,856
Deposits	2,625,499	2,535,221
Loan issuances	1,274,135	1,723,730
Others	50	96,309
	16,352,604	13,739,072

**Note 14 - Other expenses**

Details of other expenses for the years ended December 31 are as follows:

	Note	2018	2017
Postage, telephone, cable and telegram		7,689,551	6,486,462
Insurance		4,199,654	3,830,254
Security, messenger and janitorial		3,831,821	3,673,119
Professional fees		3,774,618	3,997,588
Power, light and water		2,808,853	2,595,650
Rental	19	2,493,428	2,679,535
Fines and penalties		2,216,034	312,211
Travel and representation		2,068,506	3,166,243
Repairs and maintenance		1,843,346	2,884,049
Membership fees and dues		1,840,862	2,555,609
Stationery and supplies used		1,238,716	1,581,107
Banking fees		1,146,966	467,269
Others		2,727,501	2,575,933
		37,879,856	36,805,029

Others consist mainly of trainings and seminar, supervision fee, fuel and litigations.



**Note 15 - Reconciliation (gain) loss on Due from BSP**

In 2017, the Bank recognized a loss of P20,518,423 to bring the Due from BSP demand deposit account to its recoverable amount. In 2018, the Bank recognized the gain on reversal of write-off of Due from BSP of P6,166,481.

**Note 16 - Income tax expense; Deferred tax assets (DTA), net**

The following are the components of income tax expense for the years ended December 31:

	2018	2017
Current	11,185,476	9,588,446
Deferred	15,870,529	16,479,157
	27,056,005	26,067,603

A reconciliation between the income tax expense at the statutory rates and income tax expense at effective tax rate follows:

	2018	2017
Loss before income tax	(21,872,272)	(41,280,136)
Tax benefit on pretax loss at 30%	(6,561,682)	(12,384,041)
Tax effects of:		
Unrecognized NOLCO and MCIT	19,774,532	45,593,713
Derecognition of DTA on nonperforming loans	15,597,179	-
Non-deductible expenses	8,835,657	9,776,583
Income subjected to lower income tax rates	(6,861,503)	(9,292,769)
Tax exempt income	(2,003,587)	-
Expired NOLCO and MCIT	-	(7,978,775)
Others	(1,724,591)	352,892
Effective income tax expense	27,056,005	26,067,603

The components of the Bank's deferred tax assets and liabilities as December 31 are as follows:

	2018	2017
Deferred tax assets		
Unrealized fair value loss on investments at FVOCI	6,814,567	-
Unrealized fair value loss on AFS investments	-	681,011
Allowance for credit losses	6,395,747	28,420,935
Retirement liability	3,098,799	2,346,892
MCIT	-	898,437
Others	512,014	-
	16,821,127	32,347,275
Deferred tax liabilities		
Unrealized foreign exchange gain	587,496	(57,822)
Unrealized fair value gain on AFS investment	-	159,000
	587,496	101,178
Deferred tax assets, net	16,233,631	32,246,097

Deferred income tax assets are recognized only to the extent that taxable income will be available against which the deferred income tax assets can be used. The Bank did not recognize deferred income tax assets on its NOLCO beginning 2017 since the Bank does not expect that it will generate sufficient taxable income to allow all or part of its NOLCO to be utilized. In 2018, the Bank also derecognized deferred tax assets from allowance for credit losses on certain non-performing loans and MCIT.

The details of the Bank's unexpired NOLCO are as follows:

Year of Incurrence	Year of Expiration	2018	2017
2018	2021	61,213,602	-
2017	2020	65,899,701	65,899,701
2016	2019	52,869,125	52,869,125
2015	2018	21,082,807	21,082,807
2014	2017	-	21,416,161
		201,065,235	161,267,794
Used portion/ expired during the period		(21,082,807)	(21,416,161)
NOLCO not recognized		(179,982,428)	(139,851,633)
		-	-
Tax rate		30%	30%
Deferred income tax asset on NOLCO		-	-

As at December 31, the Bank has MCIT that can be claimed as deduction from future income tax payable as follows:

Year of Incurrence	Year of Expiration	2018	2017
2018	2021	512,014	-
2017	2020	898,437	898,437
2016	2019	2,129,734	2,129,734
2015	2018	1,508,490	1,508,490
2014	2017	-	1,553,927
		5,048,675	6,090,588
Used portion/ expired during the year		(1,508,490)	(1,553,927)
MCIT not recognized		(3,540,185)	(3,638,224)
		-	898,437

#### **Note 17 - Employee benefits**

##### *Compensation and employee benefits*

Compensation and employee benefits for the years ended December 31 consist of:

	2018	2017
Salaries and wages	42,374,492	39,727,861
Retirement benefits expense	2,902,911	2,637,907
Other employee benefits	19,460,761	19,078,160
	64,738,164	61,443,928

Other employee benefits mainly include fringe benefits and SSS, Pag-ibig and Philhealth contributions.

### *Retirement benefits*

The Bank accrues retirement benefits based on an annual actuarial valuation report covering regular and qualified employees.

The Bank maintains a non-contributory defined benefit type plan which provides a retirement benefit equal to 100% of Plan Salary for every year of credited service. Benefits are paid in lump-sum upon retirement or separation in accordance with the terms of the Plan.

The Bank's latest actuarial valuation was performed as of December 31, 2018.

Details of the retirement benefits obligation recognized in the statement of financial position as at December 31 are as follows:

	2018	2017
Present value of benefit obligations	11,196,701	10,461,489
Fair value of plan assets	(867,370)	(2,638,516)
Retirement benefit obligation	10,329,331	7,822,973

Details of the retirement benefits expense recognized in profit or loss for the years ended December 31 are as follows:

	2018	2017
Current service cost	2,406,431	2,269,769
Net interest cost	496,480	368,138
	2,902,911	2,637,907

Details of remeasurements recognized in other comprehensive income as at December 31 follow:

	2018	2017
Remeasurement (gain) loss - defined benefit liability	(493,129)	465,019
Remeasurement loss - plan assets	96,576	114,612
	(396,553)	579,631

The movements in the present value of retirement benefits obligation are as follows:

	2018	2017
At beginning of year	10,461,489	9,004,256
Current service cost	2,406,431	2,269,769
Interest cost	596,305	484,429
Remeasurements		
Gain from changes in financial assumptions	(788,386)	(72,492)
Loss from experience adjustments	295,257	537,511
Benefits paid	(1,774,395)	(1,761,984)
At end of year	11,196,701	10,461,489

The movements in the fair value of plan assets are as follows:

	2018	2017
At beginning of year	2,638,516	1,686,260
Contributions	-	2,712,561
Interest income	99,825	116,291
Remeasurement loss on return on plan asset	(96,576)	(114,612)
Benefits paid	(1,774,395)	(1,761,984)
At end of year	867,370	2,638,516

Plan assets at December 31, 2018 and 2017 comprise cash and cash equivalents in which the carrying amount approximates its fair value at said dates.

The actuarial assumptions used to determine retirement benefit obligation as at December 31 are as follows:

	2018	2017
Discount rate	7.70%	5.70%
Salary increase rate	2.90%	3.50%

The discount rate as at December 31, 2018 and 2017 was based on approximated zero-coupon yield of government bonds with remaining period to maturity approximating the estimated average duration of benefit payment. The salary increase rate assumption takes into consideration the prevailing inflation rate and Bank's policy.

#### *Discount rate sensitivity*

The following illustrates the sensitivity to a reasonably possible change in each key assumption, with all other variable held constant, of the Bank's accrued retirement benefits. The sensitivity analysis is prepared assuming the fair value of asset does not vary during the period. The methods and assumptions are the same in prior years. A 100 bps increase or decrease is used when reporting this risk internally to key management personnel and represents management's assessment of the reasonably possible change in discount rate and salary increase. The impact on the Bank's retirement benefits obligation which affects the Bank's cash flow is as follows:

	Increase in assumption	Decrease in assumption
December 31, 2018		
Discount rate	(273,260)	288,369
Salary growth rate	299,224	(288,384)
December 31, 2017		
Discount rate	(216,867)	231,741
Salary growth rate	188,564	(181,051)

Expected maturity analysis of retirement obligation follow:

	Less than 1 year	Between 1-5 years	Over 5 years
December 31, 2018	6,992,766	7,829,451	17,036,025
December 31, 2017	73,926	6,498,930	18,380,227

Except for the disclosure above and the preceding pages, no other transaction occurred with the retirement plan as at December 31, 2018 and 2017.

**Note 18 - Related parties**

The Bank, in the normal course of business, has transactions with related parties. The following are the specific relationship, amount of transactions, account balances, the terms and conditions and the nature of the consideration to be provided in the settlement.

*a) Loans and credit accommodations to directors, officers, stockholders and other related interests (DOSRI)*

The Bank, from time to time, provides financial assistance to officers and employees, as part of their benefit program, to meet housing, transportation, household and personal needs of officers and employees subject to the terms and conditions approved by the BSP. As at December 31, 2018, the Bank has unsecured outstanding loans with DOSRI amounting to P327,792 (2017 - P307,118).

*b) Remuneration of key management personnel*

The salaries and employee benefits given to the Bank's key management personnel for the year ended December 31, 2018 amount to P31,524,737 (2017 - 23,773,064). Key management personnel include managerial and higher level positions.

**Note 19 - Lease**

The Bank renewed its contract for the lease of its Ortigas branch for a term of five (5) years from March 1, 2016 to February 28, 2021. The non-cancellable lease is renewable upon mutual agreement of both parties and is subject to 7% escalation on the rental fees starting on the third year. The Bank has paid a security deposit and advance rental of P617,983 as of December 31, 2018 (2017 - P472,190), which are included as part of "Miscellaneous deposits" under Other assets in the statement of financial position (Note 7).

Total lease payments charged to operations amount to P2,493,428 for the year ended December 31, 2018 (2017 - P2,679,535) (Note 14).

Future minimum rentals payable on the above lease are as follows:

	2018	2017
Due within the year	2,596,064	2,426,228
Due beyond 1 year but not more than 5 years	3,245,856	5,841,920

**Note 20 - Significant contracts**

On August 8, 2006, the Bank executed a memorandum of agreement with the Philippine Retirement Authority (PRA) which qualified the Bank as a depository or trustee for the requisite deposit of the retirees under the Retirement Program of the PRA. Under the program, the qualified retirees are required to open a time deposit, trust account or any other instrument that the Bank offers and will earn interest at a rate of 2% per annum. Upon maturity, unless otherwise directed by the retiree, the net interest earned will then become part of the principal.

As at December 31, 2018, total special savings deposits pertaining to this program amount to P670.26 million (2017 - P511.83 million) and included under “Special savings” in deposit liabilities (Note 8). Under the agreement, certain conditions should be met for the Bank to qualify as a depository unit of PRA, these include, but not limited to the following: maintenance of a capital adequacy, asset quality, management, earnings, liquidity risk, and sensitivity to market risk (CAMELS) rating of at least "3" from the BSP. As at December 31, 2018 and 2017, the Bank had satisfactorily complied with these PRA requirements.

As at December 31, 2018, PRA management fees amount to P9,339,833 and (2017 - P6,917,751) respectively, and is shown as part of interest expense on special savings account (Note 8).

### **Note 21 - Basic quantitative indicators of financial performance**

The Bank’s key financial performance indicators are as follows (in %):

	2018	2017
Return on average equity	(5.45%)	(7.04%)
Return on average assets	(1.90%)	(2.79%)
Net interest margin	0.81%	0.91%

### **Note 22 - Critical accounting judgments and estimates**

The preparation of the financial statements in compliance with PFRSs requires management to make judgments and estimates that affect amounts reported in the financial statements. The judgments and estimates used in the financial statements are based upon management’s evaluation of facts and circumstances at the end of the reporting period. Actual results could differ materially from such estimates.

Estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events, which are believed to be reasonable under the circumstances.

#### **Critical accounting judgments**

##### *i. Classification of investment securities (Note 4)*

The Bank follows the guidance of PFRS 9 starting January 1, 2018 in classifying financial assets at initial recognition whether it will be subsequently measured at fair value through other comprehensive income, at amortized cost, or at fair value through profit or loss. The Bank determines the classification based on the contractual cash flow characteristics of the financial assets and on the business model it uses to manage these financial assets. The Bank determines whether the contractual cash flows associated with the financial asset are solely payments of principal and interest (the “SPPI”). If the instrument fails the SPPI test, it will be measured at fair value through profit or loss.

Prior to January 1, 2018, the Bank followed the guidance of PAS 39 in classifying its financial assets. Key judgment was applied particularly in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity at amortized cost. In making this judgment, the Bank has assessed its intention and ability to hold such investments to maturity.

*ii. Realization of deferred income tax assets (Note 16)*

Management reviews at each reporting date the carrying amounts of deferred tax assets. The carrying amount of deferred tax assets is reduced to the extent that the related tax assets cannot be utilized due to insufficient taxable profit against which the deferred tax losses will be applied.

**Critical accounting estimates**

*i. Measurement of the expected credit loss for loans and receivables under PFRS 9 (Note 5)*

The measurement of the expected credit loss (ECL) for loans and receivables is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Allowance for credit losses on loans and receivables amounts to P93,643,990 as at December 31, 2018.

*ii. Impairment losses on loans and receivables (PAS 39) (Note 5)*

The Bank reviews its loan portfolios and receivables to assess impairment on a semi-annual basis with updating provisions made during the intervals as necessary based on the continuing analysis and monitoring of individual accounts by the Bank's Collection Head. In determining whether provision for credit losses is necessary, the Bank makes judgment based on observable data indicating measurable decrease in the estimated future cash flows of loan accounts such as:

- Aging of the account;
- Last payment made by the borrower or co-maker on the account;
- Possibility of collection of the account;
- Capacity of the borrower or co-maker to pay the account (employment factors or other sources of repayment); and
- Any adverse collection findings on the borrower or co-maker (i.e., unemployed, moved out, cannot be contacted, absconding, sickness, etc.)

Management uses estimates in the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions affected by several factors in which actual results may differ, thus, resulting in future changes in the allowance. In addition to specific allowance against individually impaired loans and receivables, the Bank also makes a collective impairment allowance to those accounts having greater risk of default than when they were originally granted.

Allowance for credit losses on loans and receivables amounts to P115,070,685 as at December 31, 2017.

*iii. Estimated useful lives of bank premises, furniture, fixtures and equipment, and computer software (Notes 6 and 7)*

The Bank estimates the useful lives of its bank premises, furniture, fixtures and equipment, and computer software based on the period over which the assets are expected to be available for use. The estimated useful lives are reviewed at least annually and are updated if expectations differ from previous estimates due to physical wear and tear. The estimation of the useful lives of the bank premises, furniture, fixtures and equipment and computer software are based on a collective assessment of industry practice and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors mentioned above.

The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the bank premises, furniture, fixtures and equipment and computer software would increase recorded operating expenses and decrease the related assets.

*iv. Estimated retirement benefits obligation (Note 17)*

The determination of the Bank's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 17 and include, among others, discount rates and salary increase rate. In accordance with PFRSs, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

Retirement benefit obligation as at December 31, 2018 and 2017 is disclosed in Note 17.

**Note 23 - Financial risk and capital management**

**23.1 Financial risk management objectives and policies**

The Bank's operation involves the traditional banking activities of deposit-taking and lending to qualified individual or corporate borrowers and use of financial instruments. The Bank is exposed to the following risks from its use of financial instruments: (a) credit; (b) liquidity; (c) interest rate; (d) foreign currency; and (e) price risks.

The Bank is exposed to a variety of financial risks which results from its operating and investing activities. The Bank's risk management focuses on actively securing the Bank's short to medium term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

*Risk management structure and process*

The Bank has established sound risk management practices which include appropriate and reasonable contingency plans in handling risks and to guide the Bank's management and BOD to understand, measure, monitor and control the risk assumed, adopt risk management practices whose sophistication and effectiveness are commensurate to the risk being monitored and controlled, and maintain capital commensurate with the risk exposure assumed.



The BOD and Senior Management of the Bank are ultimately responsible for the oversight of the Bank's risk management process. The BOD is responsible for understanding the nature and the level of risks taken by the Bank. The Senior Management is responsible for ensuring that risks are adequately managed both long-term and day-to-day basis. The Bank's BOD is in-charge of the implementation of the risk management process which includes, among others, the development of various risk strategies and principles, control guidelines, policies and procedures, implementation of risk measurement tools, monitoring of key risk indicators, and the imposition and monitoring of risk limits.

To effectively manage the risks, the Bank identifies current and prospective risk exposures by understanding the sources of risks arising from the Bank's existing or new business initiatives. The head of each department identifies various risks on their current and future operations/products or services. Identifying risk includes identifying the Bank's desired level of risk exposure (risk appetite) based on its ability and willingness to assume the risk.

Risk appetite is set by the Bank's BOD after discussion of the impact, likelihood and alternative ways to manage risk with various department heads. Risk identification is a continuing process and occurs at both the transaction and portfolio level.

Once the sources of risks have been identified, risk measurement models are applied to quantify the Bank's risk exposures. Risk measurement systems and methodologies are integrated in the Bank's risk management process and results are interpreted in coordination with other risk exposures. The Bank's Asset and Liability Committee (ALCO) is responsible for the assessment of possible liquidity risks by establishing indicators of potential risk, assessment and matching potential sources of funds, and monitoring of internal as well as market indicators of liquidity problems of the Bank. ALCO is also responsible for communicating potential exposure of the Bank to interest risk and foreign currency risk to the Senior Management and BOD. The Bank has also created a Credit Committee (CRECOM) which is responsible for the stringent evaluation and approval of loans and for remedial actions on problematic loan accounts.

The Bank maintains an adequate system of internal controls to ensure the integrity of its risk management process. These internal controls are integral part of the Bank's overall system of control. An independent internal audit review on the risk management process is performed on an annual basis. The Internal Audit Department is mandated to conduct annual review and results are reported to the Audit Committee and Senior Management for proper action. The ALCO also conducts review of the guidelines and introduces revisions on the risk management process. The review of risk management process also includes assessment of the assumptions, parameters, and measures used.

### **23.2 Impairment assessment (Policy applicable from January 1, 2018)**

The references below show where the Bank's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the summary of significant accounting policies.

- The Bank's definition and assessment of default and cure (Note 23.2.1)
- An explanation of the Bank's internal grading system (Note 23.5.5).
- How the Bank defines, calculates and monitors the probability of default, exposure at default and loss given default (Note 24.3.1.5).
- When the Bank considers there has been a significant increase in credit risk of an exposure (Note 23.2.2)
- The Bank's policy of segmenting financial assets where ECL is assessed on a collective basis (Note 23.2.3)
- The details of the ECL calculations for Stage 1, Stage 2 and Stage 3 assets (Note 24.3.1.5).

### **23.2.1 Definition of default and cure**

The Branch considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. The following enumerates the events triggering default for each financial asset:

- (a) Receivables from customers
  - i. Principal or interest payments over 3 months (90 days) past due, or the bank has begun collection procedures or liquidation of collateral
  - ii. Cases where the court has initiated reorganization or liquidation proceedings
  - iii. Declaration of bankruptcy in court
  - iv. Debtor's loans from other banking institutions have been recognized as nonperforming, and reclassified as non-accrual or written off as bad debts.
  - v. Debtor has filed for bankruptcy, reorganization, or other debt clearance proceedings
  - vi. Loans classified as "in default" according to the Bank's internal credit rating model
- (b) Investments in debt instruments/ Due from BSP and other banks
  - i. External credit ratings of the instrument are "in default"
  - ii. Principal or interest payments over 3 months (90 days) past due, or are not made in accordance with the agreement
  - iii. Bankruptcy, reorganization, or other debt clearance proceedings has been filed
  - iv. Other breaches of contract by the debtor as assessed on a case-by-case basis
- (c) Other financial assets
  - i. Miscellaneous deposits: At the balance sheet date, the deposit has not been returned at maturity or overdue from the collection date, unless the contractual terms specify it.
  - ii. Remaining receivables: At the balance sheet date, the borrower is more than 90 days past due on its contractual payments.

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated indicators at the time of the cure, and the asset no longer showing significant increase in credit risk compared to initial recognition.

### **23.2.2 Significant increase in credit risk (SICR)**

The Bank continuously monitors all assets subject to ECL. In order to determine whether an instrument or a portfolio of instruments is subject to 12-month ECL or lifetime ECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

At every balance sheet date, the Bank assesses the change in default risk over the lifetime of each financial asset to determine whether there has been a significant increase in credit risk since initial recognition. The Bank considers reasonable and supportable information (including forward-looking information) when determining whether there has been significant increase in credit risk. The main indicators taken into account for each financial asset are as follows:

- (a) Receivables from customers
  - i. The borrower is over 30 days past due.
  - ii. The Bank's internal credit rating of the asset is equivalent to a non-investment grade rating by an external agency, and the rating has dropped by more than two scales since initial recognition.
  - iii. Records of bad credit are confirmed after assessment

- (b) Investments in debt instruments/ Due from BSP and other banks.
  - i. The Bank's internal credit rating of the asset is equivalent to a non-investment grade rating by an external agency, and the rating has dropped by more than two scales since initial recognition.
  - ii. The contractual payments of counterparties are more than 30 days past due.
- (c) Other financial assets
  - i. Miscellaneous deposits: At the balance sheet date, the deposit has not been returned at maturity.
  - ii. Remaining receivables: At the balance sheet date, the borrower is more than 30 days past due on its contractual payment.

### **23.2.3 Grouping of financial assets measured on a collective basis**

As explained in Note 24.3.1.5 depending on the factors below, the Bank calculates ECL either on a collective or an individual basis.

Financial assets subject to ECL that have been assessed individually but for which no impairment is required and all individually insignificant exposure are then assessed collectively, in groups of assets with similar credit risk characteristics.

The Bank groups these exposure into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans.

### **23.3 Analysis of inputs to the ECL model under multiple economic scenarios**

An overview of the approach to estimating ECLs is set out in Note 24 Summary of significant accounting policies and in Note 22 Critical accounting judgments, estimates and assumptions.

The following table shows the forecast of the key forward-looking economic variables used in each of the economic scenarios for the ECL calculations for financial year ended December 31, 2018. The figures for "Subsequent years" represent a long-term average and the same are applied for each scenario.

Key variables	ECL scenario	Assigned probabilities (%)	Next 12 months	2 to 5 years (Average)
GDP (in million pesos)	Base scenario	50	9,913	11,565
	Upside	25	9,263	10,806
	Downside	25	5,297	6,056
Unemployment (%)	Base scenario	50	5.500	5.500
	Upside	25	5.475	5.475
	Downside	25	7.475	7.075

### *Sensitivity analysis*

The loan portfolios have different sensitivities to movements in macroeconomic variables, so the above three scenarios have varying impact on the expected credit losses of the Bank's portfolios. The allowance for impairment is calculated as the weighted average of expected credit losses under the baseline, upside and downside scenarios. The impact of weighting these multiple scenarios was an increase in the allowance for impairment by P232,267 from the baseline scenario as of December 31, 2018.

### **23.4 Financial instrument by category**

2018	Fair value through profit or loss	Designated at fair value through profit or loss	Fair value through other comprehensive income	At amortized cost	Total
Cash and other cash items	-	-	-	32,332,315	32,332,315
Due from BSP	-	-	-	331,958,742	331,958,742
Due from other banks	-	-	-	861,589,197	861,589,197
Investments securities at FVOCI	-	-	297,800,280	-	297,800,280
Investment securities at amortized cost	-	-	-	347,512,857	347,512,857
Loans and receivables, net	-	-	-	598,554,634	598,554,634
Miscellaneous deposits	-	-	-	5,798,081	5,798,081
	-	-	297,800,280	2,177,745,826	2,475,546,106

	Fair value through profit or loss	Designated at fair value through profit or loss	Other financial liabilities	Total
Deposit liabilities	-	-	1,752,694,620	1,752,694,620
Manager's checks	-	-	2,734,424	2,734,424
Accrued interest and other expenses	-	-	12,645,625	12,645,625
Other liabilities	-	-	5,902,807	5,902,807
	-	-	1,773,977,476	1,773,977,476

2017	Held-for-trading	Designated at fair value through profit or loss	Available-for-sale	Held-to-maturity	Loans and receivables	Total
Cash and other cash items	-	-	-	-	30,482,474	30,482,474
Due from BSP	-	-	-	-	483,648,549	483,648,549
Due from other banks	-	-	-	-	658,287,623	658,287,623
Available-for-sale financial assets	-	-	299,907,400	-	-	299,907,400
Held-to-maturity investments	-	-	-	352,151,096	-	352,151,096
Loans and receivables, net	-	-	-	-	478,210,695	478,210,695
Miscellaneous deposits	-	-	-	-	4,667,282	4,667,282
	-	-	299,907,400	352,151,096	1,655,296,623	2,307,355,119

	Held-for-trading	Designated at fair value through profit or loss	Other financial liabilities	Total
Deposit liabilities	-	-	1,526,102,849	1,526,102,849
Manager's checks	-	-	13,444,951	13,444,951
Accrued interest payable	-	-	8,765,533	8,765,533
Other liabilities	-	-	9,487,527	9,487,527
	-	-	1,557,800,860	1,557,800,860

## 23.5 Credit risk

Credit risk is the risk of financial loss arising from the borrowers' inability to meet their contractual obligation. The Bank's operation involves the traditional banking activities of deposit-taking and lending to qualified individual or corporate borrowers. Financial problems may arise from lending activities specifically from failure of the borrowers to pay their obligation on time, poor monitoring of documentary requirements that are required to be submitted annually, or failure to regularly monitor the submission of updated reports for active accounts.

### 23.5.1 Credit risk management

The following guidelines are being implemented by the Bank to mitigate credit risk:

#### *Collection management guidelines*

This defines the collection or recovery process of delinquent accounts, the policies on loan loss provisioning, restructuring of accounts, writing off delinquent accounts, compromise agreements and other matters on collection.

### *Credit guidelines for loans*

This defines the requirements, features, qualifications of loan products being offered by the Bank. It includes the process from loan application to approval and monitoring. The following were performed by the Bank to manage credit risk:

- The Bank offers loan products to qualified individuals based on sound and prudent bank practices and in accordance with its existing policies;
- Extending loan facilities to qualified individuals, by taking into consideration the character, capacity, collateral and condition of each borrower;
- For loans that are secured by collaterals, the Bank ensures that it can annotate its mortgage and therefore, protect its legal interest thereto; and
- The Bank ensures that loans are approved by the CRECOM and BOD based on set limits.

Credit rating of corporate finance is categorized into 10 levels according to the risk assessment on each credit extension case. When a loan is granted, in addition to the credit quality of the client, fund purpose, and repayment source, the protection of claims and credit prediction should be considered, and credit risk by credit account and facility should also be respectively assessed and rated based on the corporate or consumer risk rating referencing standards.

Credit risk rating of consumer finance is categorized by client category, client profession and the rating of collateral threshold.

### **23.5.2 Maximum exposure to credit risk**

The table below shows the maximum exposure to credit risk of the Bank as at December 31:

	2018	2017
Due from Bangko Sentral ng Pilipinas	331,958,742	483,648,589
Due from other banks	861,589,197	658,287,623
Investment securities at FVOCI	296,400,280	-
AFS investments	-	298,557,400
Investment securities at amortized cost	347,512,857	-
HTM investments	-	352,151,096
Loans and receivables	692,198,624	593,281,380
Miscellaneous deposits	5,798,081	4,667,282
	2,535,457,781	2,390,593,370

Loans and receivables is presented gross of allowance for credit losses.

### 23.5.3 Credit risk concentration profile

Credit risk exposure is also analysed by industry as of December 31 in respect of the Bank's financial assets as set out below:

2018	Due from BSP	Due from other banks	Investment securities at FVOCI	Investment securities at amortized cost	Loans and receivables	Miscellaneous deposit	Total
Financial institutions	331,958,742	861,589,197	-	166,594,098	7,622,840	-	1,367,764,877
Sovereign	-	-	234,985,000	130,047,465	2,176,260	-	367,208,725
Electricity, gas, steam and airconditioning supply	-	-	44,028,000	-	475,750	-	44,503,750
Community, social and personal activities	-	-	-	-	220,229,889	-	220,229,889
Service activities	-	-	-	-	170,280,002	-	170,280,002
Agriculture, forestry and fishing	-	-	-	-	125,309,375	-	125,309,375
Construction	-	-	-	-	57,066,445	-	57,066,445
Wholesale and retail	-	-	-	-	47,882,601	-	47,882,601
Real estate, renting and business activities	-	-	-	50,871,294	27,967,091	-	78,838,385
Others	-	-	17,387,280	-	33,188,371	5,798,081	56,373,732
	331,958,742	861,589,197	296,400,280	347,512,857	692,198,624	5,798,081	2,535,457,781

2017	Due from BSP	Due from other banks	AFS investments	HTM investments	Loans and receivables	Miscellaneous deposit	Total
Financial institutions	483,648,589	658,287,623	-	51,978,212	117,950,370	-	1,311,864,794
Sovereign	-	-	248,674,500	249,188,966	1,810,149	-	499,673,615
Electricity, gas, steam and airconditioning supply	-	-	49,882,900	-	475,750	-	50,358,650
Community, social and personal activities	-	-	-	-	233,264,564	-	233,264,564
Service activities	-	-	-	-	205,928,663	-	205,928,663
Agriculture, forestry and fishing	-	-	-	-	-	-	-
Construction	-	-	-	-	6,007,000	-	6,007,000
Wholesale and retail	-	-	-	-	-	-	-
Real estate, renting and business activities	-	-	-	50,983,918	8,561,707	-	59,545,625
Others	-	-	-	-	19,283,177	4,667,282	23,950,459
	483,648,589	658,287,623	298,557,400	352,151,096	593,281,380	4,667,282	2,390,593,370

### 23.5.4 Collateral

The Bank holds collateral against specific type of loans and receivables in the form of chattel and mortgage interests, other registered securities over assets, hold-out agreements and guarantees such as post-dated checks. Estimates of fair value (for determining loanable amount) are based on the value of collateral assessed at the time of borrowing. Collateral generally is not held over loans and receivables to other banks, except when securities are held as part of reverse repurchase and securities borrowing activity.

The fair value of real and chattel mortgage held as collateral against loans and receivables amounts to P663 million and P268 million as at December 31, 2018 and 2017, respectively.

### 23.5.5 Credit quality of financial assets

#### *Loans and receivables, net*

In response to the characteristics and scale of business, the Bank sets up credit quality rating for risk management purposes (such as implementing internal evaluation model of credit risk, setting up credit rating table or other relevant regulations).

The Bank, using statistical methods and expert professional judgment, as well as the consideration of client information, developed a business credit rating model for the purpose of evaluating the credit risk of corporate clients. The model is regularly reviewed to check if the calculation result is consistent with the actual situation, and adjustment of various inputs is calibrated to optimize the calculation result.

The credit quality of borrowers can be divided into four risk categories, which are set out and defined below, from very low to high, apart from impaired:

Credit risk rating	Corporate	Consumer
	Internal credit ratings mapped to S&P's ratings	Internal credit ratings
Very low	AAA to A-	Obligors rated in this category have an excellent capacity to meet financial commitments with very low credit risk.
Low	BBB+ to BB+	Obligors rated in this category have a good capacity to meet financial commitments with low credit risk.
Medium	BB- to B+	Obligors rated in this category have a fairly acceptable capacity to meet financial commitments with moderate credit risk.
High	B- to CCC	Obligors rated in this category have uncertain capacity to meet financial commitments and are subject to high credit risk.



Other than the above rated risk categories, other categories used internally are as follows:

**Impaired/default** - Obligors with objective evidence of impairment as a result of one or more events that have an impact on the estimated future cash flows of the obligors that can be reliably estimated. The detailed definition is further disclosed in Note 23.2.1.

**Unrated** - Refer to obligors which are currently not assigned with obligors' ratings due to unavailability of ratings models.

#### *Investment debt securities*

The risk management of the Bank's debt instruments is based on credit rating of external institutions, credit quality of bonds, condition by geographical location and counterparty risk to identify the credit risk.

The Bank divides the credit quality of debt instrument investments similar to corporate loans from very low to high risk based on their external credit ratings.

#### *Due from BSP and other banks*

The Bank assesses the credit status of each counterparty before any transaction, and ratings assigned by domestic and foreign external ratings agencies are used in determining internal credit grades on which various credit risk exposure limits are set and then granted to different counterparties.

#### *Other financial assets at amortized cost*

For other financial assets (accounts receivable and miscellaneous deposits), the Bank applies the PFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss methodology. These financial assets are grouped based on shared risk characteristics and aging profile. For some of these, impairment is assessed individually at a counterparty level. The following table sets out the credit quality of financial assets by category of the Bank:

#### *Loans and receivables*

	2018 ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Credit grade				
Low	25,568,554	-	-	25,568,554
Medium	513,392,157	173,834	-	513,565,991
High	22,334,408	617,199	-	22,951,607
Unrated	21,844,039	1,853,477	-	23,697,516
Impaired	-	-	106,414,956	106,414,956
Gross carrying amount	583,139,158	2,644,510	106,414,956	692,198,624
Loss allowance	(11,184,227)	(119,931)	(82,339,832)	(93,643,990)
Carrying amount	571,954,931	2,524,579	24,075,124	598,554,634

*Investment in debt securities and other financial assets*

	2018 ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Low				
Due from BSP	331,958,742	-	-	331,958,742
Due from other banks	861,589,197	-	-	861,589,197
Investment securities at FVOCI	297,800,280	-	-	297,800,280
Investment securities at amortized cost	347,512,857	-	-	347,512,857
Unrated				
Miscellaneous deposits	5,798,081	-	-	5,798,081
Gross carrying amount	1,844,659,157	-	-	1,844,659,157
Loss allowance	-	-	-	-
Carrying amount	1,844,659,157	-	-	1,844,659,157

**23.5.6 Credit quality of financial assets - comparative information under PAS 39**

The following table sets out the credit quality of financial assets by category of the Bank, in accordance with PAS 39:

	Neither past due nor impaired	Past due with partial impairment			Impaired	Total
		91 -180 days	181 -360 days	>361 days		
December 31, 2017						
Due from BSP	483,648,589	-	-	-	-	483,648,589
Due from other banks	658,287,623	-	-	-	-	658,287,623
AFS investments	298,557,400	-	-	-	-	298,557,400
HTM investments	352,151,096	-	-	-	-	352,151,096
Loans and receivables	480,133,895	1,704,119	4,391,728	45,064,434	61,987,204	593,281,380
Miscellaneous deposits	4,667,282	-	-	-	-	4,667,282
	2,277,445,885	1,704,119	4,391,728	45,064,434	61,987,204	2,390,593,370
Allowance for credit losses						
Specific						(20,572,379)
Collective						(94,498,306)
						(115,070,685)
						2,505,664,055

The Bank considers the credit quality of loans and receivable based on the historical information about the customers default rates. The Bank's management considers that substantial portion of loans and receivables that are neither past due nor impaired as at reporting date are of good credit quality.

Credit risk for due from other banks is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. The Bank considers the credit risk on due from BSP, interbank call loans receivable and securities related to the Philippine government such as unquoted debt securities as negligible.

Past due accounts were classified by the Bank as partially impaired loans and receivables and has adopted guidelines in developing specific provision to be provided based on loan status and number of days past due.

### **23.5.7 Credit quality of impaired financial assets**

Credit-impaired loans and advances refer to non-performing loans and advance for which the Branch determines that it is possible that it will be unable to collect all principal and interest due according to the contractual terms of the loans.

Financial assets that are credit-impaired are shown below:

	2018 (PFRS 9)	2018 (PAS 39)
Gross exposure	106,414,956	61,987,204
Allowance for impairment loss	(82,339,832)	(61,987,204)
	24,075,124	-
Fair value of collateral	40,947,127	-

### **23.6 Liquidity risk**

Liquidity represents the ability to fund assets and meet obligations as they become due. It is essential for banks to compensate for expected and unexpected balance sheet fluctuations and provide funds for growth. To manage liquidity risk, the Bank has established Liquidity Risk Management Practices (LRMP) to ensure that the Bank is able to maintain a level of liquidity sufficient to meet its financial obligations in a timely manner. The Bank's LRMP also reflects the ability of the Bank to manage unplanned changes in funding sources, as well as to react to changes in market conditions that affect the ability to quickly liquidate assets with minimal loss. It also includes evaluating various funding sources and the costs associated with the sources identified.

Funding diversification allows the Bank to maintain access to different funding lines and allows more flexibility in selecting the appropriate funding source.

The Bank uses the following risk measurement methodologies to measure liquidity risk exposure:

#### *a) Risk impact and likelihood rating guide*

- No. 1 rating - may occur only in exceptional circumstances
- No. 2 rating - could occur at some time (low probability of occurrence)
- No. 3 rating - might occur at some time (moderate probability)
- No. 4 rating - will probably occur in most circumstances
- No. 5 rating - is expected to occur in most circumstances and has occurred several times in the unit

#### *b) Daily cash level report (in Philippine peso and US dollar)*

The Bank uses daily cash level report to measure excess funds on a daily basis and exposure on day to day (short term) funding liquidity risk. It is also used to determine the sufficiency of the Bank's reserves and excess funds available for BSP overnight lend.

c) *Maturity matching*

The Bank measures the exposure on liquidity risk arising from mismatched maturities of assets and liabilities, otherwise known as “tenor gaps”. In this method, the Bank’s financial assets and liabilities are divided into time bands and then slots each cash inflow and outflow items according to maturity dates. The overall objective is to determine and control liquidity “gaps” and highlight long term build ups in cash inflows and outflows. A gap per time band is computed by getting the difference between the inflows and outflows within the time band. A positive liquidity gap is an estimate of the Bank’s net excess funds for the time band. A negative liquidity gap is an estimate of the future funding requirements of the Bank.

The table below presents an analysis of the maturity groupings of resources and liabilities in accordance with BSP account classifications. The liability balances disclosed in the following tables are based on contractual undiscounted cash flows, which may differ from the amounts included in the statement of financial position due to certain items which are based on discounted cash flows.

December 31, 2018	1-3 months	3 months- 1 year	over 1-5 years	over 5 years	Total
<b>Assets</b>					
Cash and other cash items	32,332,315	-	-	-	32,332,315
Due from BSP	332,796,083	-	-	-	332,796,083
Due from other banks	578,833,664	130,176,476	166,969,039	-	875,979,179
Investment securities at FVOCI	-	-	343,466,298	-	343,466,298
Investment securities at amortized cost	34,264,787	122,779,735	45,729,574	153,685,904	356,460,000
Loans and receivables	76,862,815	139,587,775	103,862,930	362,386,053	682,699,573
Miscellaneous deposits	-	-	5,798,081	-	5,798,081
	1,055,089,664	392,543,986	665,825,922	516,071,957	2,629,531,529
<b>Liabilities</b>					
Deposit liabilities	473,631,265	209,488,472	1,091,387,005	-	1,774,506,742
Manager's check	2,734,424	-	-	-	2,734,424
Accrued interest other expenses	12,645,625	-	-	-	12,645,625
Other financial liabilities	5,902,807	-	-	-	5,902,807
	494,914,121	209,488,472	1,091,387,005	-	1,795,789,598
<b>Gap</b>	560,175,543	183,055,514	(425,561,083)	516,071,957	833,741,931

December 31, 2017	1-3 months	3 months- 1 year	over 1-5 years	over 5 years	Total
<b>Assets</b>					
Cash and other cash items	30,482,474	-	-	-	30,482,474
Due from BSP	484,048,025	-	-	-	484,048,025
Due from other banks	314,274,458	262,090,463	87,285,677	-	663,650,598
AFS investments	-	-	293,880,993	63,151,555	357,032,548
HTM investments	-	151,248,801	107,335,959	141,018,837	399,603,597
Loans and receivables	89,353,872	139,094,494	128,981,772	230,804,959	588,235,097
Miscellaneous deposits	-	-	4,667,282	-	4,667,282
	918,158,829	552,433,758	622,151,683	434,975,351	2,527,719,621
<b>Liabilities</b>					
Deposit liabilities	528,444,752	1,002,574,103	-	-	1,531,018,855
Manager's check	13,444,951	-	-	-	13,444,951
Accrued interest other expenses	8,765,533	-	-	-	8,765,533
Other financial liabilities	9,487,527	-	-	-	9,487,527
	560,142,763	1,002,574,103	-	-	1,562,716,866
<b>Gap</b>	358,016,066	(450,140,345)	622,151,683	434,975,351	965,002,755

The Bank performs the following to mitigate exposure to liquidity risk:

- Avoiding extreme concentration of transactions in a single market and loan exposure in a single industry;
- Diversification of loan / asset exposures in different industries, the types of transactions in which the Bank will engage in and establish exposure limits per industry/per individual type of products;
- Lending and investing only in highly liquid markets;
- Consideration of the availability of alternative markets as protection against the possibility of losing access to one or more markets during periods of overall market stress;
- Requiring treasury personnel to continuously observe market conditions and notify Risk Managers/Senior Management of any indications of market illiquidity (including suspension of availment on existing credit lines);
- Requiring Account Officers and Loan Officers to continuously observe market conditions and report to Risk Managers/Senior Management any indications of stress or problems in any industry/borrower;
- Consideration of the possible need to rebalance portfolios, provide extra collateral and manage potential defaults;
- Establishment of procedures that will identify and address timing mismatches in offsetting payment and delivery obligations, such as early terminations of deposits. This will be achieved through the preparation and analysis of various reports; and
- Observation of various control limits set by the BOD to minimize exposure on liquidity risk.

In addition to the developed procedures that mitigate liquidity risk exposure, the Bank has established a contingency plan to deal with temporary and long term liquidity disruptions.

### **23.7 Interest rate risk**

Interest rate risk is the risk that changes in market interest rates will reduce current or future earnings and/or the economic value of a financial institution. Accepting interest rate risk is a normal part of the Bank's operation and is a major source of profitability and shareholder value. Excessive or inadequately understood and controlled interest rate risk, however, can pose a significant threat to the Bank's earnings and capital. Thus, an effective risk management process that maintains interest rate risk within prudent levels is essential to ensure the safety and soundness of the Bank. The Bank classifies sources of interest rate risk as option risk and repricing.

#### *a) Prepayment option risk*

Option risk is presented by optionality that is embedded in some assets and liabilities. The most common example is the mortgage loan. This type of loan presents significant option risk due to prepayment option available to clients.

For salary loans and other types of loans, the clients have the option to prepay the loan or they can extend the term of the loan which has the effect of slowing down the repayment. In terms of deposit products, clients have the option to terminate deposit accounts which in turn would lessen deposit liabilities of the Bank. As at December 31, 2018, loans subject to option risk represents commercial and consumption loans with an aggregate amount of P651,641,509 (2017 - P460,147,755) (Note 5). The effect of prepayment option is deemed not significant as the option price normally approximates the amortized cost of the financial instruments at option date.

*b) Repricing risk*

The simplest technique for measuring interest rate risk exposure starts with a maturity or repricing schedule that distributes interest-sensitive assets, liabilities and off-balance sheet positions into a certain number of predefined time bands according to their maturity or time remaining to their next repricing. The Bank has condominium loan products in which borrowers may choose to avail of the fixed interest rate from one (1) to five (5) years. The market rate may tend to go up or down which exposes the Bank to repricing risk. As at December 31, 2018, the Bank's condominium loans under Real estate account which are subject to repricing risk amount to P27,363,932 (2017 - P8,148,108) (Note 5).

The Bank follows a prudent policy in managing its assets and liabilities so as to ensure that its exposure to fluctuations in interest rate is kept within acceptable limits.

The Bank adopts repricing gap analysis in analyzing its resources and liabilities based on expected interest realization and recognition.

If the analysis shows a positive gap, the Bank is exposed to the risk that interest rates will go down; however, if the analysis shows a negative gap, the Bank is exposed to the risk that interest rates will go up.

The analyses of the groupings of the Bank's assets and liabilities based on expected interest realization or recognition are as follows:

December 31, 2018	Repricing			Non-repricing	Total
	1-3 months	3 months- 1 year	1-5 years		
<b>Assets</b>					
Cash and other cash items	-	-	-	32,332,315	32,332,315
Due from BSP	-	-	-	331,958,742	331,958,742
Due from other banks	-	-	-	861,589,197	861,589,197
Investment securities at FVOCI	-	-	-	296,400,280	296,400,280
Investment securities at amortized cost	-	113,449,374	-	234,063,483	347,512,857
Loans and receivables	-	190,585,600	27,127,592	380,841,442	598,554,634
Miscellaneous deposits	-	-	-	5,798,081	5,798,081
	-	304,034,974	27,127,592	2,142,983,540	2,474,146,106
<b>Liabilities and equity</b>					
Deposit liabilities	795,713,293	141,541,852	-	815,439,475	1,752,694,620
Manager's check	-	-	-	2,734,424	2,734,424
Other financial liabilities	-	-	-	5,902,807	5,902,807
	795,713,293	141,541,852	-	824,076,706	1,761,331,851
<b>Gap</b>	<b>(795,713,293)</b>	<b>162,493,122</b>	<b>27,127,592</b>	<b>1,318,906,834</b>	<b>712,814,255</b>

December 31, 2017	Repricing			Non-repricing	Total
	1-3 months	3 months- 1 year	1-5 years		
<b>Assets</b>					
Cash and other cash items	-	-	-	30,482,474	30,482,474
Due from BSP	-	-	-	483,648,589	483,648,589
Due from other banks	-	-	-	658,287,623	658,287,623
Available-for-sale investments	-	-	-	298,557,400	298,557,400
Held-to-maturities investments	-	-	-	352,151,096	352,151,096
Loans and receivables	23,437,604	317,436,119	137,336,972	-	478,210,695
Miscellaneous deposits	-	-	-	4,667,282	4,667,282
	23,437,604	317,436,119	137,336,972	1,827,794,464	2,306,005,159
<b>Liabilities and equity</b>					
Deposit liabilities	662,905,973	127,342,948	-	735,853,928	1,526,102,849
Manager's check	-	-	-	13,444,951	13,444,951
Other financial liabilities	-	-	-	9,487,527	9,487,527
	662,905,973	127,342,948	-	758,786,406	1,549,035,327
<b>Gap</b>	<b>(639,468,369)</b>	<b>190,093,171</b>	<b>137,336,972</b>	<b>1,069,008,058</b>	<b>756,969,832</b>

The Bank can tolerate a cumulative positive or negative gap of at least 35% for regular banking unit and 85% for the FCDU's total interest rate sensitive assets or liabilities and equity. Any excess thereon is communicated to the ALCO who courses through to Senior Management and BOD for proper action.

The table below represents the sensitivity of the Bank's financial assets to a  $\pm 100$  basis points possible interest rate changes with all other variables held constant as at December 31:

<i>Effect of reasonably possible shift</i>	Change in interest rate	2018	2017
<b>Interest rate-sensitive financial assets</b>			
Due from other banks	$\pm 100$ bps	-	$\pm 4,857,215$
Investment securities at amortized cost	$\pm 100$ bps	$\pm 1,134,494$	-
Loans and receivables, net	$\pm 100$ bps	$\pm 2,177,132$	$\pm 4,682,958$
		$\pm 3,311,626$	$\pm 9,540,173$
<b>Interest rate-sensitive financial liability</b>			
Deposit liabilities	$\pm 100$ bps	$\pm 9,372,551$	$\pm 15,261,028$

### 23.8 Foreign currency exchange risk

Foreign currency exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates. In contracting to meet clients' foreign currency needs or simply buying and selling foreign exchange for its own account, the Bank undertakes a risk that exchange rates might change subsequent to the time the contract is consummated.

Most of the Bank's transactions are carried out in Philippine peso. Exposures to foreign currency exchange risk arise mainly from the foreign currency denominated due from other banks maintained by the Bank.

Foreign currency denominated financial assets as at December 31 are translated into Philippine peso at closing rate as follows:

	2018		2017	
	In US Dollar	In Philippine Peso	In US Dollar	In Philippine Peso
Financial assets				
Cash and other cash items	223,473	11,750,210	166,226	8,299,664
Due from other banks	16,084,573	845,726,844	12,779,399	638,075,415
Investment securities at amortized cost	1,020,913	53,679,625	-	-
HTM investments	-	-	1,041,022	51,978,228
Loans and receivables	552,888	29,070,841	1,023,267	51,091,721
Other assets	2,939	154,527	3,175	158,528
	17,884,786	940,382,047	15,013,089	749,603,556
Financial liabilities				
Deposit liabilities	17,245,770	906,782,584	14,518,745	724,920,938
Accrued interest payable	1,943	102,156	1,566	78,190
	17,247,713	906,884,740	14,520,311	724,999,128
Total net exposure	637,073	33,497,307	492,778	24,604,428

These balances were translated using the Bankers Association of the Philippines (BAP) peso-dollar exchange rates of P52.58 as at December 31, 2018 and Philippine Depository System (PDS) peso-dollar exchange rate of P49.93 as at December 31, 2017. Net unrealized foreign exchange gain for the year ended December 31, 2018 amount to P1,958,319 (2017 - P129,055).

Foreign currency-denominated deposits are generally used to fund the Bank's foreign currency denominated loans and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency denominated liabilities with the foreign currency denominated assets held under the FCDU books. In addition, the BSP requires a 30% liquidity reserve on all foreign currency liabilities held under the FCDU. As at December 31, 2018 and 2017, the Bank is in compliance with the said regulations.

The Bank's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines.

For a 5.31% and 3.56% change in the foreign exchange rate of the Bank against relevant currency, there would be an equal and opposite impact on the pre-tax income and equity and the effects are shown below:

	Change in FX rate	Impact on pre-tax income	Impact on equity
December 31, 2018	+/- 5.31%	+/- 1,778,707	+/- 1,332,929
December 31, 2017	+/- 3.56%	+/- 875,918	+/- 613,143

Exposures to foreign exchange rate fluctuation vary during the year depending on the volume of USD buying and selling transactions. Nonetheless, the analysis above is considered to be representative of the Bank's exposure to foreign currency risk.



### 23.9 Price risk

The Bank is exposed to price risk on the fluctuation on the price or fair value of its investments at FVOCI (2018)/AFS investments (2017) - quoted equity securities. It manages its risk arising from changes in market price by monitoring the changes in the market price of the investments. The fair value of investments at FVOCI (2018)/AFS investments (2017) are based on published prices in the market.

The following table details the Bank's sensitivity to a 10% increase and decrease in the market prices of investments at FVOCI (2018)/AFS investments (2017). The sensitivity rate used represents the management's assessment of the reasonably possible changes in the market values.

	Change in market values	Impact on pre-tax income	Impact on equity
Investment securities at FVOCI	+10%	-	98,000
	-10%	-	(98,000)

	Change in market values	Impact on pre-tax income	Impact on equity
Available-for-sale investments	+10%	-	94,500
	-10%	-	(94,500)

### 23.10 Fair value information

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follow:

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

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.

#### *Financial asset measured at fair value*

The fair value and fair value hierarchy of financial assets at fair value through other comprehensive income (FVOCI) as at December 31 are as follows:

	2018	2017	Valuation
Financial assets at FVOCI (2018)/ AFS investments (2017)			
Level 1	296,400,280	298,557,400	Published prices
Level 2	1,400,000	1,350,000	Published prices
	297,800,280	299,907,400	

*Financial assets and liabilities measured at amortized cost for which fair value is disclosed*

The following gives the fair value information of the Bank's investment securities at amortized cost (2018)/ HTM investments (2017), which are not measured at fair value, but the fair values are disclosed at the end of each reporting period:

	2018		2017	
	Carrying values	Fair values	Carrying values	Fair values
Investment securities at amortized cost (2018)/ HTM investments (2017)	347,512,857	333,863,605	352,151,095	355,045,700

These investment securities at amortized cost is classified under Level 2 based on market prices or broker/dealer price quotations.

*Cash and other cash items and due from BSP and other banks*

Due to the short-term nature of these financial instruments, their fair value approximates the carrying amount as at reporting date.

*Loan and receivables*

Fair value of loans and receivables is estimated by discounting anticipated cash (including interest at contractual rates). Performing loans are grouped, to the possible, into homogenous pools segregated by maturity and the coupon rates of the loans within each pool. In general, cash flows are discounted using current market rates for instruments with similar maturity, repricing and risk characteristics.

For non-performing loans and receivables, an estimate is made of the time period to realize these cash flows and the fair value is estimated by discounting these cash flows at the effective interest rate. For non-performing loans and receivables where collateral exists, the fair value is the lesser of the carrying value of the loans and receivables net of specific allowances, or the fair value of the collateral, discounted as appropriate.

Based on the methodology described above, the Bank has determined that the carrying values of loans and receivables approximate fair values.

*Deposit liabilities*

Deposit liabilities is calculated using discounted cash flow models, based on the deposit type and its related maturity, applying either market rates, where applicable or current rates offered for deposits of similar remaining maturities.

Based on the described above, the Bank has determined that the carrying values of deposits by customers approximate fair values.

*Other financial assets and liabilities*

Carrying amounts of other financial assets and liabilities which have no definite repayment dates are assumed to be their fair values.

### 23.11 Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with the BSP imposed minimum capital requirements and to maintain healthy capital ratios in order to support its business and to maximize shareholders' value.

Under MORB Section 111.1, the Bank has complied the minimum capitalization set by the BSP which is P750 million for thrift banks with head office in Metro Manila with up to ten (10) branches.

The Bank also complies with the minimum Capital Adequacy Ratio (CAR) as mandated by the BSP. The risk based CAR of thrift banks expressed as a percentage of qualifying capital to risk-weighted asset, shall not be less than ten percent (10%). Qualifying capital consists of Tier 1 (core plus hybrid) capital and Tier 2 (supplementary) capital elements, net of required deductions from capital. Tier 1 capital consists of the Bank's total equity excluding net unrealized losses on financial assets at FVOCI, unbooked valuation reserves and other capital adjustments based on latest report of examination as approved by the Monetary Board, total outstanding unsecured loans and credit accommodations, net of allowance for credit losses and deferred tax asset, net of deferred tax liability. Tier 2 capital consists of general loan loss provision and unsecured subordinated debt. Risk-weighted asset is the assigned risk weight to assets after exclusion of zero percent (0%) risk weight assets such as 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.

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's "unimpaired capital" (regulatory net worth) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRSs.

On May 13, 2010, the Monetary Board, in its Resolution No. 688 approved the revised guidelines implementing the revised risk-based capital adequacy framework for thrift banks. The circular took effect on January 1, 2012. Thereafter, the Bank measures CAR based on the revised framework. As at December 31, the Bank's CAR is computed as follows:

	2018	2017
	(In Thousands of Pesos)	
Qualifying capital		
Net Tier 1 capital	927,371	899,939
Net Tier 2 capital	18,435	3,220
Total qualifying capital	945,806	903,159
Risk weighted assets		
Credit risk weighted assets	1,846,492	1,503,189
Operational risk weighted assets	153,575	146,097
Total risk weighted assets	2,000,067	1,649,286
CAR	47.29%	54.76%

The Bank has fully complied with the minimum CAR requirement of ten percent (10%).

#### **Note 24 - Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

## **24.1 Basis of preparation**

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs). The term PFRSs in general includes all applicable PFRSs, Philippine Accounting Standards (PASs) and Interpretations issued by the former Standing Interpretations Committee (SIC), the Philippine Interpretations Committee (PIC) and the International Financial Reporting Interpretations Committee (IFRIC), which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

The Bank's financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at FVOCI (AFS in 2017).

The Bank presents its statement of financial position in the order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date and more than 12 months after the reporting date is presented in Note 23.6.

## **24.2 Changes in accounting policy and disclosures**

### *(a) New standards adopted by the Bank*

The Bank has adopted the following standards effective January 1, 2018:

- *PFRS 15, 'Revenue from contracts with customers'* replaces PAS 18, 'Revenue' which covers contracts for goods and services and PAS 11, 'Construction contracts' which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards.

A new five-step process must be applied before revenue can be recognized: (1) identify contracts with customers, (2) identify the separate performance obligation, (3) determine the transaction price of the contract, (4) allocate the transaction price to each of the separate performance obligations, and (5) recognize the revenue as each performance obligation is satisfied.

The adoption of PFRS 15 did not have a material impact on the financial statements of the Bank.

- *PFRS 9, 'Financial instruments'* replaces the provisions of PAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

### PFRS 9 adoption

The adoption of PFRS 9 resulted in changes in accounting policies and adjustments to the amounts previously recognized in the financial statements. The Bank did not early adopt any provisions of PFRS 9 in previous periods.

As permitted by the transitional provisions of PFRS 9, the Bank elected not to restate comparative figures. Resulting adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening balance of Deficit as of January 1, 2018.

The adoption of PFRS 9 has resulted in changes mainly in the Bank's accounting policies for recognition, classification and measurement and impairment of financial assets. There were no changes in the classification of financial liabilities.

The Bank shifted from incurred loss model under PAS 39 to expected credit loss model in the determination of impairment provisions for financial assets not carried at fair value through profit or loss upon adoption of PFRS 9.

Set out below are disclosures relating to the impact of the adoption of PFRS 9 on the Bank.

*Classification and measurement of financial assets*

The measurement category and the carrying amount of financial assets in accordance with PAS 39 and PFRS 9 are as follows:

	PAS 39		PFRS 9	
	December 31, 2017		January 1, 2018	
	Measurement category	Carrying amount	Measurement category	Carrying amount
<b>Financial assets</b>				
Cash and other cash items	Amortized cost	30,482,474	Amortized cost	30,482,474
Due from Bangko Sentral ng Pilipinas	Amortized cost	483,648,589	Amortized cost	483,648,589
Due from other banks	Amortized cost	658,287,623	Amortized cost	658,287,623
Investment securities	FVOCI (AFS)	299,907,400	FVOCI	299,907,400
	Amortized cost (HTM)	352,151,096	Amortized cost	463,293,969
Loans and receivables, net	Amortized cost	478,210,695	Amortized cost	387,170,982
Other financial assets	Amortized cost	4,667,282	Amortized cost	4,667,282

*Reconciliation of statement of condition balances from PAS 39 to PFRS 9*

On January 1, 2018, the Bank performed a detailed analysis of its business models for managing financial assets including their cash flow characteristics. Please refer to Note 24.3 for more detailed information regarding the new classification requirements of PFRS 9.

The financial assets affected by the adoption of the new standard are shown below. The reconciliation of the carrying amounts of these financial assets from their previous measurement category in accordance with PAS 39 to their new measurement categories upon transition to PFRS 9 on January 1, 2018 follows:

	Investment debt securities at FVOCI (AFS investments in 2017)	Investment securities at amortized cost (HTM investments in 2017)	Loans and receivables, net
Closing balance, December 31, 2017 - PAS 39	299,907,400	352,151,096	478,210,695
Reclassifications from:			
Loans and receivables, net, to Investment securities at amortized cost	a -	111,142,873	(111,142,873)
ECL provision	-	-	20,103,160
	-	111,142,873	(91,039,713)
Opening balance, January 1, 2018 - PFRS 9	299,907,400	463,293,969	387,170,982

There was no impact on the carrying amounts of other financial assets arising from adoption of PFRS 9.

The impact on the relevant equity items as at January 1, 2018 is as follows:

	Deficit	Accumulated other comprehensive loss
Closing balances, December 31, 2017 - PAS 39	(82,148,459)	(5,128,446)
Remeasurement of equity securities at FVOCI	b 1,804,200	(1,804,200)
ECL provision	20,103,160	-
Tax effect of transition adjustments	(6,784,985)	541,260
Opening balances, January 1, 2018 - PFRS 9	(67,026,084)	(6,391,386)

- The Bank holds certain debt securities which were classified previously as loans and receivables, net. In 2018, these securities were classified as financial assets at amortized cost consistent with the PFRS 9 business model of the Bank (Note 5).
- The Bank has elected to irrevocably designate strategic investments in a small portfolio of non-trading equity securities at FVOCI as permitted under PFRS 9. These securities were previously classified as AFS and carried at cost as allowed by PAS 39. Consequently, these unlisted equities are remeasured to fair value in accordance with PFRS 9. The changes in fair value of such securities will no longer be reclassified to profit or loss when they are disposed of.

#### *Reconciliation of impairment allowance balance from PAS 39 to PFRS 9*

The Bank shifted from incurred loss model to expected credit loss model in the determination of impairment provisions for financial assets not carried at fair value through profit or loss upon adoption of PFRS 9. The following table reconciles the prior period's closing impairment allowance measured in accordance with the PAS 39 incurred loss model to the new impairment allowance measured in accordance with the PFRS 9 expected loss model at January 1, 2018:

	Loan loss allowance under PAS 39	Reclassification	Remeasurement	Loan loss allowance under PFRS 9
Loans and advances	115,070,685	-	(20,103,160)	94,967,525

There are no adjustments recognized for allowance for losses for the Bank's other categories of financial assets (i.e. investments at amortized cost, investments at FVOCI, Due from BSP and Due from other banks) as the impact is deemed immaterial.

In addition to the above, the following debt instruments have been reclassified to new categories under PFRS 9, as their previous categories under PAS 39 were 'retired', with no changes to their measurement basis:

- (i) Those previously classified as available-for-sale and now classified as measured at FVOCI; and
- (ii) Those previously classified as held-to-maturity and now classified as measured at amortized cost.

#### *(b) New standards, amendments and interpretations not yet adopted*

The following new accounting standard and interpretation are mandatory for annual periods after December 31, 2018 and have not been early adopted by the Bank:

#### PFRS 16, *Leases* (effective for annual periods beginning on or after January 1, 2019)

PFRS 16 will replace the current guidance in PAS 17, *Leases*. PFRS 16 which will become effective on January 1, 2019 will affect primarily the accounting by lessees and will result in the recognition of almost all leases in the balance sheet. PFRS 16 removes the current distinction between operating and financing leases and requires recognition of an asset (the right-of-use asset) and a lease liability to pay rentals for virtually all lease contracts. Under PFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. An optional exemption exists for short-term and low-value leases.

The adoption of PFRS 16 will affect the accounting of certain assets currently held by the Bank under operating lease arrangements. The Bank is currently assessing the impact of adopting PFRS 16.

Philippine Interpretation IFRIC-23, Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after January 1, 2019)

It has been clarified previously that PAS 12, not PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

The adoption of the above interpretation will not have a material impact on the financial statements of the Bank.

There are no other standards, amendments or interpretations that are effective beginning on or after January 1, 2018 that would be expected to have a material impact on the Bank.

### **24.3 Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Bank recognizes a financial instrument in the statement of financial position when, and only when, the Bank becomes a party to the contractual provisions of the instrument.

#### **24.3.1 Financial assets**

##### **24.3.1.1 Date of recognition**

All financial assets are recognized when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Bank commits to purchase or sell the asset.

##### **24.3.1.2 Initial recognition and subsequent measurement**

At initial recognition, the Bank measures a financial asset at its fair value plus directly attributable transaction costs, except in the case of financial assets recorded at fair value through profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognized for financial assets measured at amortized cost and investments in debt instruments measured at FVOCI, as described in Note 24.3.1.5 below, which results in the loss provision being recognized in profit or loss when an asset is newly originated.

When the fair value of financial assets differs from the transaction price on initial recognition, the Bank recognizes the difference as follows:

- When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognized as a gain or loss.



- In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

From January 1, 2018, the Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual cash flow characteristics, measure at either:

- Amortized cost, as explained in Note 24.3.1.2 (1);
- Fair value through other comprehensive income ("FVOCI"), as explained in Note 24.3.1.2 (2); and
- Fair value through profit or loss ("FVTPL"), as explained in Note 24.3.1.2 (3).

Before January 1, 2018, regular-way purchases and sales of financial assets at fair value through profit or loss, held-to-maturity securities and available-for-sale securities are recognized on trade date, the date on which the Bank commits to purchase or sell the asset. Loans and receivables are recognized upon origination when cash is advanced to the borrowers or when the right to receive payment is established. Financial assets such as held to maturity securities, available for sale securities and loans and receivables are initially recognized at fair value plus transaction costs. Financial assets carried at fair value through profit or loss are initially recognized at fair value; and transaction costs are recognized in profit or loss.

#### *Debt instruments*

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and receivables, due from BSP and other banks, government and corporate bonds and other financial receivables.

Classification and subsequent measurement of debt instruments depend on the Bank's business model for managing the asset and the cash flow characteristics of the asset.

#### *Equity instruments*

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

Based on these factors, the Bank classifies its financial assets into one of the following measurement categories:

### **1. Financial assets at amortized cost**

From January 1, 2018, the Bank measures financial assets at amortized cost if both of the following conditions are met:

- (a) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding; and
- (b) The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

The details of these conditions are outlined below:

*Business model assessment:* The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are classified and measured at fair value through profit or loss. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

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

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at fair value through profit or loss, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method. Amortized cost financial assets include cash and other cash items, due from BSP, due from other banks, investment securities at amortized cost, loans and receivables, and miscellaneous deposits under Other assets.

## **2. Fair value through other comprehensive income (FVOCI)**

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

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

These instruments largely comprise assets that had previously been classified as financial investments available-for-sale under PAS 39.

Financial assets at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in other comprehensive income. Impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost are recognized in the statement of total comprehensive income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Equity instruments are normally measured at FVTPL. However, for non-traded equity instruments, with an irrevocable option at inception, the Bank measure the changes through FVOCI (without recycling profit or loss upon derecognition).

Included in financial assets at FVOCI are investment securities at FVOCI.

### **3. Fair value through profit or loss (FVTPL)**

Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the statement of total comprehensive income within 'Trading gain on securities' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately. As at December 31, 2018 and 2017, the Bank has no financial assets at fair value through profit loss.

### **4. Loans and receivables (Policy applicable before January 1, 2018)**

Loans and receivables are non-derivative financial assets with fixed or determinable payments: (i) that are not quoted in an active market, (ii) with no intention of being traded, and (iii) that are not designated as available-for sale. Significant accounts falling under this category are cash and other cash items, due from BSP and other banks, loans and receivables and miscellaneous deposits under Other assets.

From January 1, 2018, under PFRS 9, the Bank measures loans and receivables at amortized cost.

### **5. Held-to-maturity investments (Policy applicable before January 1, 2018)**

The Bank's held-to-maturity security is a non-derivative financial asset with a fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available-for-sale.

From January 1, 2018, under PFRS 9, the Bank measures held-to-maturity investments at amortized cost.

### **6. Available-for-sale investments (Policy applicable before January 1, 2018)**

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale investments are classified as such in the statement of financial position.

After initial recognition, available-for-sale investments are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are subsequently carried at amortized cost using the effective interest method. Changes in the fair value of available-for-sale investments are recognized directly in other comprehensive income, until the financial asset is derecognized or impaired at which time the cumulative fair value adjustments previously recognized in other comprehensive income is recognized in profit or loss. However, interest is calculated on these investments using the effective interest method and foreign currency gains or losses on monetary assets classified as available-for-sale are recognized in profit or loss. Dividends on equity instruments are recognized in profit or loss when the Bank's right to receive payment is established.

From January 1, 2018, under PFRS 9, the Bank measures available for sale investments at fair value through other comprehensive income.

#### **24.3.1.3 Derecognition (Policy applicable from January 1, 2018)**

A financial asset is derecognized when there is a substantial modification of terms and conditions or factors other than substantial modification.

##### *i. Derecognition due to substantial modification of terms and conditions*

The Bank derecognizes a financial asset, such as a loan and receivables, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference between the carrying amounts after and prior to modification recognized as a gain or loss, to the extent that an impairment loss has not already been recorded.

The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be purchased or originated credit-impaired ("POCI").

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective interest rate ("EIR"), the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded. As at December 31, 2018, no financial assets were derecognized due to substantial modification of terms and conditions.

##### *ii. Derecognition other than for substantial modification*

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

- (1) The rights to receive cash flows from the financial asset have expired; or
- (2) The transfer of financial asset is as set out below and the transfer qualifies for derecognition.

The Bank has transferred the financial asset if, and only if, either:

- (1) The Bank has transferred its contractual rights to receive cash flows from the financial asset; or
- (2) It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates;
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients; and
- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either the Bank has:

- Transferred substantially all the risks and rewards of the asset; or
- Neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and have retained control of the asset, the asset continues to be recognized only to the extent of the Bank's continuing involvement, in which case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

#### **24.3.1.4 Derecognition (Policy applicable before January 1, 2018)**

A financial asset is derecognized when the contractual right to receive the cash flows from the asset has ceased to exist or the asset has been transferred and substantially all the risks and rewards of ownership of the asset are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition).

#### **24.3.1.5 Impairment of financial assets (Policy applicable from January 1, 2018)**

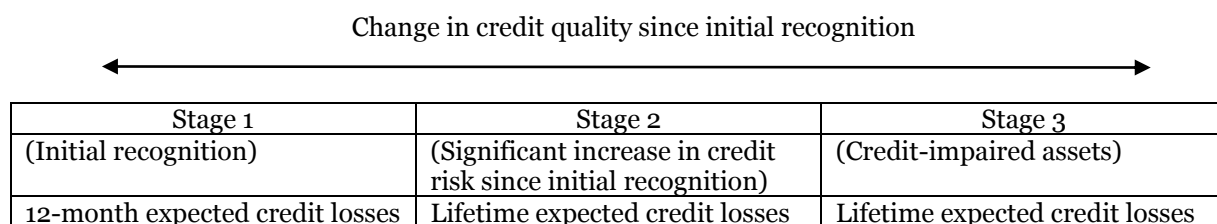
From January 1, 2018, the Bank assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortized cost and FVOCI and with the exposure arising from loan commitments. The Bank recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- 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.

PFRS 9 outlines a ‘three-stage’ model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in “Stage 1” and has its credit risk continuously monitored by the Bank.
- If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to “Stage 2” but is not yet deemed to be credit-impaired. The Bank determines SICR based on prescribed benchmarks approved by the Board of the Directors.
- If the financial instrument is credit-impaired, the financial instrument is then moved to “Stage 3”.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that results from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with PFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit-impaired (POCI) financial assets are those financial assets that are credit impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3). There are no POCI as at December 31, 2018.

The following diagram summarizes the impairment requirements under PFRS 9 (other than purchased originated credit-impaired financial assets):



The Bank uses the following key judgements and assumptions when estimating expected credit losses in accordance with PFRS 9:

*Determination of significant increase in credit risk (SICR)*

The assessment of significant deterioration since initial recognition is key in establishing the point of switching between the requirement to measure an allowance based on 12-month ECL and one that is based on lifetime ECL. The quantitative and qualitative assessments are required to estimate the significant increase in credit risk by comparing the risk of a default occurring on the financial assets as at reporting date with the risk of default occurring on the financial assets as at the date of initial recognition.

### *Measuring ECL - Inputs, assumptions and estimation techniques*

The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the probability of default (PD), exposure at default (EAD) and loss given default (LGD), defined as follows:

- The PD represents the likelihood that the borrower will default (as per “Definition of default and credit-impaired” above), either over the next 12 months (12M PD), or over the remaining life (lifetime PD) of the asset. The estimation of PD for consumer loans is based on the Bank’s aging reports with the incorporation of forward-looking economic information. While for corporate loans and investment in debt securities, PD is calculated based on default rate tables published by external credit rating agencies, incorporating forward-looking information.
- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining life (lifetime EAD). The 12-month and lifetime EADs are determined based on the contractual repayments owed by the borrower over a 12-month or lifetime basis.
- LGD represents the Bank’s expectation of the extent of loss on a defaulted exposure. They are grouped according to type (corporate or consumer). For consumer loans, the LGD is calculated based on the historical recovery experience. For corporate loans and investments in debt instruments, the LGD is calculated based on the collateral and liquidity preference of the debt instrument, incorporating the average recovery rate disclosed by external credit rating agencies.

The ECL is determined by multiplying the PD, LGD and EAD together for each individual exposure or collective segment. This effectively calculates an ECL for each future year, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period from the time of the adoption of PFRS 9 on January 1, 2018 to the reporting date.

### *Expected life*

Lifetime expected credit losses must be measured over the expected life. This is restricted to the maximum contractual life and takes into account expected prepayments, extensions, calls and similar options.

### *Investment securities at FVOCI*

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

#### *Forward-looking information incorporated in the ECL models*

The Bank incorporates historical and current information, and forecasts forward-looking events and key economic variables that are assessed to impact credit risk and expected credit losses for each portfolio. Macroeconomic variables that affect a specific portfolio's non-performing loan rate(s) are determined through statistical modelling and the application of expert judgment. The probability-weighted ECL is calculated by running each scenario through the relevant ECL models and multiplying it by the appropriate scenario weighting.

The estimation and application of forward-looking information requires significant judgment. As with any economic forecasts, the projections and likelihood of occurrences are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The scenarios and their attributes are reassessed at each reporting date. Information regarding the forward-looking economic variables and the relevant sensitivity analysis is disclosed in Note 22.

#### *Valuation of collateral held as security for financial assets*

The Bank's accounting policy for collateral assigned to it through its lending arrangements under PFRS 9 is the same as it was under PAS 39.

### **24.3.1.6 Impairment of financial assets (Policy applicable before January 1, 2018)**

#### *(a) Assets carried at amortized cost*

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial asset is impaired. A financial asset or a group of financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of impairment include:

- delinquency in contractual payments of principal or interest;
- cash flow difficulties experienced by the borrower;
- breach of loan covenants or conditions;
- initiation of bankruptcy proceedings;
- deterioration of the borrower's competitive position; and
- deterioration in the value of collateral.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the 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 assets with similar credit risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.



The amount of impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (recoverable amount). The calculation of recoverable amount of a collateralized financial asset reflects the cash flows that may result from foreclosure less cost of obtaining and selling the collateral, whether or not foreclosure is probable. Impairment loss is recognized in the statement of total comprehensive income and the carrying amount of the asset is reduced through the use of an allowance.

For purposes 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 Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. 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 currently exist. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of loss has been determined.

If in a subsequent period, the amount of 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 the statement of total comprehensive income as a reduction of impairment losses for the year.

*(b) Assets classified as available-for-sale*

The Bank assesses at each reporting date whether there is objective evidence that a security classified as available-for-sale is impaired. For debt securities, the Bank uses the criteria disclosed under loans and receivables. For an equity security classified as available-for-sale, a significant or prolonged decline in the fair value below cost is considered in determining whether the securities are impaired. Generally, the Bank treats 20% or more as 'significant' and greater than twelve months as 'prolonged'.

The cumulative loss (difference between the acquisition cost and the current fair value less any impairment loss on that financial asset previously recognized in profit or loss) is removed from other comprehensive income and recognized in profit or loss when the asset is determined to be impaired. If in a subsequent period, the fair value of a debt instrument previously impaired increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. Reversal of impairment losses recognized previously on equity instruments is made directly to other comprehensive income.

#### **24.3.1.7 Reclassification of financial assets (Policy applicable before January 1, 2018)**

The Bank may choose to reclassify financial assets that would meet the definition of loans and receivables or held-to-maturity securities out of the available-for-sale category if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

#### **24.3.1.8 Reclassification of financial assets (Policy applicable from January 1, 2018)**

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

### **24.3.2 Financial liabilities**

#### **24.3.2.1 Date of recognition**

All financial liabilities are initially recognized on trade date (i.e. the date that the Bank becomes a party to the contractual provision of the instruments). This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

The Bank classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss, and financial liabilities at amortized cost.

##### *(a) Financial liabilities at fair value through profit or loss*

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the Bank as at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

As at December 31, 2018 and 2017, the Bank has no financial liabilities that are designated at fair value through profit loss.

##### *(b) Other liabilities measured at amortized cost*

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortized cost.

Financial liabilities measured at amortized cost include deposit liabilities, accrued interest and other expenses, and other liabilities, primarily accounts payable.

#### **24.3.2.2 Initial recognition and subsequent measurement**

Financial liabilities at amortized cost are initially recognized at fair value plus transaction costs.

Financial liabilities are subsequently measured at amortized cost using the effective interest method.

#### **24.3.2.3 Derecognition**

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished (i.e. when the obligation is discharged or is cancelled or has expired).

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions is not derecognized because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

#### **24.3.3 Offsetting of financial assets and liabilities**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

As at December 31, 2018 and 2017, there are no financial assets and liabilities that have been offset.

#### **24.4 Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

##### *Financial instruments*

The Bank classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Philippine Stock Exchange, Inc., Philippine Dealing and Exchange Corp. (PDEX), etc.).

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the over-the-counter ("OTC") derivative contracts. The primary source of input parameters like LIBOR yield curve or counterparty credit risk is Bloomberg.

Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible. The Bank has no assets or liabilities classified under Level 3 as at December 31, 2018 and 2017.

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

- For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes mainly from PDEX and Bloomberg.
- A financial instrument is regarded as quoted in an active market 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. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.
- For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, volatilities and counterparty spreads) existing at reporting dates. The Bank uses widely recognized valuation models for determining fair values of non-standardized financial instruments of lower complexity. For these financial instruments, inputs into models are generally market observable.

The fair value for loans and receivables as well as liabilities to customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs.

#### *Non-financial assets or liabilities*

The Bank uses valuation techniques that are appropriate in the circumstances and applies the technique consistently. Commonly used valuation techniques are as follows:

- Market approach - A valuation technique that uses observable inputs, such as prices, broker quotes and other relevant information generated by market transactions involving identical or comparable assets or group of assets.
- Income approach - A valuation technique that converts future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.
- Cost approach - A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

The fair values were determined in reference to observable market inputs reflecting orderly transactions, i.e. market listings, published broker quotes and transacted deals from similar and comparable assets, adjusted to determine the point within the range that is most representative of the fair value under current market conditions.

## **24.5 Prepayments**

Prepayments are expenses paid in advance and recorded as asset before they are utilized. Prepayments are initially recognized as assets and subsequently apportioned over the period covered by the payment and charged to the appropriate accounts in the statement of total comprehensive income when incurred.

Prepayments are presented under “Other assets” account (Note 7).

## **24.6 Bank premises, furniture, fixtures and equipment**

Bank premises, furniture, fixtures and equipment are initially recognized at historical cost which comprises its purchase price, including taxes and any directly attributable costs of bringing the asset to its working condition and location necessary for it to be capable of operating in the manner intended by management. These are subsequently carried at cost less accumulated depreciation and any impairment in value. Expenses that provide incremental future economic benefits to the Bank are added to the carrying amount of an item of bank premises, furniture, fixtures and equipment.

All other expenses are recognized in the statement of total comprehensive income as incurred. Depreciation of bank premises, furniture, fixtures and equipment commences once the property and equipment are available for use and computed using the straight-line basis over the estimated useful lives of property and equipment as follows:

	Number of years
Bank premises	25-50
Furniture, fixtures and equipment	3-5
Transportation and equipment	5
Leasehold improvement	5 or lease term; whichever is shorter

The useful lives and depreciation method are reviewed at each reporting date to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of bank premises, furniture, fixtures and equipment.

When bank premises, furniture, fixtures and equipment are retired or otherwise disposed of, the cost of the related accumulated depreciation and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations. Fully depreciated bank premises, furniture, fixtures and equipment are retained in the accounts until they are no longer in use and no further depreciation and amortization is charged against current operations.

## **24.7 Computer software**

The Bank’s computer software was acquired separately and was initially recognized at cost. Following initial recognition, computer software is carried at cost less any accumulated amortization and any accumulated impairment losses. Computer software is amortized over the useful or economic life, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method is reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. These costs are amortized on the basis of the expected useful lives of five (5) years. Costs associated with maintaining computer software are expensed as incurred. The assets are derecognized when there is no future economic benefit associated with its continuing use.

#### **24.8 Impairment of non-financial assets**

At each reporting date, the Bank reviews the carrying amounts of bank premises, furniture, fixtures and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When the asset does not generate cash flows that are independent from other assets, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income.

#### **24.9 Leases**

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 are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

The Bank is a party to an operating lease as a lessee on the offices of its branches. Payments made under operating leases (less any incentives given by the lessor) are charged to profit or loss.

#### **24.10 Income taxes**

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of total comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each reporting date the Bank reassess the need to recognize previously unrecognized deferred income tax asset.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences, carryforward benefits of unused tax credits from excess of MCIT over RCIT and unused NOLCO can be utilized. Deferred income tax liabilities are recognized for all taxable temporary differences.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax asset against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

#### **24.11 Retirement benefit obligation**

The Bank provides defined benefit retirement plan for all regular and qualified employees. The retirement plan is generally funded through payments to a trustee bank determined by periodic actuarial calculations.

The retirement benefit that an employee will receive on retirement under a defined benefit plan is dependent on several factors such as age, years of service and compensation. The Bank's defined benefit retirement plan provides a retirement benefit equivalent to one hundred percent (100%) of plan salary for every year credited service for qualified employees.

The liability recognized in the statement of financial position in respect of defined benefit retirement plans is the present value of the defined benefit obligation less the fair value of plan assets at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related retirement obligation.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurement comprising actuarial gains and losses, return on plan asset and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) is recognized immediately in other comprehensive income in the period in which they arise. Remeasurement is not reclassified to profit or loss in subsequent periods. Remeasurement recognized in other comprehensive income account “Remeasurement gains (losses) on retirement plan” is not reclassified to another equity account in subsequent periods. The difference between the interest income component of net interest and the actual return on plan asset is recognized in other comprehensive income.

Past-service costs are recognized immediately in the statement of total comprehensive income.

## **24.12 Capital stock**

Capital stock comprise common shares which meet the equity classification. This is presented in the statement of financial position equal to the par value of the shares issued and outstanding as at reporting dates.

### *Additional paid-in capital*

Additional paid-in capital represents premium received on the issuance of capital stock above its par value. Transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

### *Retained earnings*

Retained earnings include all current and prior period results as reported in the statement of total comprehensive income.

## **24.13 Interest income and expense**

Interest income and expense are recognized in the statement of total comprehensive income for all interest-bearing financial instruments using the effective interest method.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortized cost of the financial asset.
- Financial assets that are not ‘POCI’ but have subsequently become credit-impaired (or ‘Stage 3’), for which interest revenue is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss provision).

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired (‘POCI’) financial assets – assets that are credit-impaired at initial recognition – the Bank calculates the credit-adjusted effective interest rate, which is calculated based on the amortized cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.



When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in profit or loss.

#### **24.14 Service charges and fees**

From January 1, 2018, the Bank has applied PFRS 15 where revenue is recognized when (or as) the Bank satisfies a performance obligation by transferring a promised good or service to a customer (i.e. an asset). An asset is transferred when (or as) the customer obtains control of that asset.

The recognition of revenue can be either over time or at a point in time depending on when the performance obligation is satisfied.

When control of a good or service is transferred over time, that is, when the customer simultaneously receives and consumes the benefits, the Bank satisfies the performance obligation and recognizes revenue over time. Otherwise, revenue is recognized at the point in time at the point of transfer control of the good or service to the customer.

Variable consideration is measured using either the expected value method or the most likely amount method depending on which method the Bank expects to better predict the amount of consideration to which it will be entitled. This is the estimated amount of variable consideration, or the portion, if any, of that amount for which it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Where there is a single performance obligation, the transaction price is allocated in its entirety to that performance obligation. Where there are multiple performance obligations, the transaction price is allocated to the performance obligation to which it relates based on stand-alone selling prices.

Service charges and fees are generally recognized when the service has been provided. Commission and fees arising from loans, deposits, and other banking transactions are taken up as income based on agreed terms and conditions.

Before January 1, 2018, service charges and penalties are recognized only upon collection or accrued when there is a reasonable degree of certainty as to its collectability and can be measured reliably.

#### **24.15 Other income**

Revenue is recognized when earned.

#### **24.16 Expense recognition**

Cost and expenses are recognized in profit or loss when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Expenses in the statement of total comprehensive income are presented using the functional method.

Operating expenses constitute costs of operating, marketing and administering the Bank and are expensed as incurred.

#### **24.17 Related party relationships and transactions**

Related party relationship exists when (a) a person or a close member of that person's family has control or joint control, has significant influence or is a member of the key management personnel of the reporting entity or of a parent of the reporting entity, (b) an entity is related to the Bank if, the entity and the Bank are members of the same group, one entity is an associate or joint venture of the other entity, both entities are joint ventures of the same third party, one entity is a joint venture of a third entity and the other entity is an associate of the third party, an entity is a post-employment benefit plan for the benefit of employees of the Bank, the entity is controlled or jointly controlled by a person who has control or joint control over the Bank and a person as identified in (a) above has significant influence over the entity or is a member of the key management personnel of the entity or of a parent of the entity. In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

#### **24.18 Provisions and contingencies**

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. When the Bank expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the statement of total comprehensive income, net of any reimbursement.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements.

#### **24.19 Events after the reporting date**

The Bank identifies post year-end events as events that occurred after the reporting date but before the date when the financial statements were authorized for issue. Post year-end events that provide additional information about the Bank's financial position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the financial statements when material.

**Note 25 - Supplementary information required by the Bureau of Internal Revenue (BIR)**

Below is the additional information required by RR No. 15-2010 that is relevant to the Bank. This information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

*(i) Documentary stamp taxes*

Documentary stamp taxes paid for the year ended December 31, 2018 amount to P533,744.

*(ii) Input VAT*

Input VAT paid for the year ended December 31, 2018 amount to P3,737,402.

*(iii) Withholding taxes*

Withholding taxes paid and accrued for the year ended December 31, 2018 consist of:

	Paid	Accrued	Total
Income taxes withheld on compensation	5,140,266	178,965	5,319,231
Final income taxes withheld on interest on deposits and yield on deposit substitutes	1,239,671	100,614	1,340,285
Creditable income taxes withheld (expanded)	2,223,422	76,258	2,299,680
Fringe benefit tax	1,760,262	682,667	2,442,929
	10,363,621	1,038,504	11,402,125

*(iv) All other local and national taxes*

Local and national taxes paid and accrued for the year ended December 31, 2018 consist of:

	Paid	Accrued	Total
Gross receipts tax	5,471,604	1,200,000	6,671,604
Real property tax	308,242	-	308,242
Municipal taxes	577,879	-	577,879
Others	149,144	-	149,144
	6,506,869	1,200,000	7,706,869

*(v) Tax cases and assessments*

The Bank received a formal assessment notice dated October 18, 2017 covering deficiency income tax for the taxable year 2014. The Bank requested for reinvestigation on a letter dated November 16, 2017 which was granted by the BIR in December 2017. As at December 31, 2018, no decision is yet made on the reinvestigation.

As at December 31, 2018, the open tax years of the Bank are 2017, 2016, 2015 and 2014.