Annex "B"

PHILTRUST BANK
PHILIPPINE TRUST COMPANY
PHILTRUST BANK BUILDING
UNITED NATIONS AVE. CORNER SAN MARCELINO ST.,
MANILA, PHILIPPINES

TEL.: (632) 524-90-61 TO 76
(632) 498-01-90 TO 99
FAX: (632) 521-73-09 / 498-02-00
SWIFT: PHTBPHMM
EMAIL: ptc@philtrustbank.com

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **PHILTRUST BANK (Philippine Trust Company)** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, 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 and 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.

The Board of Directors is responsible in overseeing the Bank's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

REYES TACANDONG & CO., the independent auditor appointed by the stockholders, has audited the financial statements of the Bank in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

BASILIO C. YAP	JAIME C. LAYA	LUISA A. LUCIN
Chairman of the Board	President	Chief Finance Officer

REPUBLIC OF THE PHILIPPINES)
CITY OF MANILA)s.s.

Subscribed and sworn to before me this MAY 14 2019, affiants exhibiting to me their respective Tax Identification Numbers, as follows:

Basilio C. Yap	TIN [redacted]
Jaime C. Laya	TIN [redacted]
Luisa A. Lucin	TIN [redacted]

Doc. No. 137
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Book No. I
Series of 2019

May 14, 2019

EROSE MARLO C. LAENO
NOTARY PUBLIC - CITY OF MANILA
Notarial Commission No. 2019-003
(Until December 31, 2020)
Roll No. 70285 | TIN 273-888-851
IBP No. 057864, 12.27.18, PPLM
PTR No. 8010853, 12.27.18, MLA
MCLE No. VI-0014331, 11.06.18
1000 U.N. Avenue, Paco, Manila

October 4, 2018, valid until August 15, 2021
SEC Accreditation No. 0207-FR-2 (Group A)
September 27, 2016, valid until September 27, 2019

Phone
Fax
Website

Annex "B-1"

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Philtrust Bank (Philippine Trust Company)
Philtrust Bank Bldg., 1000 United Nations Avenue corner
San Marcelino St., Manila

Opinion

We have audited the accompanying financial statements of Philtrust Bank (Philippine Trust Company) (the Bank), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended December 31, 2018 and 2017, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of 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 (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. 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 the 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of the Bank as at and for the year ended December 31, 2016 were audited by another auditor, whose report dated March 28, 2017, expressed an unqualified opinion on those statements. The opinion of such auditor, however, excluded the restatements to financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements as at and for the year ended December 31, 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Manual Monitoring of Loans and Receivables
While the automated Loan Management System is being developed, the Bank has continued to utilize its traditional procedures and processes in maintaining loan records. Outstanding loans and receivables as at December 31, 2018 amounting to ₱25,883.9 million, net of allowance for credit and impairment losses, represent 17% of the Bank's total assets. Moreover, the related interest income on loans and receivables amounting to ₱1,443.4 million represents 26% of the total revenue.

Due to the significant volume of transactions and various payment terms and conditions of the loan accounts, additional measures were taken to ensure the completeness and validity of the loans and receivables, accuracy of the interest income, recognition of accrued interest, and timely and proper monitoring of loan account status.

Our audit procedures included, among others, (a) obtaining an understanding of the recording and loan administration processes; (b) verifying the excel summary of significant loan accounts prepared by the Bank by comparing the same with relevant loan documents and ensuring completeness of loan records; (c) re-computing the interest income of significant loan accounts in accordance with the terms and conditions reflected in loan summaries; (d) re-computing accrued interest; and (e) validating the status of the significant loan accounts on a sample basis.

The potential effect of item (e) in the allowance for impairment and credit losses are addressed in the discussion of key audit matter relating to the "Adequacy of Allowance for Provision for Credit and Impairment Losses on Loans and Receivables."

The relevant disclosures affecting loans and receivables and interest income are presented in Note 9 to financial statements.

Adequacy of Allowance for Credit and Impairment Losses
The Bank adopted the expected credit loss (ECL) model under PFRS 9, *Financial Instruments,* on January 1, 2018. This resulted to transition adjustment on the allowance for credit and impairment losses on financial assets amounting to ₱521.2 million. Provision for credit and impairment losses in 2018 amounted to ₱453.0 million.

The Bank's adoption of the ECL model is significant to our audit because it involves the exercise of significant management judgment which include, among others, (a) determining the appropriate groupings of the Bank's credit risk exposures to establish the portfolio of counterparties with similar credit risk characteristics; (b) defining what constitutes a default; (c) determining the appropriate method to estimate the ECL; (d) identifying the exposures with significant increase in credit risk; (e) determining the relevant assumptions to be used in the ECL model; and (f) incorporating the appropriate forward-looking information in the ECL calculation.

Our audit procedures include understanding the methodologies and ECL model used by the Bank and assessing the compliance with the key requirements of PFRS 9. We have performed an assessment of the significant management judgment incorporated in and used in the preparation of ECL model.

We have also assessed the reliability of the data used in the ECL model through inspecting the source data. On a sample basis, we have also performed recalculation of the allowance and provision for credit and impairment losses.

We also checked the adequacy of disclosures made by the Bank in relation to adoption of the new impairment requirements of PFRS 9 and the discussion of the methodologies used and the related financial impact as disclosed in Notes 2, 4 and 13 to financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, but does not include the financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information identified in the foregoing when these become available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with PFRS, 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.

Auditors' 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 auditors' 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 PSA 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, these could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with PSA, 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 auditors' 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 auditors' 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 audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore considered key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REYES TACANDONG & CO.

Haydee M. Reyes

HAYDEE M. REYES
Partner
CPA Certificate No. 83522
Tax Identification No. 102-095-265-000
BOA Accreditation No. 4782; Valid until August 15, 2021
SEC Accreditation No. 0663-AR-3 Group A
Valid until August 30, 2020
BIR Accreditation No. 08-005144-006-2017
Valid until January 13, 2020
PTR No. 7334335
Issued January 3, 2019, Makati City

May 14, 2019
Makati City, Metro Manila

PHILTRUST BANK (PHILIPPINE TRUST COMPANY)

STATEMENTS OF FINANCIAL POSITION

As at December 31, 2018 and 2017

Amounts in Thousands

	Note	**2018**	2017
ASSETS			
Cash and Other Cash Items	6	**₱1,134,062**	₱828,754
Due from Bangko Sentral ng Pilipinas	6	**18,390,980**	25,498,556
Due from Other Banks	6	**3,491,325**	4,129,546
Securities Purchased under Resale Agreement	7	**25,680,000**	21,709,185
Investment Securities	8	**73,008,275**	71,549,696
Loans and Receivables	9	**25,883,909**	24,903,786
Bank's Premises, Furniture, Fixtures and Equipment	10	**2,751,645**	2,692,883
Investment Properties	11	**1,398,516**	1,422,764
Deferred Tax Assets	25	**1,064,439**	1,011,204
Other Assets	12	**207,395**	211,499
		₱153,010,546	₱153,957,873
LIABILITIES AND EQUITY			
Liabilities			
Deposit Liabilities	14	**₱131,177,088**	₱129,664,330
Manager's Checks		**111,968**	127,460
Accrued Taxes, Interest and Other Expenses	15	**299,365**	276,828
Retirement liability	20	**6,875**	7,228
Other Liabilities	16	**264,673**	191,602
Total Liabilities		**131,859,969**	130,267,448
Equity			
Capital Stock	17	**10,000,000**	10,000,000
Reserves	17	**72,320**	72,320
Surplus		**12,119,760**	11,817,160
Other Equity Reserves		**(1,041,503)**	1,800,945
Total Equity		**21,150,577**	23,690,425
		₱153,010,546	₱153,957,873

See accompanying Notes to Financial Statements.

PHILTRUST BANK (PHILIPPINE TRUST COMPANY)

STATEMENTS OF INCOME

For the Years Ended December 31, 2018 and 2017

(With Comparative Figures for 2016)

Amounts in Thousands, Except Basic and Diluted Earnings Per Share

	Note	**2018**	2017	2016
INTEREST INCOME ON:				
Investment securities	8	**₱3,114,408**	₱2,911,717	₱2,702,747
Loans and receivables	9	**1,443,370**	1,586,537	1,822,170
Deposits from Bangko Sentral ng Pilipinas and other banks	6	**855,855**	1,125,094	654,044
Securities purchased under resale agreement	7	**245,134**	105,743	450,783
		5,658,767	5,729,091	5,629,744
INTEREST EXPENSE ON DEPOSIT LIABILITIES	14	**3,220,591**	2,739,342	2,861,910
NET INTEREST INCOME		**2,438,176**	2,989,749	2,767,834
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES	13	**453,027**	477,205	519,101
OTHER INCOME				
Gain on sale of investment securities	8	**1,082,984**	859,162	599,614
Net foreign exchange gains		**117,949**	46,772	39,747
Service charges and commissions		**85,735**	59,983	52,214
Others	19	**144,988**	566,497	234,653
		1,431,656	1,532,414	926,228
OPERATING EXPENSES				
Compensation and employee benefits	20	**871,534**	900,679	822,242
Occupancy and equipment-related expenses	21	**145,726**	219,904	200,899
Others	22	**1,114,101**	978,860	845,269
		2,131,361	2,099,443	1,868,410
INCOME BEFORE INCOME TAX		**1,285,444**	1,945,515	1,306,551
INCOME TAX EXPENSE	25	**461,682**	333,756	239,746
NET INCOME		**₱823,762**	₱1,611,759	₱1,066,805
BASIC AND DILUTED EARNINGS PER SHARE	18	**₱0.82**	₱1.61	₱1.07

See accompanying Notes to Financial Statements.

PHILTRUST BANK (PHILIPPINE TRUST COMPANY)

STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2018 and 2017

(With Comparative Figures for 2016)

Amounts in Thousands

	Note	**2018**	2017	2016
NET INCOME		**₱823,762**	₱1,611,759	₱1,066,805
OTHER COMPREHENSIVE LOSS				
Items to be reclassified to profit or loss:				
Net unrealized loss on fair value changes of debt securities	8	**(3,353,601)**	(391,513)	(1,865,782)
Translation adjustment		**(80,286)**	(121,141)	201,427
Items not to be reclassified to profit or loss:				
Net unrealized loss on fair value changes of equity securities	8	**(262,936)**	–	–
Remeasurement gain on retirement liability, net of deferred tax	20	**328**	1,099	89
		(3,696,495)	(511,555)	(1,664,266)
TOTAL COMPREHENSIVE INCOME (LOSS)		**(₱2,872,733)**	₱1,100,204	(₱597,461)

See accompanying Notes to Financial Statements.

PHILTRUST BANK (PHILIPPINE TRUST COMPANY)

STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2018 and 2017

(With Comparative Figures for 2016)

Amounts in Thousands

	Note	**2018**	2017	2016
CAPITAL STOCK	17	**₱10,000,000**	₱10,000,000	₱10,000,000
RESERVES	17	**72,320**	72,320	72,320
SURPLUS				
Balance at beginning of year:				
As previously reported		**11,817,160**	10,405,401	9,538,596
Prior period adjustment on Philippine Financial Reporting Standard 9 adoption	2	**(521,162)**		
As restated		**11,295,998**	10,405,401	9,538,596
Net income		**823,762**	1,611,759	1,066,805
Cash dividends	17	**–**	(200,000)	(200,000)
Balance at end of year		**12,119,760**	11,817,160	10,405,401
OTHER EQUITY RESERVES				
Cumulative Unrealized Gain (Loss) on Fair Value Changes of Investment Securities	8			
Balance at beginning of year				
As previously reported		**1,458,091**	1,849,604	3,715,386
Prior period adjustment on Philippine Financial Reporting Standard 9 adoption	2	**854,047**	–	–
As restated		**2,312,138**	1,849,604	3,715,386
Net unrealized losses		**(3,616,537)**	(391,513)	(1,865,782)
Balance at end of year		**(1,304,399)**	1,458,091	1,849,604
Cumulative Translation Adjustment				
Balance at beginning of year		**335,186**	456,327	254,900
Translation adjustment		**(80,286)**	(121,141)	201,427
Balance at end of year		**254,900**	335,186	456,327
Cumulative Remeasurement Gain on Retirement Liability	20			
Balance at beginning of year		**7,668**	6,569	6,480
Net remeasurement gain		**328**	1,099	89
Balance at end of year		**7,996**	7,668	6,569
		(1,041,503)	1,800,945	**2,312,500**
		₱21,150,577	₱23,690,425	₱22,790,221

See accompanying Notes to Financial Statements.

PHILTRUST BANK (PHILIPPINE TRUST COMPANY)

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2018 and 2017

(With Comparative Figures for 2016)

Amounts in Thousands

	Note	**2018**	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**₱1,285,444**	₱1,945,515	₱1,306,551
Adjustments for:				
Amortization of investment securities	8	**(1,825,521)**	514,015	(234,181)
Gain on sale of:				
Investment securities	8	**(1,082,984)**	(859,162)	(599,614)
Investment properties	19	**(45,672)**	(476,265)	(89,238)
Bank's premises, furniture, fixtures and equipment	10	**(143)**	(666)	(14,699)
Provision for credit and impairment losses	13	**453,027**	477,205	519,101
Depreciation and amortization	10	**74,792**	148,136	124,869
Retirement benefits	20	**48,760**	47,073	45,470
Dividend income	19	**(23,506)**	(23,841)	(23,817)
Operating income (loss) before working capital changes		**(1,115,803)**	1,772,010	1,034,442
Decrease (increase) in:				
Loans and receivables		**(2,017,466)**	(381,946)	(2,251,932)
Other assets		**95**	6,124	(27,317)
Increase (decrease) in:				
Deposit liabilities		**1,512,758**	(414,363)	18,015,545
Manager's checks		**(15,492)**	154,530	30,572
Accrued taxes, interest and other expenses		**22,537**	42,924	30,017
Other liabilities		**61,621**	55,954	(74,348)
Net cash generated from (used for) operations		**(1,551,750)**	1,235,233	16,756,979
Income tax paid		**(517,064)**	(475,344)	(388,442)
Contributions to the retirement fund	20	**(48,645)**	(46,852)	(45,264)
Net cash provided by (used in) operating activities		**(2,117,459)**	713,037	16,323,273
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to:				
Investment securities	8	**(10,250,825)**	(23,814,382)	(13,201,220)
Bank's premises, furniture, fixtures and equipment	10	**(142,393)**	(80,752)	(174,669)
Proceeds from:				
Sale of financial assets at fair value through other comprehensive income/available-for-sale financial assets	8	**8,840,833**	7,437,472	6,395,479
Sale of investment properties	11	**220,850**	2,230,517	136,804
Maturities/disposal of financial assets at amortized cost/ held-to-maturity investments	8	**20,243**	2,031,537	2,158,822
Sale of bank's premises, furniture, fixtures and equipment		**15,857**	10,400	17,710
Dividend received		**23,506**	23,841	23,817
Net cash used in investing activities		**(1,271,929)**	(12,161,367)	(4,643,257)

(Forward)

	Note	**2018**	2017	2016
CASH FLOWS FROM A FINANCING ACTIVITY				
Cash dividends paid	17	**₱–**	(₱200,000)	(₱200,000)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(80,286)**	(121,141)	201,427
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(3,469,674)**	(11,769,471)	11,681,443
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
Cash and other cash items		**828,754**	755,071	770,763
Due from Bangko Sentral ng Pilipinas		**25,498,556**	29,267,559	29,589,835
Due from other banks		**4,129,546**	4,328,231	3,001,471
Securities purchased under resale agreement		**21,709,185**	29,584,651	18,892,000
		52,166,041	63,935,512	52,254,069
CASH AND CASH EQUIVALENTS AT END OF YEAR				
Cash and other cash items		**1,134,062**	828,754	755,071
Due from Bangko Sentral ng Pilipinas		**18,390,980**	25,498,556	29,267,559
Due from other banks		**3,491,325**	4,129,546	4,328,231
Securities purchased under resale agreement		**25,680,000**	21,709,185	29,584,651
		₱48,696,367	₱52,166,041	₱63,935,512
OPERATING CASH FLOWS FROM INTEREST				
Interest received		**₱5,669,635**	₱5,655,289	₱5,635,117
Interest paid		**3,200,293**	2,741,967	2,858,336
NONCASH INFORMATION				
Foreclosure of investment properties	11	**₱153,796**	₱192,934	₱46,236

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS
(With Comparative Information for 2016)

1. General Information

Philtrust Bank (Philippine Trust Company) (the Bank) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) and Bangko Sentral ng Pilipinas (BSP). The Bank is primarily engaged in commercial and investment banking. The Bank offers a wide range of products and services such as deposit products, loans, international, treasury and trust functions. The Bank also provides investment management, estate administration, escrow services, insurance and pension plans, stock registry and transfer services.

The Bank is one of the oldest private commercial banks in the Philippines and originally issued with a Certificate of Incorporation by the SEC on October 21, 1916. The Bank's corporate life was extended to another 50 years from October 21, 2016.

The Bank has its primary listing on the Philippine Stock Exchange, Inc. (PSE) on February 17, 1988.

The Bank was conferred full universal bank status on June 5, 2007.

As at December 31, 2018 and 2017, the Bank operates a total of 61 branches, with 65 automated teller machines (ATM): 45 on-site distributed at its head office and branches and 20 off-site.

The Bank has a wholly owned subsidiary, Muralla Grande, Inc. (MGI), which is primarily engaged in real estate business. On July 31, 2018, the Board of Directors (BOD) approved the closure of business and dissolution of MGI. As at December 31, 2018, the Bank is still awaiting approval of the Bureau of Internal Revenue (BIR) and the SEC on the corporate dissolution of MGI.

The principal office of the Bank is at 1000 United Nations Avenue corner San Marcelino St., Manila.

Approval of the Financial Statements
The financial statements of the Bank as at and for the years ended December 31, 2018 and 2017 (with comparative figures for 2016) were approved and authorized for issuance by the BOD on May 14, 2019, as recommended for approval by the Audit Committee on the same date.

2. Summary of Significant Accounting Policies

Basis of Preparation and Statement of Compliance
The financial statements have been prepared in compliance with the Philippine Financial Reporting Standards (PFRS) issued by the Financial Reporting Standards Council and adopted by the SEC. This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS), Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC), and the SEC provisions.

The Bank prepares and issues consolidated financial statements as at and for the years ended December 31, 2017 and 2016 in accordance with PFRS. Due to the BOD approval of the liquidation of MGI in 2018 as discussed in Note 1, the Bank elected not to prepare consolidated financial statements as at and for the year ended December 31, 2018.

Measurement Bases
The financial statements have been prepared on a historical cost basis, except for financial assets measured at fair value through other comprehensive income (FVOCI), and retirement liability that is carried at the present value of defined benefit obligation.

Historical cost is generally based on the fair value of the consideration given in exchange of assets and fair value of the consideration received in exchange for incurring liability. 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 the measurement date.

The Bank uses market observable data as far as possible when measuring the fair value of an asset or a liability. Fair values are categorized into different levels in a fair value hierarchy based on inputs used in the valuation techniques as follows:

- Level 1 - quoted (unadjusted) market prices in active market 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;

- Level 3 - valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Bank recognizes transfers between levels of the fair value hierarchy at the end of the reporting year during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in Note 4*, Financial Risk Management.*

Functional and Presentation Currency
Items in the financial statements of each entity in the Bank are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Philippine Peso, which is the Bank's functional currency.

The financial statements of the Bank include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of the RBU and FCDU is the Philippine Peso and United States Dollar (USD), respectively. For financial reporting purposes, the FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalent amounts in Philippine Peso. The financial statements of RBU and FCDU are combined after eliminating inter-unit accounts. All values are rounded to the nearest thousands, except when otherwise indicated.

Presentation of Financial Statements
The Bank presents its statement of financial position broadly in the order of liquidity. An analysis of recoveries or settlements within 12 months (current) after the reporting date is presented in Note 4, *Financial Risk Management.*

Adoption of New and Amended PFRS
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS effective January 1, 2018.

- PFRS 9, *Financial Instruments* – This standard replaces PAS 39, *Financial Instruments: Recognition and Measurement* (and all the previous versions of PFRS 9). It provides requirements for the classification and measurement of financial assets and liabilities, impairment, hedge accounting, recognition, and derecognition.

  - For financial assets, PFRS 9 requires all recognized financial assets to be subsequently measured at amortized cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which these are held and its contractual cash flow characteristics.

  - For financial liabilities, the most significant effect of PFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at FVPL that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

  - For the impairment of financial assets, PFRS 9 introduces an “expected credit loss” (ECL) model based on the concept of providing for expected losses at inception of a contract; recognition of a credit loss should no longer wait for there to have an objective evidence of impairment.

  - For hedge accounting, PFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and nonfinancial risk exposures.

  - The derecognition provisions are carried over almost unchanged from PAS 39.

Transition. As allowed under the transitory provisions of PFRS 9, the Bank applied the requirements of PFRS 9 retrospectively but opted not to restate the comparative information. The reclassification of the government securities resulting from the adoption of PFRS 9 resulted to reversal of cumulative unrealized gain on fair value changes on investment securities against the carrying amount of available-for-sale (AFS) financial assets as at January 1, 2018.

The allowance for credit and impairment losses on financial assets and surplus as at January 1, 2018 were adjusted as a result of the adoption of PFRS 9.

Classification and Measurement. Based on the Bank’s analysis of its business model and the contractual cash flow characteristics of its financial assets and liabilities as at January 1, 2018, the Bank has concluded that all of its financial assets and liabilities shall continue to be measured on the same basis as under PAS 39, except for some of its government securities.

The following table shows the classification and measurement categories under PAS 39 and the new classification and measurement categories under PFRS 9 for each class of the Bank's financial assets as at January 1, 2018.

Classification under PAS 39	Balance at December 31, 2017	Note	PFRS 9 Classification January 1, 2018 Financial Assets at FVOCI	Amortized Cost
Loans and Receivables:		(i)		
Cash and other cash items	₱828,754		₱–	₱828,754
Due from Bangko Sentral ng Pilipinas	25,498,556		–	25,498,556
Due from other banks	4,129,546		–	4,129,546
Securities purchased under resale agreement	21,709,185		–	21,709,185
Loans and receivables	24,903,786		–	24,903,786
Investment Securities:				
Available-for-sale financial assets		(ii)		
Government securities	63,253,159		33,005,151	30,248,008
Corporate bonds	2,797,741		2,797,741	–
Quoted equity securities	2,072,061		2,072,061	–
Unquoted equity securities	168		168	–
Held-to-maturity investments		(iii)		
Government securities	2,721,175		–	2,721,175
Corporate bonds	705,392		–	705,392
	₱148,619,523		₱37,875,121	₱110,744,402

(i) Financial assets that were previously classified as loans and receivables under PAS 39 will continue to be measured at amortized cost. These financial assets are held within a business model whose objective is to collect contractual cash flows representing solely payments of principal and interest.

(ii) Upon reassessment of business model, the Bank reclassified some of its government securities from AFS financial assets to financial assets at amortized cost. Prior period adjustment to the carrying amount of investment securities and cumulative unrealized gain on fair value changes of investment securities as at January 31, 2018, the date of reclassification, amounted to ₱854.0 million (see Note 8).

The Bank's corporate bonds and equity securities previously classified under AFS financial assets in PAS 39 will continue to be measured at fair value under PFRS 9. These investments are held for strategic purposes. As permitted by PFRS 9, the Bank made an irrevocable designation to present in other comprehensive income the changes in fair value of these investments. Unlike PAS 39, the accumulated gains or losses presented in other comprehensive income related to these investments will not be subsequently reclassified to profit or loss.

(iii) Held-to-maturity (HTM) investments under PAS 39 will continue to be measured at amortized cost. These financial assets are held within a business model whose objective is to collect contractual cash flows representing solely payments of principal and interest.

The Bank has not designated any financial liabilities at FVPL. There are no changes in classification and measurement for the Bank's financial liabilities.

Impairment. The Bank has determined that the application of the new requirements for impairment under PFRS 9 resulted to an additional allowance for credit and impairment losses on financial assets amounting to ₱521.2 million as deduction against surplus as at January 31, 2018 (see Note 13).

Hedging. The Bank does not have hedging transaction as at January 1, 2018.

- PFRS 15, *Revenue from Contract with Customers* – The new standard replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue* and related interpretations. It establishes a single comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (e.g. the point at which revenue is recognized, accounting for variable considerations, costs of fulfilling and obtaining a contract, etc.). An amendment to PFRS 15 was issued to provide clarifications on the following topics: (a) identifying performance obligations; (b) principal versus agent considerations; and (c) licensing. The amendments also provide some transition relief for modified contracts and completed contracts.

  The Bank applied the retrospective approach upon adoption of PFRS 15. The application of PFRS 15 did not impact the timing or amount of revenue recognized from contracts with customers and the related assets and liabilities recognized by the Bank. Additional disclosures have been included in the notes to financial statements, as applicable.

- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration* – The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a nonmonetary asset or nonmonetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or nonmonetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

  The adoption of IFRIC 22 did not have any materially effect on the Bank's financial statements.

New and Amended PFRS Issued But Not Yet Effective
Relevant new and amended PFRS, which are not yet effective for the year ended December 31, 2018 and have not been applied in preparing the financial statements, are summarized below.

Effective for annual periods beginning on or after January 1, 2019:

- PFRS 16, *Leases* – The most significant change introduced by the new standard is that almost all leases will be brought onto lessees' statement of financial position under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance lease is retained.

  For the Bank's non-cancellable operating lease commitments as at December 31, 2018, a preliminary assessment indicates that these arrangements will continue to meet the definition of a lease under PFRS 16. Thus, the Bank will have to recognize a right-of-use asset and a corresponding liability in respect of all these leases - unless these qualify for low value or short-term leases upon the application of PFRS 16 – which might have a significant impact on the amounts recognized in the Bank's financial statements. However, it is not practicable to provide a reasonable estimate of that effect until the Bank completes the review.

- Amendments to PFRS 9, *Financial Instruments - Prepayment Features with Negative Compensation* – The amendments allow entities to measure particular prepayable financial assets with negative compensation at amortized cost or at FVOCI (instead of at FVPL) if a specified condition is met.

  It also clarifies the requirements in PFRS 9, *Financial Instruments,* for adjusting the amortized cost of a financial liability when a modification or exchange does not result in its derecognition (as opposed to adjusting the effective interest rate).

  Under prevailing circumstances, the adoption of this PFRS is not expected to have any material effect on the financial statements of the Bank.

Financial Instruments

Date of Recognition. The Bank recognizes a financial asset or a liability in the statement of financial position when the Bank becomes a party to the contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable,
is done using settlement date accounting.

Initial Recognition and Measurement. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at FVPL, includes transaction cost.

"Day 1" Difference. Where the transaction in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Bank recognizes the difference between the transaction price and fair value (a "Day 1" difference) in profit or loss. In cases where there is no observable data on inception, the Bank deems the transaction price as the best estimate of fair value and recognizes "Day 1" difference in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the "Day 1" difference.

Financial Assets

Classification. Effective January 1, 2018, the Bank classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) financial assets at amortized cost and (c) financial assets at FVOCI. The classification of a financial asset largely depends on its contractual cash flow characteristics and the Bank's business model. Prior to January 1, 2018, financial assets are categorized as: (a) financial assets at FVPL (b) HTM investments, (c) loans and receivables and (d) AFS financial assets. The classification depends on the purpose for which the financial assets are acquired and whether the instruments are quoted in an active market, and for HTM investments, the ability and intention to hold the investment until maturity.

Financial Assets at FVPL. Financial assets that do not meet the criteria for being measured at amortized cost or FVOCI are classified under this category. Specifically, financial assets at FVPL include financial assets that are (a) held for trading, (b) designated upon initial recognition at FVPL, or (c) mandatorily required to be measured at fair value.

Financial assets are classified as held for trading if these are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless these are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt securities to be classified at amortized cost or at FVOCI, debt securities may be designated at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are measured at fair value at each reporting date, with any fair value gains or losses recognized in profit or loss to the extent these are not part of a designated hedging relationship.

The Bank does not have financial assets at FVPL as at December 31, 2018 and 2017.

Financial Assets at Amortized Cost. Financial assets should be measured at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

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

After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process. Financial assets at amortized cost are included under current assets if realizability or collectability is within 12 months after the reporting period. Otherwise, these are classified as noncurrent assets.

Cash and other cash items, due from Bangko Sentral ng Pilipinas (BSP) and other banks, securities purchased under resale agreement, loans and receivables and certain government securities and corporate bonds are classified under this category.

Prior to January 1, 2018, the Bank's cash and other cash items, due from BSP and other banks, securities purchased under resale agreement, and loans and receivables were previously classified as loans and receivables under PAS 39, while certain government securities and corporate bonds were previously classified as HTM investments. These are carried at amortized cost using the effective interest method, less any allowance for credit and impairment losses.

Debt Securities at FVOCI. For debt securities that are not designated at FVPL under the fair value option, the financial assets should be measured at FVOCI if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and sell the financial assets; and

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

Certain debt securities are initially measured at fair value plus transaction costs. After initial recognition, interest income (calculated using the effective interest rate method), foreign currency gains or losses and impairment losses of debt securities measured at FVOCI are recognized directly in profit or loss. When the financial asset is derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment.

Certain investments in government securities and corporate bonds are included in this category. These were previously classified as AFS financial assets under PAS 39.

Equity Instruments at FVOCI. On initial recognition, equity instruments that are not held for trading may be irrevocably designated as a financial asset to be measured at FVOCI.

Dividends from equity instruments held at FVOCI are recognized in profit or loss when the right to receive payment is established, unless the dividend clearly represents a recovery of part of the cost of the investment. Foreign currency gains or losses and unrealized gains or losses from equity instruments are recognized in other comprehensive income and presented in the equity section of the statement of financial position. These fair value changes are recognized in equity and are not reclassified to profit or loss in subsequent years.

Quoted and unquoted equity securities are classified under this category.

Prior to January 1, 2018, AFS financial assets under PAS 39 are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of AFS financial assets are reported as other comprehensive income (loss) in the statement of comprehensive income and in the equity section of the statement of financial position. These changes in fair values are recognized in equity until the investment is sold, collected, or otherwise disposed of or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in profit or loss.

Reclassification. The Bank reclassifies its financial assets when, and only when, the Bank changes its business model for managing those financial assets. The reclassification is applied prospectively from the first day of the first reporting year following the change in the business model (reclassification date).

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVOCI, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in OCI.

For a financial asset reclassified out of the financial assets at FVOCI category to financial assets at amortized cost, the financial asset is reclassified at its fair value at the reclassification date, and the cumulative gain or loss previously recognized in OCI is removed from equity and adjusted against the fair value of the financial asset at the reclassification date.

In the case of a financial asset that does not have a fixed maturity, the gain or loss should be recognized in profit or loss when the financial asset is sold or disposed. If the financial asset is subsequently impaired, any previous gain or loss that has been recognized in OCI is reclassified from equity to profit or loss.

Prior to January 1, 2018, the Bank may reclassify certain financial assets when there is a change in intention, subject to certain requirements as provided under PAS 39.

Impairment. The Bank recognizes an allowance for ECL for all financial assets not measured at FVPL. ECL is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Bank expects to receive. The difference is then discounted at an approximation to the asset's original effective interest rate.

The Bank measures loss allowances at an amount the 12-month ECL for the following:

- Debt securities that are determined to have low credit risk at the reporting date; and

- Loans to customers and other financial instruments on which credit risk has not increased significantly since initial recognition.

The Bank considers its investment in debt securities to have a low credit risk when its credit risk rating is equivalent to "investment grade."

The 12-month ECL is the portion of ECL that results from default events on financial assets that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognized are referred to as "Stage 1 financial assets."

However, when there has been a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime ECL. Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognized but which are not credit-impaired are referred to as "Stage 2 financial assets." When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial asset as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

At each reporting date, the Bank assesses whether financial assets carried at amortized cost are credit-impaired (referred to as "Stage 3 financial assets"). A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired is similar to the objective evidence of impairment or loss events referred to under PAS 39. ECL for credit-impaired financial assets is based on the difference between the gross carrying amount and present value of estimated future cash flows.

Loans and debt securities are written off when there is no reasonable expectation of recovering the financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Prior to January 1, 2018, an allowance for credit and impairment losses is recognized when a financial asset or a group of financial assets is deemed to be impaired, i.e., if, and only if, there is an objective evidence of impairment as a result of one or more events that have 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 the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If there is objective evidence that an impairment loss has been incurred on debt securities, the amount of the loss is measured as the excess of financial asset's carrying amount over its net realizable value, normally based on the present value of the estimated future cash flows from the financial asset.

For equity instruments classified as AFS financial assets, impairment would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value less any impairment loss on the financial asset previously recognized in profit or loss, is removed from equity and recognized in profit or loss.

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

- the right to receive cash flows from the asset has expired;
- the Bank retains the right to receive cash flows from the financial asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Bank has transferred its right to receive cash flows from the financial asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its right to receive cash flows from a financial asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Bank's continuing involvement in the financial asset. Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset and the maximum amount of consideration that the Bank could be required to repay.

Financial Liabilities

Classification. The Bank classifies its financial liabilities at initial recognition under the following categories: (a) financial liabilities at amortized cost and (b) financial liabilities at FVPL.

As at reporting date, the Bank does not have financial liabilities at FVPL.

Financial Liabilities at Amortized Cost. Financial liabilities are categorized as financial liabilities at amortized cost when the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.
These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or through the amortization process.

This category includes deposit liabilities, manager's check, accrued taxes, interest and other expenses and other liabilities (excluding statutory liabilities). These were previously classified as other liabilities under PAS 39.

Classification of Financial Instrument between Liability and Equity. A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;

- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Bank; or

- Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Bank does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Derecognition. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

A modification is considered substantial if the present value of the cash flows under the new terms, including net fees paid or received and discounted using the original effective interest rate, is different by at least 10% from the discounted present value of remaining cash flows of the original liability.

The fair value of the modified financial liability is determined based on its expected cash flows, discounted using the interest rate at which the Bank could raise debt with similar terms and conditions in the market. The difference between the carrying value of the original liability and fair value of the new liability is recognized in profit or loss.

On the other hand, if the difference does not meet the 10% threshold, the original debt is not extinguished but merely modified. In such case, the carrying amount is adjusted by the costs or fees paid or received in the restructuring.

Offsetting of Financial Assets and Liabilities
Financial assets and liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Repurchase and Reverse Repurchase Agreements
Securities sold subject to repurchase agreements are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits from banks or deposits from customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities purchased under agreements to resell are recorded as loans and receivables to BSP, other banks or to customers and included in the statement of financial position under loans and receivables. Securities lent to counterparties are also retained in the financial statements.

Bank's Premises, Furniture, Fixtures and Equipment
Land is stated at cost less any impairment in value. Depreciable properties are stated at cost less accumulated depreciation, amortization and any impairment in value.

Historical cost includes expenditure that is directly attributable to the acquisition of the items which comprises its purchase price, import duties and any directly attributable costs of bringing the assets to its working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or are recognized as separate assets, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the asset can be measured reliably. All other repairs and maintenance are charged to profit or loss during the year in which these are incurred.

Depreciation and amortization are calculated using the straight-line method to allocate cost or residual values over the estimated useful lives as follows:

	Number of Years
Buildings and improvements	25
Furniture, fixtures and equipment	5
Transportation equipment	5

The assets' estimated useful lives and depreciation and amortization method are reviewed and adjusted if appropriate, at each reporting date. Assets are reviewed for impairment whenever assets or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset in carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than the estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use.

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

An item of the Bank's premises, furniture, fixtures and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss, in the year the item is derecognized.

Investment Properties

Investment properties consist of foreclosed properties and properties held for capital appreciation that are not occupied by the Bank.

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired, unless the fair value of such an asset cannot be measured, in which case the investment property acquired is measured at carrying amount of the asset given up. Foreclosed properties are recognized as "Investment properties" upon: (a) entry of judgment in case of judicial foreclosure; (b) execution of Certificate of Sale in case of extra-judicial foreclosure; or (c) notarization of the "Deed of Dacion" in case dation in payment (dacion en pago). Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation, and any impairment in value. Land is carried at cost less any impairment losses.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged to profit or loss in the year in which the costs are incurred.

Depreciation is calculated on a straight-line basis using the remaining useful life from the time of acquisition of the investment properties but not to exceed 10 years for both buildings and condominium units, except if significant renovation is made thereon and the useful life of the building is expended.

Transfers are made to investment properties when, and only when, there is a change in use evidenced by ending of owner occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner occupation or commencement of development with view to sale.

Investment properties are derecognized when these have either been disposed of or when the investment properties are permanently withdrawn from use and no future benefit is expected from their disposal. Any gains or losses on the retirement or disposal of investment properties are recognized in profit or loss in the year of retirement or disposal. Gains and losses on retirement or disposal are determined by comparing proceeds with carrying amount.

Computer Software

Computer software is measured on initial recognition at cost. Subsequently, computer software is measured at cost less accumulated amortization and any impairment losses. Internally-generated computer software, excluding capitalized development costs, is not capitalized and expenditures are recognized in profit or loss in the year in which the related expenditures are incurred.

Computer software is amortized using straight-line method over the useful life of five years and assessed for impairment whenever there is an indication that the computer software may be impaired. The amortization period and method used for computer software are reviewed annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimate. The amortization on computer software is recognized in profit or loss.

Gains or losses arising from the disposal of computer software are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

Impairment of Nonfinancial Assets

At each reporting date, the Bank assesses whether there is any indication of impairment on nonfinancial assets. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's (or cash-generating units) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount.

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 assessment of the time value of money and the risks specific to the asset (or cash-generating unit). In determining fair value lest cost to sell, recent market transactions are taken into account, if available. If no such transaction can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded entities or other available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such reversal, the depreciation and amortization are adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Revenue Recognition

Revenue from contracts with customers is recognized when the customer obtains control of the services at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those services. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be measured reliably.

The Bank also assesses its revenue arrangements to determine if it is acting as a principal or as an agent. The Bank has assessed that it acts as a principal in all of its revenue sources.

Revenue outside the scope of PFRS 15 is recognized as follows:

Interest Income. For all financial instruments measured at amortized cost, interest income is recorded using the effective interest rate. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective rate, transaction costs and all other premiums or discounts.

Under PFRS 9, when a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3, the Bank calculates interest income by applying the effective interest rate to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

Under PAS 39, once the recorded value of a financial asset or group of similar financial assets carried at amortized cost has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Gain on Sale of Investment Securities. Gain on sale of investment securities is recognized during the year the financial assets are sold.

Net Foreign Exchange Gains (Losses). Foreign exchange gains and losses arising from the settlement of such transactions or from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Rent Income. Rent income arising on leased properties is accounted for on a straight-line basis over the lease terms of ongoing leases and is recognized in profit or loss under "Other Operating Income."

Dividend Income. Dividend income is recognized when the Bank's right to receive payment is established.

The following specific recognition criteria must also be met before revenue within the scope of PFRS 15 is recognized:

Service Charges and Commissions. Service charges and penalties, which are presented under "Service charges and commissions" in profit or loss, are recognized only upon collection or accrued when there is a reasonable degree of certainty as to its collectibility. Commissions arising from providing transaction services are recognized upon completion of the transaction.

Gain or Losses from Assets Sold or Acquired. Income or loss from sale of properties acquired is recognized upon completion of the earning process and the collectibility of the sales price is reasonably assured. Gain or loss on foreclosure of properties is determined as the difference between the fair value upon foreclosure and the carrying amount of the loan. Gain or loss on foreclosure of properties is recognized when the risks and rewards of the property have been transferred to the Company.

Other Income. Revenue is recognized when earned.

Costs and Expense Recognition

Costs and expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Costs and expenses are recognized upon receipt of goods, utilization of services or when the costs and expenses are incurred.

Interest Expense. Interest expense is recognized in profit or loss using the Effective Interest Rate of the financial liabilities to which these relate.

Operating Expenses. Operating expenses constitute costs which arise in the normal business operations and are recognized when incurred.

Leases

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

- there is a change in contractual terms, other than a renewal or extension of the arrangement;
- a renewal option is exercised or an extension is granted, unless that term of the renewal or extension was initially included in the lease term;
- there is a change in the determination of whether fulfillment is dependent on a specified asset; or
- there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for any of the scenarios above, and at the date of renewal or extension period for the second scenario.

The Bank as a Lessee. Leases where the lessor retains substantially all the risks and rewards of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

The Bank as a Lessor. The Bank is also a party of operating leases as a lessor. Lease payments received are recognized as income in profit or loss on a straight-line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the year in which these are earned.

Employee Benefits

Short-term Benefits. Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognized for the amount expected to be paid under short-term cash bonus, short-term compensated absences or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be measured reliably.

Retirement Benefits. The Bank operates a funded, defined contribution (DC) plan covering its regular employees wherein the Bank pays a fixed contribution into a separate entity known as the trustee, which administers, manages and invests the funds. The Bank, is covered under Republic Act (RA) No. 7641, *Retirement Law*, which provides for its qualified employees a defined benefit (DB) minimum guarantee. The DB minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of RA No. 7641.

The Bank accounts for its retirement obligation higher of the DB obligation relating to the minimum guarantee and the DC plan. For the DB minimum guarantee plan, the liability is determined based on the present value of the excess of the projected DB obligation over the projected DC obligation at the end of the reporting year. The DB obligation is calculated annually by a qualified independent actuary using the projected unit credit method. The Bank determines the net interest expense (income) on the net DB liability (asset) for the year by applying the discount rate used to measure the DB obligation at the beginning of the year to the then net DB liability (asset), taking into account any changes in the net DB liability (asset) during the year as a result of contributions and benefit payments. Net interest expense and other expenses related to the DB plan are recognized in profit or loss.

The DC liability is measured at the fair value of the DC assets upon which the DC benefits depend, with an adjustment for any margin on asset returns where this is reflected in the DC benefits.

Remeasurements of the net DB liability, which comprise actuarial gains and losses, the return on unallocated plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Bank recognizes gains or losses on the settlement of a DB plan when the settlement occurs.

Income Taxes

The tax expense for the year comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Current Tax. Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the 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 Tax. Deferred tax is provided using the liability method on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences with certain exceptions. Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits from the excess of the minimum corporate income tax (MCIT) over the regular corporate income tax and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused MCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at the end of each reporting year and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are re-assessed at the end of each reporting year and are recognized to the extent that it has become probable that sufficient future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates applicable to the year when the asset is realized or the liability is settled, based on tax rates (tax base) and regulations that have been enacted or substantively enacted at the reporting date.

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

Equity

Capital Stock. Capital stock is measured at par value for all shares issued. When the shares are sold at premium, the difference between the proceeds and the par value is credited to the additional paid-in capital in equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

Reserves. Reserves pertain to a portion of the Bank's income from trust operations set-up on a yearly basis in compliance with the BSP regulations. Reserves also include of reserve for contingencies and self-insurance.

Surplus. Surplus includes current and prior year recognized in profit or loss.

Dividends Declaration. Dividend are recognized as a liability and deducted from equity when approved by the BOD of the Bank. Dividends for the year that are approved after year end are dealt with as an event after the reporting date.

Other Comprehensive Income (Loss)
Other comprehensive income (loss) comprises items of income and expenses (including items previously presented under equity) that are not recognized in profit or loss for the year in accordance with PFRS. Other comprehensive income (loss), which is presented as "Other equity reserves", pertains to cumulative unrealized gains (losses) on fair value changes of investment securities, cumulative remeasurement gains (losses) on retirement liability, and cumulative translation adjustment.

Foreign Currency Transactions

RBU. Transactions in currencies other than Philippine Peso are recorded at the rate of exchange prevailing on the date of the transaction. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing on the reporting date. Foreign exchange gains or losses are recognized in profit or loss in the year in which these are incurred.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

FCDU. As at the reporting date, the assets and liabilities of the FCDU are translated into the Bank's functional and presentation currency at the Philippine Dealing System (PDS) closing rate, and its income and expenses are translated at the PDS weighted average rate for the year. Exchange differences arising from translation to foreign currency are recognized as other comprehensive income under "Cumulative translation adjustment." Upon disposal of the FCDU or actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized as "Cumulative translation adjustment" in other comprehensive income is recognized in profit or loss.

Related Party Transactions
Parties are considered to be related if one party has the ability, directly or indirectly to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are based on terms similar to those offered to non-related parties.

Earnings per Share (EPS)
The Bank presents basic and diluted EPS data for its common shares. Basic EPS is computed by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential common shares, if any.

Fiduciary Activities
Assets and income arising from fiduciary activities together with related undertakings to return such assets to customers are excluded from the financial statements where the Bank acts in a fiduciary capacity such as nominee, trustee or agent.

Provisions

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. Where the Bank expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statements of income net of any reimbursement. If the effect of the time value of money 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 a borrowing cost.

Contingencies

A contingent asset is not recognized in the financial statements but disclosed in the notes to financial statements when an inflow of economic benefits is probable. Contingent liabilities are not recognized in the financial statements. These are disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefits is remote.

Events after the Reporting Year

The Bank identifies events after the end of the reporting year as those events, both favorable and unfavorable, that occur between the end of the reporting year and the date when the financial statements are authorized for issue. The financial statements of the Bank are adjusted to reflect those events that provide evidence of conditions that existed at the end of the reporting year. Non-adjusting events after the end of the reporting year are disclosed in the notes to financial statements, when material.

3. Significant Judgment, Accounting Estimates and Assumptions

The preparation of the financial statements requires management to exercise judgment, make estimates, and use assumptions that affect amounts of assets, liabilities, income and expenses reported in the financial statements and related disclosures. The judgments, estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances as at the date of the financial statements. While management believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the estimated amounts. Actual results could differ from such estimates.

Judgments

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

Determining Classification of Financial Assets. Classification of financial assets under PFRS 9 depends on the results of the business model test and sole payment of principal and interest test performed by the Bank.

The Bank exercises judgment in determining the business model to be used in managing its financial instruments to achieve their business objectives. Below are the factors considered by the Bank in its business model assessment:

- Specific business objectives in holding the financial assets,
- Whether income that can be generated from the financial assets can cover the cost of deposits,
- Policies in managing the risks of the financial assets,
- Expected frequency, value and timing of sales, and
- Key performance indicators of the financial assets.

The Bank also determines whether the contractual terms of debt securities classified and measured as financial assets at amortized cost give rise to specified dates to cash flows that are solely payments for principal and interest (SPPI), with interest representing time value of money and credit risk associated with the outstanding principal amount. Any other contractual term that changes the timing or amount of cash flows does not meet the SPPI test.

Prior to adoption of PFRS 9, the Bank exercises judgments in classifying a financial instrument upon initial recognition in accordance with the substance of the contractual arrangement and its definitions. The substance of a financial instrument, rather than its legal form, governs the classification in the statement of financial position.

Determining Functional Currency. The Bank uses its judgment to determine the functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Bank considers the following:

- the currency that mainly influences sales price for financial instruments and services or the currency in which sales prices for its financial instruments and services are denominated and settled;
- the currency in which funds from financing activities are generated; and
- the currency in which receipts from operating activities are usually retained.

Based on the foregoing and the economic substance of the underlying circumstances relevant to the Bank, the functional currency of the Bank has been determined to be the Philippine Peso, which is the currency of the primary economic environment in which the Bank operates.

Determining the Classification of Lease Agreements. The Bank has entered into various lease agreements as either a lessor or lessee. The Bank has determined that in all of these lease agreements, the lessor retains all significant risks and benefits of ownership over the leased properties. Accordingly, these leases are accounted for as operating leases.

Rent income amounted to ₱52.1 million and ₱45.3 million in 2018 and 2017, respectively (₱52.8 million in 2016) (see Note 23).

Rent expense amounted to ₱70.9 million and ₱71.8 million in 2018 and 2017, respectively (₱76.0 million in 2016) (see Note 21).

Evaluating Contingencies. The Bank is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Bank's defense in these matters and is based upon an analysis of potential results. Management does not believe that these proceedings will have a material adverse effect on its financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the financial reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised and in any future years affected.

Determining the Fair Values of Financial Instruments. PFRS requires certain financial assets and liabilities to be carried at fair value, which requires extensive use of accounting estimates. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in fair value would differ if the Bank utilized different valuation methodologies. Any changes in fair value of these financial assets would affect profit and loss and equity.

When the fair values of financial assets and liabilities recognized or disclosed in the financial statements cannot be derived from the active market, the fair values are determined using internal valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable market where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

The fair values of the Bank's financial instruments are disclosed in Note 4, *Financial Risk Management*.

Estimating Credit and Impairment Losses on Financial Assets. Credit and impairment losses on financial assets are based on ECL. In assessing the ECL, the Bank uses historical credit loss experience adjusted for forward-looking factors, as appropriate.

The Bank measures impairment loss based on the 12-month ECL for the following:

- Debt securities that are determined to have credit risk rating equivalent to "investment grade, and thus, a low credit risk at the reporting date.

- Receivables from customers and other financial instruments on which credit risk has not increased significantly since initial recognition.

The Bank measures impairment loss based on the lifetime ECL for receivables from customers for which credit risk has increased significantly since initial recognition, or when:

- The account is considered as loans especially mentioned based on the BSP guidelines.

- The account has missed payment for more than 30 days or seven days for consumer and commercial loans; respectively.

- The Internal Credit Risk Ratings (ICRR) is downgraded by two risk ratings.

In estimating impairment loss on debt securities at FVOCI and financial assets at amortized cost, the Bank estimates the amounts and timing of future cash flows and collateral values and the assessment of a significant increase in credit risk. Below are the components considered in the calculation of ECL.

- Net flow and default rates of receivables from customers based on historical experience of the Bank.

- ICRR and certain qualitative factors in determining whether there has been a significant increase in credit risk to determine when to measure lifetime credit losses.

- Latest fair values of collaterals and historical recovery rates of foreclosed assets for loss given default calculations.

- Segmentation of financial assets for collective assessment of ECL.

Evidence that a financial asset is credit-impaired include observable data about the following events:

- Significant financial difficulty of the issuer or the borrower.
- A breach of contract, such as a default or past due event.
- The lenders of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower concessions that the lenders would not otherwise consider.
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.
- The disappearance of an active market for that financial asset because of financial difficulties.
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event - instead, the combined effect of several events may have caused financial assets to become credit-impaired.

<u>Loans and Receivables</u>
Provision for credit and impairment losses on loans and receivables amounted to ₱435.7 million in 2018 (see Note 13). The carrying amount of loans and receivables and allowance for credit and impairment losses on loans and receivables amounted to ₱25,883.9 million and ₱3,980.8 million as at December 31, 2018, respectively (see Note 9).

The Bank recognized additional allowance for impairment losses on loans and receivables amounting to ₱447.8 million on January 1, 2018 upon adoption of PFRS 9 (see Note 13).

Under PAS 39, provision for credit and impairment losses on loans and receivables amounted to ₱477.2 million in 2017 (₱519.1 million in 2016) (see Note 13). The carrying amount of loans and receivables and allowance for credit and impairment losses amounted to ₱24,903.8 million and ₱3,097.3 million as at December 31, 2017, respectively (see Note 9).

In estimating credit and impairment losses on loans and receivables under PAS 39, the Bank reviews the individually significant loans and receivables at each reporting date to assess and estimate impairment losses. In particular, judgment by management is required in estimating the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgment about the borrower's financial situation and the net realizable value of the collateral covering the loans and receivables. These estimates are based on a number of factors and assumptions which may differ in the future and may result to changes to the required allowance for credit and impairment losses. The Bank uses its historical credit loss experience.

Debt securities at FVOCI
Reversal of allowance on impairment losses on debt securities at FVOCI was recognized in 2018 amounting to ₱4.5 million (see Note 13). The carrying amount and allowance for impairment losses of debt securities at FVOCI amounted to ₱32,120.4 million and ₱36.5 million as at December 31, 2018 (see Notes 8 and 13).

The Bank recognized an allowance for impairment losses on debt securities at FVOCI amounting to ₱41.0 million on January 1, 2018 upon adoption of PFRS 9 (see Note 13).

Prior to January 1, 2018, the Bank determines that AFS financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged decline requires judgment. In making this judgment, the Bank evaluates, among other factors, the future cash flows and the discount factor. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, dismal industry and sector performance, adverse changes in technology, and negative operational and financing cash flows.

No provision for impairment losses on AFS financial assets was recognized in 2017 and 2016. The carrying amount of AFS financial assets amounted to ₱68,123.1 million as at December 31, 2017 (see Note 8).

Financial Assets at Amortized Cost
Provision for impairment losses on government securities and corporate bonds classified under financial assets at amortized cost amounted to ₱8.3 million in 2018 (see Note 13). The carrying amount of financial assets at amortized cost and allowance for impairment amounted to ₱39,078.6 million and ₱40.7 million as at December 31, 2018, respectively (see Note 8).

The Bank recognized an allowance for impairment losses on financial assets at amortized cost amounting to ₱32.4 million on January 1, 2018 upon adoption of PFRS 9 (see Note 13).

Prior to January 1, 2018, the Bank determines that HTM investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged decline requires judgment. In making this judgment, the Bank evaluates, among other factors, the future cash flows and the discount factor. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, dismal industry and sector performance, adverse changes in technology, and negative operational and financing cash flows.

No provision for impairment losses on HTM investments was recognized in 2017 and 2016. The carrying amount of HTM investments amounted to ₱3,426.6 million as at December 31, 2017 (see Note 8).

Commitments and Other Contingent Assets

Provision for impairment losses on commitments and other contingent assets amounted to ₱13.5 million in 2018 (see Note 13). These pertain to various commitments and contingent assets which are not reflected in the accompanying financial statements.

Other Financial Assets at Amortized Cost

For other financial assets at amortized cost such as cash and other cash items and due from BSP and other banks, no allowance for credit impairment losses was recognized because these are placements with reputable counterparties that possess good ratings. The carrying amount of these financial assets aggregated to ₱23,016.4 million as at December 31, 2018 (see Note 6).

Distinction between Investment Properties and Owner-occupied Properties. The Bank determines whether a property qualifies as investment property. In making its judgment, the Bank considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

Some properties consist of a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production of services or for administrative purposes. If these portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production of services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Bank considers each property separately in making judgment.

The Bank classifies all properties which have a portion that is earning rentals and another portion which are used in production of services or used in administrative purposes as owner-occupied properties based on the criterion above. In this case, such properties were included under the "Bank's premises, furniture, fixtures and equipment" account.

Estimating Useful Lives of Investment Properties, Bank's Premises, Furniture, Fixtures and Equipment, and Computer Software. The Bank estimates the useful lives of investment properties, bank's premises, furniture, fixtures and equipment, and software cost, and for purposes of computing depreciation and amortization based on the year over which the assets are expected to be available for use. The estimated useful lives are reviewed annually and changed if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. However, it is possible that future results of operations could be materially affected by changes in factors mentioned in the foregoing. The amounts and timing of recorded expenses for any year would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the bank's premises, furniture, fixtures and equipment, investment properties, and software cost would increase the recorded expenses and decrease assets.

There was no change in the estimated useful lives of the investment properties, bank's premises, furniture, fixtures and equipment, and computer software. The carrying amounts of depreciable assets are as follows:

	Note	2018	2017
Bank's premises, furniture, fixtures and equipment*	10	**₱735,616**	₱714,906
Investment properties*	11	**49,221**	104,459
Computer software	12	**15,042**	7,231
		₱799,879	₱826,596

**Excluding land*

Assessing Impairment on Non-financial Assets. The Bank assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Bank considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;

- significant changes in the manner of use of the acquired assets or the strategy for overall business; and

- significant negative industry or economic trends.

The carrying values of the nonfinancial assets are:

	Note	2018	2017
Bank's premises, furniture, fixtures and equipment	10	**₱2,751,645**	₱2,692,883
Investment properties	11	**1,398,516**	1,422,764
Computer software	12	**15,042**	7,231
		₱4,165,203	₱4,122,878

Determining the Retirement Liability. The present value of the excess of the projected DB minimum guarantee over the projected DC obligation at the end of the reporting period depends on a number of factors that are determined on an actuarial basis. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of retirement obligations.

The Bank determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligations. In determining the appropriate discount rate, the Bank considers the interest rates of government securities that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related retirement obligation.

Other key assumptions for retirement obligations are based in part on current market conditions. Additional information is disclosed in Note 20.

As at December 31, 2018 and 2017, retirement liability amounted to ₱6.9 million and ₱7.2 million, respectively (see Note 20).

Assessing Realizability of Deferred Tax Assets. The Bank reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Any deferred tax asset will be re-measured if it might result in derecognition when the expected tax law to be enacted has a possible risk on the realization. Management believes that sufficient taxable profit will be generated to allow all or part of the deferred income tax assets to be utilized.

As at December 31, 2018 and 2017, deferred tax assets amounted to ₱1,064.4 million and ₱1,011.2 million, respectively (see Note 25).

As at December 31, 2018 and 2017, deferred tax assets amounting ₱866.0 million and ₱476.3 million, respectively, were not recognized (see Note 25). Management assessed that it is not probable that sufficient future taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

4. Financial Risk Management

The Bank has exposure to the following major risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

Risk Management Framework

The BOD of the Bank is responsible for establishing and maintaining a sound risk management system. It is the primary responsibility of the BOD to establish the risk culture and the risk management organization and incorporate the risk process as an essential part of the corporate strategic planning.

The Bank classifies the major risks that the Bank manages between quantifiable risks such as credit, liquidity and markets risks, and non-quantifiable risks such as operations risk, among others.

Through the direction of the BOD, the following comprise the risk management structure of the Bank:

Executive Committee. The Executive Committee plays the crucial role of analyzing, evaluating, and approving product attributes such as: market, liquidity and credit risk; operations risk; control and compliance; audit, legal and regulatory; and system and technology issues for new activities/products.

Risk Management Committee (RMC). The RMC is responsible for the creation and oversight of the Bank's corporate risk policy. It is tasked to identify and analyze the risks faced by the Bank, to set and recommend to the BOD the system of risk limits and controls, and to ensure that each business unit continuously monitors the adequacy and soundness of policies, assumptions and practices.

Budget, Asset and Liability Committee (BALCO). The BALCO ensures that at all times the Bank maintains adequate liquidity, sufficient capital and appropriate funding to meet all business requirements and complies with all regulatory requirements.

Credit and Loan Review Committee (CLRC). The CLRC is primarily responsible for credit risk management of the Bank. It establishes the standards for credit analysis, define credit risk measurements, establish internal risk ratings and review the credit risk infrastructure's ability to support the Bank's risk policies.

Risk Management Group (RMG). The RMG is an in independent business function to identify, analyze, and measure risks from the Bank's trading, position-taking, lending, borrowing, and other transactional activities.

Audit Committee (AC). The AC is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk managements system in placed in relation to the risks faced by the Bank. The Bank's AC is assisted in its oversight role by Internal Audit. Internal Audit (IA) undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the AC.

Credit Risk

Credit risk is the risk that a customer or counterparty will be unable or unwilling to pay obligations on time or in full as expected or previously contracted, subjecting the Bank to a financial loss. The goal of the Bank's credit risk management is to maximize the risk-adjusted rate of return by maintaining credit risk exposure within the approved parameters.

The Bank's credit risk covers mostly loan portfolio analysis, where the Bank employs risk management techniques to quantify and qualify cyclical versus specific risks for a given portfolio under potentially adverse economic conditions. Diversification against loan concentration, such as lending in a single geographic area or business sector, enables the Bank to manage risks associated with its largest exposures in the market.

Credit Risk Management

Measurement of Credit Risk. In measuring credit risk at a counterparty level, the Bank mainly relies on its sound lending philosophy and considers three components: (i) the probability of default by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development; and (iii) the likely recovery ratio on the defaulted obligations.

The Bank uses two statistical-based credit risk methodology in measuring credit risk namely: default-probability models, which predict future losses and thus anticipate provisioning and capital needs, and risk-adjusted return on capital (RAROC) techniques, which incorporate credit risk into the initial loan pricing and eventually evaluate the true economic capital needs of the Bank.

The Bank holds collateral on most of its loans and receivables in the form of mortgage interest over real property and deposits of the borrowers with the Bank. Estimates of fair value of the property are based on the value of collateral assessed at the time of borrowing, and are updated periodically or when a loan is individually assessed as impaired.

Credit risk exposure to financial assets is managed through detailed risk assessment of every credit exposure associated with a specific counterparty. The Bank also sets and frequently reviews compliance to transaction and counterparty limits, as well as lending authorities delegated to credit officers, to ensure that the Bank's portfolio or individual account credit risk is kept to acceptable levels.

Due from BSP and Other Banks and Securities Purchased Under Resale Agreement. The credit risk for due from BSP and other banks and securities purchased under resale agreement with BSP is not considered significant because the counterparties are the BSP, which is considered risk free, and reputable banks with high quality external credit ratings.

As at December 31, 2018, due from BSP and other banks and securities purchased under resale agreement are classified as "high grade" under Stage 1 financial assets.

Investments in Debt Securities. Investments in debt securities pertain to a portfolio of government securities and corporate bonds. ECL for these investments is determined using the probability of default provided in Bloomberg. Investments in debt securities are classified as "high grade" under Stage 1 financial assets.

Credit-Related Commitments . The primary purpose of these instruments is to ensure that funds are available to a customer as required. Standby letters of credit carry the same risk as loans. Documentary and commercial letters of credit - which are written undertaking by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions - are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Loans and Receivables. In respect of loans to borrowers, the Bank is not exposed to any significant credit risk to any single counterparty. Credit risk is determined by the Bank after considering historical, forward-looking information and credit enhancements on collaterals. The credit risk for loans and receivables are considered minimal since loans are fully covered by collaterals.

The amount and type of collateral required depend on the assessment of the credit risk of the borrower or counterparty. Guidelines are established and implemented regarding the acceptability of types of collateral valuation and parameters.

The Bank's policy is to dispose of foreclosed properties in the most expeditious manner possible. Sale is facilitated by offering incentives to the Bank's accredited brokers and through evaluating and offering credit terms, which includes reduced rates for down payment as compared to prevailing market rates.

Maximum Exposure to Credit Risk before Collaterals Held or Other Credit Enhancements

Credit risk exposures relating to significant on-balance sheet financial assets are as follows:

	Note	**2018**	2017
Due from BSP	6	**₱18,390,980**	₱25,498,556
Due from other banks		**3,491,325**	4,129,546
Loans and receivables		**25,883,909**	24,903,786
Investment securities*		**71,198,983**	69,477,467
		₱263,283,372	₱269,383,643

**Excluding equity securities*

The above table represents the maximum credit exposure of the Group without taking into account any collateral held or other credit enhancements. The exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position.

Credit risk exposures relating to off-balance sheet items are as follows:

	2018	2017
Trust department accounts	**₱948,471**	₱897,242
Unused commercial letters of credit	**338,406**	363,091
Outward bills for collection	**18,072**	2,652
Inward bills for collection	**12,518**	19,418
Late deposits/payments received	**7,323**	149
Outstanding guarantees issued	**354**	1,036
Items held as collateral	**5**	4
	₱1,325,149	₱1,283,592

The credit quality of loans and receivables is generally monitored using the Bank's internal rating system. The Bank uses its Internal Credit Risk Rating (ICRR) to classify the credit quality of its receivables portfolio. Below is the mapping of the Bank's credit quality and ICRR.

Credit Quality	ICRR
Neither past due nor impaired:	
High grade	1 to 2
Standard grade	3 to 4
Substandard grade	5 to 6
Past due but not impaired	7 to 8
Impaired	9 to 10

The Bank classifies its neither past due nor impaired loans and receivables subject to credit risk into the following credit grades:

- High Grade – This pertains to accounts with very low probability of default because of the borrower's established ability to tap its liquid resources to fully service its obligations as they become due. The borrower has no history of default and uses leverage sparingly.

- Standard Grade – This pertains to accounts with an acceptable probability of default. Nevertheless, the borrower has a strong debt service record and has demonstrated the ability to readily service its debts. Collateral cover, if applicable, should be adequate.

- Substandard Grade – Risk of default is higher than normal. The borrower is expected to be able to service its debt under normal economic and business conditions. Any prolonged economic or business downturn would however ostensibly create liquidity issues for the borrower. The borrower may have a history of default but have regularized its debt service performance as at reporting year.

Significant Increase in Credit Risk. When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information. A significant increase in credit risk can be measured by comparing the probability of default of the borrower from the initial recognition and the result of the current probability of default.

Other indications may include, among others, indications that a borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in principal and/or interest payments, probability that the borrower will enter bankruptcy or other financial reorganization/restructuring, and other observable data indicating measurable decrease in the estimated future cash flows, such as changes in business or economic conditions that correlate with defaults.

Definition of Default. The Bank considers a financial asset to be in default when a borrower fails to pay the loan in full or seven days after contractual due date for consumer and commercial loans, respectively.

Credit Quality per Class of Financial Assets

The Bank has developed and continually reviews and calibrates its internal risk rating system for large exposures aimed at uniformly assessing its credit portfolio in terms of risk profile. The following table provides the analysis of credit quality of the of the Bank's financial assets (gross of allowance for credit and impairment losses) classified as Stage 1, 2 or 3 financial assets as at December 31, 2018, based on the requirements of PFRS 9.

	2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Financial assets at amortized cost				
Due from BSP				
High grade	**₱18,390,980**	**₱–**	**₱–**	**₱18,390,980**
Due from other banks				
High grade	**3,491,325**	**–**	**–**	**3,491,325**
Securities purchased under resale agreement				
High grade	**25,680,000**	**–**	**–**	**25,680,000**
Government securities				
High grade	**38,361,855**	**–**	**–**	**38,361,855**
Corporate bonds				
High grade	**716,718**	**–**	**–**	**716,718**
Loans receivable from customers				
Corporate:				
High grade	**11,891,026**	**–**	**–**	**11,891,026**
Standard grade	**–**	**3,408,546**	**–**	**3,408,546**
Past due	**–**	**–**	**7,995,447**	**7,995,447**
Individual:				
High grade	**3,389,691**	**–**	**–**	**3,389,691**
Standard grade	**–**	**93,721**	**–**	**93,721**
Past due	**–**	**–**	**1,920,235**	**1,920,235**
Accrued interest income				
High grade	**1,119,952**	**–**	**–**	**1,119,952**
Sales contracts receivables				
High grade	**23,464**	**–**	**–**	**23,464**
Past due but not individually impaired				
Other receivables				
High grade	**22,631**	**–**	**–**	**22,631**
Debt securities at FVOCI				
Government securities				
High grade	**31,320,488**	**–**	**–**	**31,320,488**
Corporate bonds				

	2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
High grade	**799,922**	**–**	**–**	**799,922**
	₱134,408,130	**₱3,502,267**	**₱9,915,682**	**₱147,826,079**

Prior to January 1, 2018, the Bank assesses the credit quality of financial assets (gross of allowance for impairment losses) subject to credit risk as follows, based on the requirements of PAS 39.

	2017				
	Neither Past Due nor Impaired		Past Due but not		
	High Grade	Standard Grade	Individually Impaired	Individually Impaired	Total
Loans and receivables:					
Due from BSP	₱25,498,556	₱–	₱–	₱–	₱25,498,556
Due from other banks	4,129,546	–	–	–	4,129,546
Loans receivable from customers	22,445,498	2,757,028	7,000	1,842,810	27,052,336
Accrued interest	1,148,022	–	–	–	1,148,022
Sales contract	27,976	–	–	–	27,976
Accounts receivable	22,324	–	–	–	22,324
Investment securities:					
AFS financial assets					
Government securities	63,253,159	–	–	–	63,253,159
Corporate bonds	2,797,741	–	–	–	2,797,741
Held-to-maturity investments					
Government securities	2,721,175	–	–	–	2,721,175
Corporate bonds	705,392	–	–	–	705,392
	₱122,749,389	₱2,757,028	₱7,000	₱1,842,810	₱127,356,227

The Bank classifies its neither past due nor impaired loans and receivables subject to credit risk into the following credit grades:

- High Grade – This pertains to accounts with very low probability of default because of the borrower's established ability to tap its liquid resources to fully service its obligations as they become due. The borrower has no history of default and uses leverage sparingly.

- Standard Grade – This pertains to accounts with an acceptable probability of default. Nevertheless, the borrower has a strong debt service record and has demonstrated the ability to readily service its debts. Collateral cover, if applicable, should be adequate.

- Substandard Grade – Risk of default is higher than normal. The borrower is expected to be able to service its debt under normal economic and business conditions. Any prolonged economic or business downturn would however ostensibly create liquidity issues for the borrower. The borrower may have a history of default but have regularized its debt service performance as at reporting year.

Presents information on the concentration of credit risk exposure on financial assets as to industry as at December 31, 2018 and 2017:

	2018			
	Loans and Receivables[1]	**Investment Securities[2]**	**Others[3]**	**Total**
Philippine government	**₱–**	**₱69,682,343**	**₱–**	**₱69,682,343**
Financial intermediaries	**2,208,414**	**–**	**51,337,287**	**53,545,701**
Real estate, renting and business activities	**5,958,184**	**1,516,640**	**–**	**7,474,824**
Wholesale and retail trade	**7,394,497**	**–**	**–**	**7,394,497**
Manufacturing	**2,749,098**	**–**	**–**	**2,749,098**
Agriculture	**1,888,737**	**–**	**–**	**1,888,737**

	2018			
	Loans and Receivables[1]	**Investment Securities[2]**	**Others[3]**	**Total**
Construction	**1,714,141**	**–**	**–**	**1,714,141**
Accommodation and food service activities	**1,644,709**	**–**	**–**	**1,644,709**
Information and communication	**1,055,098**	**–**	**–**	**1,055,098**
Transportation, storage and communication	**717,832**	**–**	**–**	**717,832**
Education	**668,377**	**–**	**–**	**668,377**
(Forward)				
Health and social work	**₱377,383**	**₱–**	**₱–**	**₱377,383**
Arts, entertainment and recreation	**341,862**	**–**	**–**	**341,862**
Professional, scientific and technical activities	**148,115**	**–**	**–**	**148,115**
Administrative and support service activities	**131,835**	**–**	**–**	**131,835**
Private households with employed persons	**12,017**	**–**	**–**	**12,017**
Mining and quarrying	**3,380**	**–**	**–**	**3,380**
Other service activities	**1,684,988**	**–**	**–**	**1,684,988**
	28,698,667	**71,198,983**	**51,337,287**	**151,234,937**
Allowance for credit and impairment losses	**(3,890,781)**	**(77,185)**	**–**	**(3,967,966)**
	₱24,807,886	**₱71,121,798**	**₱51,337,287**	**₱147,266,971**

[1]*Comprised of receivables from customers.*
[2]*Comprised of financial assets at FVOCI and amortized cost (excluding equity securities).*
[3]*Comprised of due from BSP, due from other banks, and securities purchased under resale agreement.*

	2017			
	Loans and Receivables[1]	Investment Securities[2]	Others[3]	Total
Philippine government	₱–	₱65,974,334	₱–	₱65,974,334
Financial intermediaries	2,179,967	–	52,166,041	54,346,008
Real estate, renting and business activities	4,529,326	3,503,133	–	8,032,459
Wholesale and retail trade	7,441,669	–	–	7,441,669
Manufacturing	2,709,277	–	–	2,709,277
Agriculture	1,920,196	–	–	1,920,196
Construction	1,915,172	–	–	1,915,172
Accommodation and food service activities	1,399,099	–	–	1,399,099
Information and communication	1,095,428	–	–	1,095,428
Transportation, storage and communication	623,543	–	–	623,543
Education	603,644	–	–	603,644
Health and social work	356,378	–	–	356,378
Arts, entertainment and recreation	344,719	–	–	344,719
Professional, scientific and technical activities	120,992	–	–	120,992
Administrative and support service activities	98,669	–	–	98,669
Private households with employed persons	9,339	–	–	9,339
Mining and quarrying	2,845	–	–	2,845
Other service activities	1,446,163	–	–	1,446,163
	26,796,426	69,477,467	52,166,041	148,439,934
Allowance for credit and impairment losses	(2,977,788)	–	–	(2,977,788)
	₱23,818,638	₱69,477,467	₱52,166,041	₱145,462,146

[1]*Comprised of receivables from customers.*
[2]*Comprised of financial assets at FVOCI and amortized cost (excluding equity securities).*
[3]*Comprised of due from BSP, due from other banks, and securities purchased under resale agreement.*

Liquidity Risk

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligations in all currencies when they become due without incurring unacceptable losses or costs. The Bank's liquidity management is characterized by the following elements: a) good management information system, b) effective analysis of funding requirements under alternative scenarios, c) diversification of funding sources, and d) contingency planning.

Liquidity Risk Management
The Bank's liquidity management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the Bank's business operations or unanticipated events created by customer behavior or capital market conditions. The Bank seeks to ensure liquidity through a combination of active management of liabilities, a liquid asset portfolio composed substantially of deposits in primary and secondary reserves, and the securing of money market lines and the maintenance of repurchase facilities to address any unexpected liquidity situations.

The Bank's net funding requirements are determined by analyzing its future cash flows based on assumptions of the future behavior of assets, liabilities and off balance sheet items, and then calculating the cumulative net excess on shortfall over the time frame for the liquidity assessment. Such analysis of net funding requirements involves construction of a Maturity Ladder and calculation of cumulative net excess or deficit. Furthermore, an internal liquidity ratio has been set to determine sufficiency of liquid assets over deposit liabilities. Scenario stress tests are conducted periodically wherein liquidity managers analyze the behavior of cash flows under different conditions, i.e. from "normal" conditions to "extreme" situations. Finally, the BOD sets the Maximum Cumulative Outflow (MCO) Limit in order to control liquidity gap for each currency.

The table below shows the maturity profile of the Bank's assets and liabilities, based on contractual undiscounted cash flows (amounts in millions):

	2018				
	On Demand	**Less than One Year**	**One to Five Years**	**Over Five Years**	**Total**
Financial Assets					
Cash and other cash items	**₱1,134**	**₱–**	**₱–**	**₱–**	**₱1,134**
Due from BSP	**18,391**	**–**	**–**	**–**	**18,391**
Due from other banks	**3,491**	**–**	**–**	**–**	**3,491**
Securities Purchased under Resale Agreement	**25,680**	**–**	**–**	**–**	**25,680**
Loans and receivables	**–**	**21,904**	**3,249**	**731**	**25,884**
Investment securities:	**–**	**–**	**–**	**–**	**–**
Financial assets at FVOCI	**–**	**546**	**6,782**	**24,792**	**32,120**
Financial assets at amortized cost	**–**	**–**	**12,567**	**26,512**	**39,079**
	48,696	**22,450**	**22,598**	**52,035**	**145,779**
Financial Liabilities					
Deposit liabilities	–	**122,557**	**2,935**	**5,685**	**131,177**
Manager's checks and demand drafts outstanding	–	**112**	–	–	**112**
Accrued interest, taxes and others expenses	–	**299**	–	–	**299**
Other liabilities	–	**265**			**265**
	–	**123,233**	**2,935**	**5,685**	**131,853**
	₱48,696	**(₱100,783)**	**₱19,663**	**₱46,350**	**₱13,926**

	2017				
	On Demand	Less than One Year	One to Five Years	Over Five Years	Total
Financial Assets					
Cash and other cash items	₱829	₱–	₱–	₱–	₱829
Due from BSP	25,499	–	–	–	25,499
Due from other banks	4,130	–	–	–	4,130
Securities Purchased under Resale Agreement	21,709	–	–	–	21,709
Loans and receivables	–	16,509	6,085	2,310	24,904
Investment securities:					–
AFS financial assets - debt securities	–	151	14,506	51,394	66,051
HTM investments	–	–	1,031	2,396	3,427
	52,167	16,660	21,622	56,100	146,549
Financial Liabilities					
Deposit liabilities	–	121,527	8,137	–	129,664
Manager's checks and demand drafts outstanding	–	127	–	–	127
Accrued interest, taxes and others expenses	–	277	–	–	277
Other liabilities	–	192	–	–	192
	–	122,123	8,137	–	130,260
	₱52,167	(₱105,463)	₱13,485	₱56,100	₱16,289

Market Risk

Market risk is the risk of loss, immediate or overtime due to adverse fluctuations in the price or market value of instruments, products, and transactions in the Bank's overall portfolio. The value of these financial instruments may change as a result of changes in interest rate, foreign exchange rate, and other market changes. The Bank's market risk originates from its inventory of foreign exchange and debt securities. The objective of market risk management is to manage and control the market risk exposures within acceptable parameters, while optimizing the return on investments.

Interest Rate Risk

Interest rate risk involves the movements of rates across yield curves of one or more instruments. The principal risk to which financial instruments are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. The Bank manages its resources and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for interest rate repricing. Group's management monitors compliance with these limits.

The details of the Bank's exposure to interest rate risk at the reporting date are shown below in reference to their contractual repricing or maturity dates (amounts in millions):

	2018				
	Repricing				
	Less than One Year	**One to Five Years**	**Over Five Years**	**Non-Repricing**	**Total**
Financial Assets					
Due from BSP	**₱–**	**₱–**	**₱–**	**₱1,134**	**₱1,134**
Due from other banks	**–**	**–**	**–**	**18,391**	**18,391**
Securities Purchased under Resale Agreement				**25,680**	**25,680**
Loans and receivables	**21,904**	**3,249**	**731**	**–**	**25,884**
Investment securities					
Debt securities at FVOCI	**–**	**–**	**–**	**32,120**	**32,120**
Financial assets at amortized cost	**–**	**–**	**–**	**39,079**	**39,079**
	21,904	**3,249**	**731**	**116,404**	**142,288**
Financial Liabilities					
Deposit liabilities	**122,557**	**2,935**	**5,685**	**–**	**131,177**
Manager's checks and demand drafts outstanding	**–**	**–**	**–**	**112**	**112**
Accrued interest, taxes and others expenses	**–**	**–**	**–**	**299**	**299**
Other liabilities	**–**	**–**	**–**	**265**	**265**
	122,557	**2,935**	**5,685**	**676**	**131,853**
Total Interest Gap	**(₱100,653)**	**₱314**	**(₱4,954)**	**₱115,728**	**(₱10,435)**

	2017				
	Repricing				
	Less than One Year	One to Five Years	Over Five Years	Non-Repricing	Total
Financial Assets					
Due from BSP	₱–	₱–	₱–	₱25,499	₱25,499
Due from other banks	–	–	–	4,130	4,130
Securities Purchased under Resale Agreement				21,709	21,709
Loans and receivables	16,509	6,085	2,310	–	24,904
Investment securities					
AFS financial assets - debt securities	–	–	–	66,051	66,051
HTM investments	–	–	–	3,427	3,427
	16,509	6,085	2,310	120,816	145,720
Financial Liabilities					
Deposit liabilities	₱121,527	₱8,137	₱–	₱–	₱129,664
Manager's checks	–	–	–	127	127
Accrued interest, taxes and others expenses	–	–	–	277	277
Other liabilities	–	–	–	192	192
	121,527	8,137	–	596	130,260
Total Interest Gap	(₱105,018)	(₱2,052)	₱2,310	₱120,220	₱15,460

The Bank computes stress test on interest sensitive assets and liabilities, except for AFS financial assets through gapping. The details of the reported stress testing on interest gaps at the reporting date are shown below:

	2018			
	Less than One Month	**One to Three Months**	**Over Three Months**	**Total**
Peso-denominated Interest Sensitive Assets and Liabilities				
Assets	**₱35,609**	**₱5,833**	**₱6,432**	**₱47,874**
Liabilities	**7,172**	**1,399**	**838**	**9,409**
Gap	**28,437**	**4,434**	**5,594**	**38,465**
Cumulative Asset - Liability Gap	**₱28,437**	**₱32,871**	**₱38,465**	
Foreign-denominated Interest Sensitive Assets and Liabilities				
Assets	**₱61**	**₱–**	**₱–**	**₱61**
Liabilities	**8**	**444**	**112**	**564**
Gap	**53**	**(444)**	**(112)**	**(503)**
Cumulative Asset - Liability Gap	**₱53**	**(₱391)**	**(₱503)**	

	2017			
	Less than One Month	One to Three Months	Over Three Months	Total
Peso-denominated Interest Sensitive Assets and Liabilities				
Assets	₱40,754	₱7,111	₱3,609	₱51,474
Liabilities	88,728	1,566	630,211	720,505
Gap	(47,974)	5,545	(626,602)	(669,031)
Cumulative Asset - Liability Gap	(₱47,974)	(₱42,429)	(₱669,031)	₱–
Foreign-denominated Interest Sensitive Assets and Liabilities				
Assets	₱72	₱–	₱–	₱72
Liabilities	44	462	104	610
Gap	28	(462)	(104)	(538)
Cumulative Asset - Liability Gap	₱28	(₱434)	(₱538)	₱–

The details of the reported impact of negative gaps on net interest income at the reporting date are shown below (amounts in millions):

	2018		2017	
	Amount	**Percentage to Net Income**	Amount	Percentage to Net Income
Peso-denominated				
50 bps increase in Php interest rates	**₱208.59**	**12.20%**	(₱197.25)	(12.24%)
100 bps increase in Php interest rates	**417.18**	**24.40%**	(394.50)	(24.48%)
Foreign-denominated				
50 bps increase in USD interest rates (in USD)	**(2.51)**	–	(2.69)	–
100 bps increase in USD interest rates (in USD)	**(5.02)**	–	(5.38)	–
50 bps increase in USD interest rates (in Php)	**(132.06)**	**(7.72%)**	(134.21)	(8.33%)
100 bps increase in USD interest rates (in Php)	**(264.11)**	**(15.45%)**	(268.42)	(16.66%)

(Forward)

	2018		2017	
	Amount	**Percentage to Net Income**	Amount	Percentage to Net Income
Peso-denominated				
50 bps decrease in Php interest rates	**(₱208.59)**	**(12.20%)**	₱197.25	12.24%
100 bps decrease in Php interest rates	**(417.18)**	**(24.40%)**	394.50	24.48%
Foreign-denominated				
50 bps decrease in USD interest rates (in USD)	**2.51**	–	2.69	–
100 bps decrease in USD interest rates (in USD)	**5.02**	–	5.38	–
50 bps decrease in USD interest rates (in Php)	**132.06**	**7.72%**	134.21	(8.33%)
100 bps decrease in USD interest rates (in Php)	**264.11**	**15.45%**	268.42	(16.66%)

The Bank also calculates price volatility on financial assets at FVOCI (through Modified duration) in case of changes in interest rates. The following details are shown below:

	2018				
	Market value	**- 50 bps**	**- 100 bps**	**+ 50 bps**	**+ 100 bps**
Peso-denominated:					
Less than one year	**₱545,533**	**₱961**	**₱1,922**	**(₱961)**	**(₱1,922)**
One to three years	**2,504,520**	**20,248**	**40,496**	**(20,248)**	**(40,496)**
Three to five years	**2,697,432**	**47,329**	**94,657**	**(47,329)**	**(94,657)**
Five to 15 years	**5,816,079**	**194,392**	**388,784**	**(194,392)**	**(388,784)**
Over 15 years	**1,415,149**	**78,305**	**156,611**	**(78,305)**	**(156,611)**
	12,978,713	**341,235**	**682,470**	**(341,235)**	**(682,470)**
Foreign-denominated:					
Less than one year	–	–	–	–	–
One to three years	–	–	–	–	–
Three to five years	**30,052**	**699**	**1,398**	**(699)**	**(1,398)**
Five to 15 years	**118,191**	**4,804**	**9,609**	**(4,804)**	**(9,609)**
Over 15 years	**216,107**	**15,475**	**30,950**	**(15,475)**	**(30,950)**
Total in USD	**364,350**	**20,978**	**41,957**	**(20,978)**	**(41,957)**
Total in Philippine Peso	**19,141,697**	**1,103,039**	**2,206,079**	**(1,103,039)**	**(2,206,079)**
Total (Philippine Peso and FX)	**₱32,120,410**	**₱1,444,274**	**₱2,888,549**	**(₱1,444,274)**	**(₱2,888,549)**
As percentage of financial assets at FVOCI		**4.50%**	**8.99%**	**(4.50%)**	**(8.99%)**

	2017				
	Market value	- 50 bps	- 100 bps	+ 50 bps	+ 100 bps
Peso-denominated:					
Less than one year	₱151,437	₱742	₱1,484	(₱742)	(₱1,484)
One to three years	6,801,339	62,742	125,483	(62,742)	(125,483)
Three to five years	7,704,188	135,605	271,211	(135,605)	(271,211)
Five to 15 years	13,423,160	454,177	908,353	(454,177)	(908,353)
Over 15 years	2,417,329	140,920	281,840	(140,920)	(281,840)
	30,497,453	794,186	1,588,371	(794,186)	(1,588,371)
Foreign-denominated:					
Less than one year	$–	$–	$–	$–	$–
One to three years	–	–	–	–	–
Three to five years	–	–	–	–	–
Five to 15 years	140,165	5,707	11,414	(5,707)	(11,414)
Over 15 years	571,900	40,880	81,776	(40,880)	(81,776)
Total in USD	$712,065	$46,587	$93,190	($46,587)	($93,190)
Total in Philippine Peso	35,553,447	2,326,484	4,652,968	(2,326,484)	(4,652,968)
Total (Philippine Peso and FX)	₱66,050,900	₱3,120,670	₱6,241,339	(₱3,120,670)	(₱6,241,339)
As percentage of AFS financial assets		4.72%	9.45%	(4.72%)	(9.45%)

Foreign Exchange Risk
Foreign exchange risk arises on financial instruments that are denominated in a foreign currency other than the functional currency in which they are measured. The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

Information on the Bank’s foreign-denominated monetary assets and liabilities in their Philippine Peso equivalents follows:

	2018	
	USD	**In Peso**
Financial Assets:		
Cash and other cash items	**$6,773**	**₱356,146**
Due from other banks	**61,905**	**3,254,988**
Accrued interest receivables	**8,291**	**435,923**
Investment securities		
Financial assets at FVOCI	**352,077**	**18,512,233**
Financial assets at amortized cost	**393,278**	**20,678,573**
	822,324	**43,237,863**
Financial Liabilities:		
Deposit liabilities		
Savings	**56,232**	**2,956,691**
Time	**719,213**	**37,816,208**
Other liabilities	**1,384**	**72,819**
	776,829	**40,845,718**
Net Foreign Currency-denominated Assets	**$45,495**	**₱2,392,145**

	2017	
	USD	In Peso
Financial Assets:		
Cash and other cash items	$4,126	₱206,012
Due from other banks	71,758	3,582,901
Accrued interest receivables	10,144	506,511
Investment securities		
AFS financial assets	710,078	35,454,206
HTM investments	58,613	2,926,567
	$854,719	₱42,676,197
Financial Liabilities:		
Deposit liabilities		
Savings	$43,802	₱2,187,017
Time	728,305	36,364,272
Other liabilities	1,221	61,065
	773,328	38,642,602
Net Foreign Currency-denominated Assets	$81,391	₱4,063,843

Foreign currency liabilities generally consist of foreign currency deposits in the Bank's FCDU, which are generated from remittances to the Philippines by Filipino expatriates and overseas Filipino workers who retain for their own benefit or for the benefit of a third party.

Foreign currency deposits are generally used to fund the Bank's foreign currency denominated loans and FCDU investment portfolio. Banks are required by the BSP to match foreign currency assets with the foreign currency liabilities held through FCDUs. In addition, the BSP requires a 30% liquidity reserve on all foreign currency liabilities held through FCDUs.

The Bank's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. The Bank believes that its profile of foreign currency exposure on its assets and liabilities is within conservative limits for a financial institution engaged in the type of business in which the Bank is engaged.

Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market, and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from Group operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards; and
- Risk mitigation, including insurance where this is effective.

Fair Value Estimation

As at December 31, 2018 and 2017, the fair value hierarchy of the Bank's financial assets measured at fair values is presented below (amounts in thousands):

	2018				
		Fair Value			
	Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and other cash items	**₱1,134,062**	**₱1,134,062**	**₱–**	**₱–**	**₱1,134,062**
Due from BSP	**18,390,980**	**18,390,980**	**–**	**–**	**18,390,980**
Due from other banks	**3,491,325**	**3,491,325**	**–**	**–**	**3,491,325**
Securities purchased under resale agreement	**25,680,000**	**25,680,000**	**–**	**–**	**25,680,000**
Loans and receivables	**25,883,909**	**25,883,909**	**–**	**–**	**25,883,909**
Financial assets at FVOCI:					
Government securities	**31,320,488**	**31,320,488**	**–**	**–**	**31,320,488**
Corporate bonds	**799,922**	**799,922**	**–**	**–**	**799,922**
Quoted equity securities	**1,809,124**	**1,809,124**	**–**	**–**	**1,809,124**
Unquoted equity securities	**168**	**–**	**–**	**168**	**168**
Financial assets at amortized cost:					
Government securities	**38,361,855**	**35,300,383**	**–**	**–**	**35,300,383**
Corporate bonds	**716,718**	**707,747**	**–**	**–**	**707,747**
	₱147,588,551	**₱143,810,194**	**₱–**	**₱168**	**₱144,518,108**

	2017				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Cash and other cash items	₱828,754	₱828,754	₱–	₱–	₱828,754
Due from BSP	25,498,556	25,498,556	–	–	25,498,556
Due from other banks	4,129,546	4,129,546	–	–	4,129,546
Securities purchased under resale agreement	21,709,185	21,709,185	–	–	21,709,185
Loans and receivables	24,903,786	24,903,786	–	–	24,903,786
AFS financial assets:					
Government securities	63,253,159	63,253,159	–	–	63,253,159
Corporate bonds	2,797,741	–	2,797,741	–	2,797,741
Quoted equity securities	2,072,061	2,072,061	–	–	2,072,061
Unquoted equity securities	168	–		168	168
HTM investments:					
Government securities	2,721,175	2,721,175	–	–	2,721,175
Corporate bonds	705,392	705,392	–	–	705,392
	₱148,619,523	₱145,821,614	₱2,797,741	₱168	₱148,619,523

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash and Other Cash Items, Due from BSP and Other Banks. The carrying amounts approximate their fair values in view of the relatively short-term maturities of these instruments.

Debt Securities. Fair values are generally based on quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Equity Securities. For publicly traded equity securities, fair values are based on quoted prices published in the Philippine equity markets. For unquoted equity securities for which no reliable basis for fair value measurement is available, these are carried at cost net of impairment, if any.

Loans and Receivables. Fair values of loans and receivables are estimated using the discounted cash flow methodology, using the Bank's current incremental lending rates for similar types of loans and receivables.

Deposit Liabilities (Time, Demand and Savings Deposits). Fair values of time deposits are estimated using the discounted cash flow methodology, using the Bank's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. For demand and savings deposits, carrying amounts approximate fair values considering that these are currently due and demandable.

Manager's Checks and Accrued Interest and Other Expenses. Carrying amounts approximate fair values due to the short-term nature of the accounts.

Other Liabilities. Quoted market prices are not readily available for these liabilities. These are reported at cost and are not significant in relation to the Bank's total portfolio.

There were no transfers between levels 1, 2and 3 during the year.

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5. **Capital Risk Management**

The primary objectives of the Bank's capital management are to ensure that it complies with externally imposed capital requirements and that it maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes as at December 31, 2018 and 2017.

Regulatory Qualifying Capital

The Bank manages its capital following the framework of Basel Committee on Banking Supervision Accord II (Basel II) and its implementation in the Philippines by the BSP. The BSP through its Circular 538, *Revised Risk-Based Capital Adequacy Framework* requires each bank and its financial affiliated subsidiaries to keep its Capital Adequacy Ratio (CAR) - the ratio of qualified capital to risk-weighted exposures - to be no less than 10%. In quantifying its CAR, the Bank currently uses the Standardized Approach (for credit risk and market risk) and the Basic Indicator Approach (for operational risk). Capital adequacy reports are filed with the BSP every quarter.

Under the 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 capital) as reported to the BSP.

In addition, qualifying capital and risk-weighted assets are computed based on the BSP regulations. The risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10% for head office and branches. Risk-weighted assets consist of total assets less 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 determined by the Monetary Board of the BSP.

On August 4, 2006, the BSP, under Circular No. 538, issued the prescribed guidelines implementing the revised risk-based capital adequacy framework for the Philippine banking system to conform to the capital adequacy framework of Basel Committee on Banking Supervision Accord II (Basel II). The BSP through its Circular 538 requires each bank and its financial affiliated subsidiaries to keep its Capital Adequacy Ratio (CAR) - the ratio of qualified capital to risk-weighted exposures - to be no less than 10%. The qualifying capital of the Bank consists of core Tier 1 Capital and Tier 2 Capital. Tier 1 Capital comprises paid-up share capital, surplus including net income for the year, and surplus reserves, less deductions such as deferred income tax, unsecured credit accommodations to Directors, Officers, Stockholders and Related Interests (DOSRI), and unrealized fair value losses on AFS financial assets. Tier 2 Capital includes net unrealized fair value gains on AFS financial assets, unsecured subordinated debt, and general loan loss provisions for BSP reporting purposes.

The Basel II framework following Circular 538 took into effect on July 1, 2007 and was relevant until 2013. As at December 31, 2013, the Bank's CAR under Circular No. 538 is 38.33%.

Effective January 1, 2014, the BSP, through its Circular 781, requires each bank and its financial affiliated subsidiaries to adopt new capital requirements in accordance with the provisions of Basel III. The new guidelines are meant to strengthen the composition of the Bank's capital by increasing the level of core capital and regulatory capital. The Circular sets out minimum Common Equity Tier 1 (CET1) ratio and Tier 1 Capital ratios of 6.0% and 7.5%, respectively. A capital conservation buffer of 2.5%, comprised of CET1 capital, was likewise imposed. The minimum required CAR remains at 10% which includes the capital conservation buffer. In addition, existing capital requirements as at December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III.

The CAR of the Bank under the Basel III and Basel II framework based on the report submitted to the BSP for the years ended December 31, 2018 and 2017, respectively, are shown in the table below.

	2018	2017
Tier 1 capital	**₱17,312**	₱23,979
Tier 2 capital	**172**	172
Gross qualifying capital	**17,484**	24,151
Less: Regulatory adjustments/ required deductions	**–**	(4,743)
Total qualifying capital	**₱17,484**	₱19,408
Risk weighted assets	**43,025**	43,559
CAR (%)	**34.12%**	44.56%
CET1 (%)	**33.79%**	55.05%

The Bank has fully complied with the CAR requirement of the BSP for each of the year presented.

In October 9, 2014, BSP's Monetary Board approved the new minimum capitalization for banks through Circular 854, amending Subsection X111.1 of the Manual of Regulation for Banks (MORB). The Bank, as a universal bank with 61 branches to date, including Head Office, is required to maintain a minimum capital of ₱15.0 billion. As at December 31, 2018 and 2017, the Bank has complied with the required capitalization.

As part of the reforms of the PSE to expand capital market and improve transparency among listed firms, PSE requires listed entities to maintain a minimum of ten percent (10%) of their issued and outstanding shares, exclusive of any treasury shares, held by the public. The Bank has fully complied with this requirement.

6. Cash and Cash Equivalents

This account consists of:

	2018	2017
Cash and other cash items	**₱1,134,062**	₱828,754
Due from BSP	**18,390,980**	25,498,556
Due from other banks	**3,491,325**	4,129,546
	₱23,016,367	₱30,456,856

Due from other banks represents balances of funds on deposit with other domestic and foreign banks.

Effective interest earned on BSP deposits ranges from 2.80% to 5.25% in 2018 and 2.50% to 3.50% in 2017. Effective interest earned on deposits with other banks is 0.25% to 1.00% in 2018 and 0.25% to 0.75% in 2017.

Interest income amounted to ₱855.9 million and ₱1,125.1 million in 2018 and 2017, respectively (₱654.0 million in 2016).

7. Securities Purchased Under Resale Agreement

These pertain to the overnight placements with the BSP as at December 31, 2018 and 2017, where the underlying securities cannot be sold or repledged to parties other than the BSP. Effective interest earned from securities purchased under resale agreement are 7.5% and 3.0% in 2018 and 2017, respectively (3.5% in 2016).

Interest income amounted to ₱245.1 million and ₱105.7 million in 2018 and 2017, respectively (₱450.8 million in 2016).

8. **Investment Securities**

Details and movements of this account are as follows:

		2018		
		Financial Assets at		
	Note	**Amortized Cost**	**FVOCI**	**Total**
Balances at December 31, 2017		**₱3,426,567**	**₱68,123,129**	**₱71,549,696**
Reclassifications	2	**30,248,008**	**(30,248,008)**	**–**
Balances at January 1, 2018		**33,674,575**	**37,875,121**	**71,549,696**
Additions		**4,256,200**	**5,994,625**	**10,250,825**
Disposals/maturities		**(20,243)**	**(6,940,309)**	**(6,960,552)**
Net fair value loss		**–**	**(3,580,030)**	**(3,580,030)**
Net amortization of discount		**1,208,719**	**616,802**	**1,825,521**
		39,119,251	**33,966,209**	**73,085,460**
Allowance for impairment losses	13	**(40,678)**	**(36,507)**	**(77,185)**
Balances at end of year		**₱39,078,573**	**₱33,929,702**	**₱73,008,275**

	2017		
	HTM Investments	AFS Financial Assets	Total
Balances at beginning of year	₱5,452,376	₱51,798,313	₱57,250,689
Additions	–	23,814,382	23,814,382
Disposals/maturities	(2,031,537)	(6,578,310)	(8,609,847)
Net amortization of premium (discount)	5,728	(519,743)	(514,015)
Net fair value losses	–	(391,513)	(391,513)
Balances at end of year	₱3,426,567	₱68,123,129	₱71,549,696

<u>Financial Assets at FVOCI/AFS Financial Assets</u>

This account consists of:

	2018	2017
Debt securities:		
Government securities	**₱31,320,488**	₱63,253,159
Corporate bonds	**799,922**	2,797,741
	32,120,410	66,050,900
Equity securities:		
Quoted	**1,809,124**	2,072,061
Unquoted	**168**	168
	1,809,292	2,072,229
	₱33,929,702	₱68,123,129

Quoted Equity Securities. Investment in quoted equity securities pertain to various shares of companies listed in the Philippine Stock Exchange. Fair values of quoted equity securities are based on quoted market prices as at reporting date.

Unquoted Equity Securities. This account comprise of shares of stock of private corporations that are carried at cost since fair value cannot be reliably estimated due to lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value. There is currently no market for these investments and the Bank intends to hold them for long-term.

Movements in cumulative unrealized gain (loss) on fair value changes of financial assets at FVOCI are as follows:

	Note	2018	2017
Balance at beginning of year, as previously reported		**₱1,458,091**	₱1,849,604
Prior period adjustment on PFRS 9 adoption	2	**854,047**	–
Balance at beginning of year, as adjusted		**2,312,138**	1,849,604
Net unrealized losses		**(3,616,537)**	(391,513)
Balance at end of year		**(₱1,304,399)**	₱1,458,091

The range of average interest rates of debt securities at FVOCI are as follows:

	2018	2017	2016
Peso-denominated	**3.38% to 6.50%**	3.25% to 6.25%	3.25% to 6.25%
Foreign-denominated	**2.75% to 7.39%**	2.75% to 7.50%	2.75% to 7.50%

Financial Assets at Amortized Cost/HTM Investments
This account consists of:

	2018	2017
Government securities	**₱38,361,855**	₱2,721,175
Corporate bonds	**716,718**	705,392
	₱39,078,573	₱3,426,567

Fair value of government securities as at December 31, 2018 amounted ₱32,509.3 million. Unrealized fair value loss of ₱2,025.8 million would have been recognized in other comprehensive income had the government securities been classified as financial assets at FVOCI in 2018.

The range of average interest rates of financial assets at amortized cost are as follows:

	2018	2017	2016
Peso-denominated	**3.25% to 7.75%**	7.00% to 7.75%	7.00% to 7.75%
Foreign-denominated	**3.70% to 4.38%**	3.70% to 6.50%	3.70% to 6.50%

Interest income on investment securities consists of:

	2018	2017	2016
Financial assets at FVOCI/ AFS financial assets	**₱2,180,777**	₱2,735,363	₱2,330,774
Financial assets at amortized cost/ HTM investments	**933,631**	176,354	371,973
	₱3,114,408	₱2,911,717	₱2,702,747

Details on sale of investment securities are as follows:

	Note	2018	2017	2016
Proceeds		**₱8,023,293**	₱7,437,472	₱6,395,479
Carrying amount		**6,940,309**	6,578,310	5,795,865
		₱1,082,984	₱859,162	₱599,614

9. Loans and Receivables

This account consists of:

	Note	2018	2017
Loans receivable from customers		**₱28,698,667**	₱26,796,426
Accrued interest		**1,119,952**	1,154,317
Sales contract receivable		**23,464**	27,976
Others		**22,631**	22,325
		29,864,714	28,001,044
Allowance for credit and impairment losses	13	**(3,980,805)**	(3,097,258)
		₱25,883,909	₱24,903,786

Loans receivable from customers consists of:

	2018	2017
Bills discounted loan	**₱14,328,194**	₱11,580,966
Term loan	**11,157,759**	12,206,628
Agrarian reform	**2,146,024**	2,133,880
Trust receipts	**1,066,690**	874,952
	₱28,698,667	₱26,796,426

Interest income on loans and receivables consists of:

	2018	2017	2016
Loans receivable from customers	**₱1,441,838**	₱1,585,231	₱1,821,123
Sales contract receivables	**1,532**	1,306	1,047
	₱1,443,370	₱1,586,537	₱1,822,170

The range of average interest rates of loans and receivables of the Bank for the years ended December 31 follows:

	2018	2017	2016
Commercial loans -			
Philippine Peso	**2.00% to 16%**	2.13% to 9.00%	1.60% to 9.00%
Real estate mortgages	**3.00% to 16%**	3.50% to 9.00%	3.00% to 9.00%

Regulatory Reporting

As at December 31, 2018 and 2017, information on the concentration of loans and receivables from customers (at gross amounts) as to industry are as follows:

	2018		2017	
	Amount	**Percentage**	Amount	Percentage
Wholesale and retail trade	**₱7,394,497**	**25.77%**	₱7,441,669	27.77%
Real estate, renting and business activities	**5,921,733**	**20.63%**	4,488,826	16.75%
Manufacturing	**2,749,098**	**9.58%**	2,709,277	10.11%
Financial intermediaries	**2,208,414**	**7.70%**	2,179,967	8.14%
Agriculture	**1,888,737**	**6.58%**	1,920,196	7.17%
Construction	**1,714,141**	**5.97%**	1,915,172	7.15%
Accommodation and food service activities	**1,644,709**	**5.73%**	1,399,099	5.22%
Information and communication	**1,055,098**	**3.68%**	1,095,428	4.09%
Transportation, storage and communication	**717,832**	**2.50%**	623,543	2.33%
Education	**668,377**	**2.33%**	603,644	2.25%
Health and social work	**377,383**	**1.31%**	356,378	1.33%
Arts, entertainment and recreation	**341,862**	**1.19%**	344,719	1.29%
Professional, scientific and technical activities	**148,115**	**0.52%**	120,992	0.45%
Administrative and support service activities	**131,835**	**0.46%**	98,669	0.37%
Private households with employed persons	**12,018**	**0.04%**	9,339	0.03%
Mining and quarrying	**3,380**	**0.01%**	2,845	0.01%
Other service activities	**1,721,438**	**6.00%**	1,486,663	5.55%
	₱28,698,667	**100.00%**	₱26,796,426	100.00%

The following table presents the breakdown of loans receivable from customers by type of security:

	2018		2017	
	Amount	**Percentage**	Amount	Percentage
Secured:				
Real estate mortgage	**₱9,461,709**	**32.97%**	₱8,019,344	29.93%
Hold-out	**2,509,708**	**8.75%**	2,125,252	7.93%
Shares of stock	**1,516,256**	**5.28%**	1,525,783	5.69%
Chattel mortgage	**819,003**	**2.85%**	814,150	3.04%
Others	**297,225**	**1.04%**	84,741	0.32%
	14,603,901	**50.89%**	12,569,270	46.91%
Unsecured	**14,094,766**	**49.11%**	14,227,156	53.09%
	₱28,698,667	**100.00%**	₱26,796,426	100.00%

Details of non-performing loans (NPL) follows:

	2018	2017
Unsecured	**₱7,322,231**	₱6,788,823
Secured	**2,593,452**	3,090,249
	₱9,915,683	₱9,879,072

Loans and receivables are considered non-performing, even without any missed contractual payments, when considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any.

BSP Circular 351 issued on September 19, 2002, authorizes banks that have no unbooked useful valuation reserves and capital adjustments required by the said regulatory body, to exclude from non-performing classification, loans classified as loss in the latest examination of the BSP which are fully covered by allowance for probable losses, provided that, interest on said loans shall not be accrued.

NPL represented approximately 34.55% and 37.99% of the loan receivable portfolio as at December 31, 2018 and 2017, respectively.

10. **Bank's Premises, Furniture, Fixtures and Equipment**

Details and movements of this account are as follows:

	2018				
	Land	**Buildings and Improvements**	**Furniture, Fixtures and Equipment**	**Transportation Equipment**	**Total**
Cost					
Balance at beginning of year	**₱1,977,977**	**₱1,107,548**	**₱496,789**	**₱45,004**	**₱3,627,318**
Additions	**38,052**	**53,069**	**48,923**	**2,349**	**142,393**
Disposal	**–**	**(8,199)**	**(11,394)**	**(2,496)**	**(22,089)**
Balance at end of year	**2,016,029**	**1,152,418**	**534,318**	**44,857**	**3,747,622**
Accumulated Depreciation and Amortization					
Balance at beginning of year	**–**	**463,433**	**454,888**	**16,114**	**934,435**
Depreciation and amortization	**–**	**36,949**	**24,706**	**6,262**	**67,917**
Disposal	**–**	**(59)**	**(4,953)**	**(1,363)**	**(6,375)**
Balance at end of year	**–**	**500,323**	**474,641**	**21,013**	**995,977**
Carrying Amount	**₱2,016,029**	**₱652,095**	**₱59,677**	**₱23,844**	**₱2,751,645**

	2017				
	Land	Buildings and Improvements	Furniture, Fixtures and Equipment	Transportation Equipment	Total
Cost					
Balance at beginning of year	₱1,977,977	₱1,071,319	₱466,076	₱54,071	₱3,569,443
Additions	–	36,229	39,717	4,806	80,752
Disposal	–	–	(9,004)	(13,873)	(22,877)
Balance at end of year	1,977,977	1,107,548	496,789	45,004	3,627,318
Accumulated Depreciation and Amortization					
Balance at beginning of year	–	422,411	428,705	21,164	872,280
Depreciation and amortization	–	41,022	30,400	3,876	75,298
Disposal	–		(4,217)	(8,926)	(13,143)
Balance at end of year	–	463,433	454,888	16,114	934,435
Carrying Amount	₱1,977,977	₱644,115	₱41,901	₱28,890	₱2,692,883

Details of depreciation and amortization are as follows:

	Note	**2018**	2017	2016
Bank's premises, furniture and equipment		**₱67,917**	₱75,298	₱75,744
Investment properties	11	**2,866**	68,524	43,889
Computer software	12	**4,009**	4,314	5,236
	21	**₱74,792**	₱148,136	₱124,869

Cost of fully depreciated bank premises, furniture, fixtures and equipment amounted to ₱371.3 million and ₱383.5 million as at December 31, 2018 and 2017, respectively.

Gain on sale of bank premises, furniture, fixtures and equipment amounted to ₱143,300 and ₱665,508 in 2018 and 2017, respectively (₱14.7 million in 2016).

11. Investment Properties

Details and movements of this account are as follows:

		2018		
	Note	**Land**	**Buildings and Improvements**	**Total**
Cost				
Balance at beginning of year		**₱1,353,172**	**₱203,821**	**₱1,556,993**
Additions/foreclosure		**53,712**	**100,084**	**153,796**
Disposals		**(22,722)**	**(153,496)**	**(176,218)**
Balance at end of year		**1,384,162**	**150,409**	**1,534,571**
Accumulated Depreciation and Amortization				
Balance at beginning of year		**–**	**98,331**	**98,331**
Depreciation and amortization	10	**–**	**2,866**	**2,866**
Disposals		**–**	**(1,040)**	**(1,040)**
Balance at end of year		**–**	**100,157**	**100,157**
Accumulated Impairment Losses				
Balance at beginning and end of year		**34,867**	**1,031**	**35,898**
Carrying Amount		**₱1,349,295**	**₱49,221**	**₱1,398,516**

		2017		
	Note	Land	Buildings and Improvements	Total
Cost				
Balance at beginning of year		₱1,969,472	₱1,578,421	₱3,547,893
Additions/foreclosure		81,534	111,400	192,934
Disposals		(697,834)	(1,486,000)	(2,183,834)
Balance at end of year		1,353,172	203,821	1,556,993
Accumulated Depreciation and Amortization				
Balance at beginning of year		–	458,323	458,323
Depreciation and amortization	10	–	68,524	68,524
Disposals		–	(428,516)	(428,516)
Balance at end of year		–	98,331	98,331
Accumulated Impairment Losses				
Balance at beginning of year		27,052	1,031	28,083
Provision		8,881	–	8,881
Reversal		(1,066)	–	(1,066)
Balance at end of year		34,867	1,031	35,898
Carrying Amount		₱1,318,305	₱104,459	₱1,422,764

Details on the sale of investment properties as follows:

	Note	**2018**	2017	2016
Proceeds		**₱220,850**	₱2,230,537	₱136,804
Carrying amount		**175,178**	1,754,272	47,566
Gain on sale	19	**₱45,672**	₱476,265	₱89,238

The carrying value of properties acquired for rental purposes is ₱55.9 million and ₱64.2 million as at December 31, 2018 and 2017, respectively. Direct operating expenses from investment properties not generating rent income amounted to ₱2.9 million and ₱68.5 million in 2018 and 2017, respectively (₱43.9 million in 2016).

The aggregate fair value of the investment properties amounted to ₱2,982.0 million and ₱2,160.0 million as at December 31, 2018 and 2017, respectively. Fair value has been determined based on valuations made by independent or in-house appraisers. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made. The fair value measurement is categorized as Level 2 (significant observable inputs).

12. **Other Assets**

This account consists of:

	2018	2017
Prepaid expenses	**₱61,345**	₱91,306
Documentary stamp tax	**28,275**	21,192
Other investments	**21,000**	20,700
Creditable withholding tax	**20,817**	13,434
Investment in a subsidiary	**18,000**	18,000
Deposits	**16,252**	21,496
Computer software	**15,042**	7,231
Others	**26,664**	18,140
	₱207,395	₱211,499

Prepaid expenses comprise of business taxes and licenses, and insurance premium paid in advance.

Other investments represent the required minimum amount of investment in various banking facilities to avail of their services and support the viability and sustainability of the banking network system.

Investment in a subsidiary pertains to the Bank's ownership in MGI. MGI was incorporated and registered with the SEC on November 27, 2017. MGI is primarily engaged in the real estate acquisitions and development. MGI has not started its commercial operations. As discussed in Note 1, the BOD approved the closure of business and dissolution of MGI on July 31, 2018. The application for dissolution is still pending with the BIR. Consequently, MGI changed its basis of accounting from the going concern to liquidation basis. No impairment loss was recognized by the Bank since the investment in subsidiary is recoverable.

Movements in computer software are as follows:

	Note	2017	2017
Cost			
Balance at beginning of year		**₱45,105**	₱44,379
Additions		**11,820**	726
Balance at end of year		**56,925**	45,105
Accumulated amortization			
Balance at beginning of year		**37,874**	33,560
Amortization	10	**4,009**	4,314
Balance at end of year		**41,883**	37,874
		₱15,042	₱7,231

13. **Allowance for Credit and Impairment Losses**

Movements in the allowance for credit and impairment losses on financial assets as at December 31, 2018 are as follows:

	Financial Assets at Amortized Cost (see Note 8)	Debt Securities at FVOCI (see Note 8)	Loans and Receivables (see Note 9)	Others* (see Note 16)	Total
Balances at beginning of year	₱–	₱–	₱3,097,258	₱–	₱3,097,258
PFRS 9 transition adjustment	32,355	40,958	447,849	–	521,162
Balances at beginning of year, as adjusted	32,355	40,958	3,545,107	–	3,618,420
Provision (reversal)	8,323	(4,451)	435,698	13,457	453,027
Balances at end of year	₱40,678	₱36,507	₱3,980,805	₱13,457	₱4,071,447

**Others represent the provision for impairment and credit losses for the guarantees issued by the Bank.*

With the foregoing level of allowance for credit and impairment losses, management believes that the Bank has allowance to cover for any losses that the Bank may incur from the non-collection or non-realization of its financial assets.

Allowance for credit and impairment losses on loans and receivables relate to the following:

	2018	2017
Loans and receivables	**₱3,890,779**	₱2,977,788
Accrued interest	**87,504**	116,951
Others	**2,522**	2,519
	₱3,980,805	₱3,097,258

The movements in the allowance for credit and impairment losses on loans and receivables as at December 31, 2017 (prior to adoption of PFRS 9) follow:

	2017
Balance at beginning of year	₱2,620,053
Provision	477,205
Balance at end of year	₱3,097,258

No allowance for impairment losses on AFS financial assets and HTM investments were recognized as at December 31, 2017.

Below is the analysis of movements of gross carrying amount and related allowance for impairment and credit losses based on ECL of corporate accounts:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at January 1, 2018	**₱9,630,288**	**₱3,727,564**	**₱7,924,822**	**₱21,282,674**
Loan releases	**10,213,252**	**–**	**–**	**10,213,252**
Payments	**(6,091,533)**	**(843,384)**	**(1,204,690)**	**(8,139,607)**
Foreclosures	**–**	**–**	**(61,300)**	**(61,300)**
Transfers to stage 2	**(1,030,351)**	**1,030,351**	**–**	**–**
Transfers to stage 3	**(830,630)**	**(505,985)**	**1,336,615**	**–**
Gross carrying amount as at December 31, 2018	**₱11,891,026**	**₱3,408,546**	**₱7,995,447**	**₱23,295,019**

	Stage 1	Stage 2	Stage 3	Total
Allowance for impairment and credit losses as at January 1, 2018	**₱138,351**	**₱86,495**	**₱2,183,697**	**₱2,408,543**
Provisions for (reversals of) impairment and credit losses	**8,214**	**73,264**	**171,552**	**253,030**
Transfers to stage 2	**(125)**	**125**	**–**	**–**
Transfers to stage 3	**(2,306)**	**(108,658)**	**110,964**	**–**
Allowance for impairment and credit losses as at December 31, 2018	**₱144,134**	**₱51,226**	**₱2,466,213**	**₱2,661,573**

Below is the analysis of movements of gross carrying amount and related allowance for impairment and credit losses based on ECL of individual accounts:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at January 1, 2018	**₱2,677,044**	**₱88,753**	**₱1,954,249**	**₱4,720,046**
Loan releases	**2,954,563**	**–**	**–**	**2,954,563**
Payments	**(2,053,107)**	**(19,742)**	**(143,032)**	**(2,215,881)**
Foreclosures	**–**	**–**	**(55,080)**	**(55,080)**
Transfers to stage 2	**(31,124)**	**33,721**	**(2,598)**	**–**
Transfers to stage 3	**(157,685)**	**(9,011)**	**166,696**	**–**
Gross carrying amount as at December 31, 2018	**₱3,389,691**	**₱93,721**	**₱1,920,235**	**₱5,403,648**
Allowance for impairment and credit losses as at January 1, 2018	**₱22,817**	**₱2,627**	**₱991,649**	**₱1,017,093**
Provisions for impairment and credit losses	**75,431**	**5,428**	**131,256**	**212,115**
Transfers to stage 3	**(800)**	**(349)**	**1,149**	**–**
Allowance for impairment and credit losses as at December 31, 2018	**₱97,448**	**₱7,706**	**₱1,124,054**	**₱1,229,208**

14. Deposit Liabilities

This account consists of:

	2018	2017
Demand	**₱2,031,740**	₱1,752,118
Savings	**87,138,320**	86,979,160
Time	**42,007,028**	40,933,052
	₱131,177,088	₱129,664,330

Non-FCDU deposit liabilities are subject to liquidity reserves equivalent to 11.00% starting July 15, 2005 (under Circular No. 491), and statutory reserve equivalent to 10.00% starting August 5, 2011 (under Circular No. 732). Prior to August 5, 2011, statutory reserve requirement was 9.00%. In accordance with Circular No. 832 issued in 2014, reserve requirement effective on the May 30, 2014 reserve week shall be 20.00% for deposits and deposit substitutes and 4.00% for long-term negotiable certificates of deposits.

As at December 31, 2018 and 2017, the Bank is in compliance with such regulations.

Available reserves of the Bank submitted to the BSP are as follows:

	2018	2017
Cash and other cash items	**₱1,134,062**	₱828,754
Due from BSP	**18,390,980**	25,498,556
	₱19,525,042	₱26,327,310

The deposit liabilities bear annual fixed interest rate of 0.25% to 4.0% in 2018 and 0.25% to 3.25% in 2017 and 2016.

Interest expense on deposit liabilities account consists of:

	2018	2017	2016
Savings deposits	**₱2,141,320**	₱1,653,170	₱1,716,831
Time deposits	**1,079,271**	1,086,172	1,145,079
	₱3,220,591	₱2,739,342	₱2,861,910

15. **Accrued Taxes, Interest and Other Expenses**

This account consists of:

	2018	2017
Accrued expenses and other taxes	**₱203,769**	₱203,626
Accrued interest	**85,290**	64,992
Others	**10,306**	8,210
	₱299,365	₱276,828

16. **Other Liabilities**

This account consists of:

	Note	**2018**	2017
Accounts payable		**₱74,166**	₱86,967
Outstanding acceptances and customers' liabilities		**78,811**	32,255
Withholding taxes payable		**56,435**	43,250
Dormant deposit accounts		**18,201**	7,224
Provision for impairment losses on commitments	13	**13,457**	–
Due to the Treasurer of the Philippines		**12,484**	13,100
Others		**11,119**	8,806
		₱264,673	₱191,602

Accounts payable mainly consist of unpaid charges pertaining to cash card and trading transactions.

Outstanding acceptances and customers' liabilities pertain to payables arising from customer trade for which the Bank has given accommodations to the buyer/importer in the form acceptance credit.

Due to the Treasurer of the Philippines pertains to remaining balances of dormant accounts surrendered to the Treasurer of the Philippines.

Others consist mainly of deferred charges, deposits, and miscellaneous liabilities.

17. **Equity**

Capital Stock
Share capital as at December 31, 2018 and 2017 consists of:

	Amount
Authorized – 2,200.0 million shares at ₱10 par value	₱22,000,000
Issued and outstanding - 1,000.0 million shares at ₱10 par value	10,000,000

Reserve
The reserves as at December 31, 2018 and 2017 consist of:

	Amount
Reserve for contingencies	₱38,658
Reserve for self-insurance	33,342
Reserve for trust business	320
	₱72,320

In compliance with the existing BSP regulations, 10.00% of the Bank's income from trust business is appropriated to reserves. This yearly appropriation is required until the reserve for trust business equals 20.00% of the Bank's regulatory net worth.

Reserve for self-insurance represents the amount set aside to cover losses due to fire, defalcation by and other unlawful acts of the Bank's personnel or third parties.

Cash Dividends

The BOD of the Bank approved the declaration and payment of the following cash dividends to its common shareholders:

Date of Declaration	Date of Record	Date of Payment	Dividend per Share	Amount
July 6, 2017	July 11, 2017	July 12, 2017	₱0.20	₱200,000
April 26, 2016	June 30, 2016	July 11, 2016	0.20	200,000

18. Earnings Per Share

Basic EPS amounts are calculated by dividing the net income for the year by the weighted average number of common shares outstanding during the year (adjusted for stock dividends).

The following reflects the income and share data used in the basic earnings per share computations:

	2018	2017	2016
Net income	**₱823,762**	₱1,611,759	₱1,066,805
Weighted average of outstanding common shares	**1,000,000**	1,000,000	1,000,000
	₱0.82	₱1.61	₱1.07

As at December 31, 2018, 2017 and 2016, there were no outstanding dilutive potential common shares.

19. Other Income

This account consists of:

	Note	**2018**	2017	2016
Rent income	23	**₱52,131**	₱45,286	₱52,798
Gain on sale of investment properties	11	**45,672**	476,265	89,238
Dividend income		**23,506**	23,841	23,817
Income from trust operations		**1,659**	969	160
Gain on sale of property and equipment	10	**143**	666	14,699
Others		**21,877**	19,470	53,941
		₱144,988	₱566,497	₱234,653

20. **Compensation and Employee Benefits**

This account consists of:

	2018	2017	2016
Salaries and other employee benefits	**₱791,780**	₱824,416	₱748,410
Retirement benefits	**48,760**	47,073	45,470
Statutory benefits	**15,483**	14,540	14,483
Dental, medical and hospitalization	**15,511**	14,650	13,879
	₱871,534	₱900,679	₱822,242

Retirement Benefits

The Bank has a funded, DC plan for qualifying employees. Under the plan, the employees are entitled to retirement benefits in relation to the proportion of the fair value of the total contributions on their attainment of the retirement age. The assets of the fund are being administered by trustees and are held separately from those of the Bank.

Under the R.A. 7641, the Bank also provides for its qualified employees a defined benefit (DB) minimum guarantee, which is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service.

The present value of the DB minimum guarantee under the R.A. 7641 amounted to ₱6.9 million and ₱7.2 million as at December 31, 2018 and 2017, respectively. The Bank has no unallocated DC plan assets as at December 31, 2018 and 2017.

The Bank is exposed to the risk of changes in government securities yields, wherein a decrease in government securities yields will increase the projected DB minimum guarantee, although this will be partially offset by an increase in the value of any unallocated plan assets' securities holdings.

Details of the present value of the DB minimum guarantee obligation are as follows:

	2018	2017
Balance at beginning of year	**₱7,228**	₱8,577
Interest expense	**81**	154
Current service cost	**34**	67
Remeasurement gain arising from:		
Experience adjustments	**(442)**	(1,565)
Changes in financial assumptions	**(26)**	(5)
Balance at end of year	**₱6,875**	₱7,228

Details of the retirement benefits through profit or loss as follows:

	2018	2017	2016
Interest expense	**₱81**	₱154	₱136
Current service cost	**34**	67	70
Additional retirement benefits recognized	**115**	221	206
Retirement benefits on DC plan (contributions during the year)	**48,645**	46,852	45,264
	₱48,760	₱47,073	₱45,470

Details of cumulative remeasurement gain follow:

	2018		
	Cumulative Remeasurement Gain	**Deferred Tax** (see Note 25)	**Net**
Balance at beginning of year	**₱10,955**	**(₱3,287)**	**₱7,668**
Remeasurement gain	**468**	**(140)**	**328**
Balance at end of year	**₱11,423**	**(₱3,427)**	**₱7,996**

	2017		
	Cumulative Remeasurement Gain	Deferred Tax (see Note 25)	Net
Balance at beginning of year	₱9,385	(₱2,816)	₱6,569
Remeasurement gain	1,570	(471)	1,099
Balance at end of year	₱10,955	(₱3,287)	₱7,668

The average duration of the defined benefit obligation at the end of the reporting year is 12 years.

Maturity analysis of the undiscounted benefit payments as at December 31, 2018 as follows:

One to five years	₱1,973
Six to 10 years	2,827
11 to 15 years	14,136
16 years and above	57,178
	₱76,114

The Bank's assumptions are based on actual historical experience and external data regarding salary and discount rate trends. The Bank considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the estimation of DB obligation.

21. Occupancy and Equipment-Related Expenses

This account consists of:

	Note	**2018**	2017	2016
Depreciation and amortization	10	**₱74,792**	₱148,136	₱124,869
Rent	23	**70,934**	71,768	76,030
		₱145,726	₱219,904	₱200,899

22. **Other Operating Expenses**

This account consists of:

	2018	2017	2016
Taxes and licenses	**₱274,687**	₱265,236	₱200,777
Insurance	**271,575**	266,402	239,643
Security, messengerial and janitorial	**148,791**	146,560	132,981
Promotions and business development	**96,014**	23,259	22,584
Supervision and examination fees	**71,541**	78,365	40,784
Communication, light and water	**53,126**	51,124	51,209
Documentary stamp tax	**42,198**	34,195	15,020
Information technology	**30,991**	26,977	31,459
Repairs and maintenance	**12,101**	11,949	12,765
Professional fees	**8,662**	10,025	7,270
Others	**104,415**	64,768	90,777
	₱1,114,101	₱978,860	₱845,269

23. **Leases**

Operating Lease Commitments - The Bank as a Lessor

Included in Bank's premises are properties of which a portion is being leased out to earn rentals. These non-cancellable leases have escalation clauses based on prevailing market condition.

Rent income from leased properties which is included in "Other operating income" account in the statement of income amounted to ₱52.1 million and ₱45.3 million in 2018 and 2017, respectively (₱52.8 million in 2016) (see Note 19).

Future minimum rental receivables under operating leases are as follows:

	2018	2017
Within one year	**₱46,036**	₱43,047
After one year but not more than five years	**155,608**	153,809
After more than five years	**190,957**	217,086
	₱392,601	₱413,942

Operating Lease Commitments - The Bank as a Lessee

The Bank leases a number of branch and office premises under non-cancellable operating leases. The leases typically run for a period up to five years, with the option to renew the lease after that date. Lease payments are increased every three to five years to reflect market rentals.

Rent expense which is included in "Occupancy and equipment-related expenses" amounted to ₱70.9 million and ₱71.8 million in 2018 and 2017, respectively (₱76.0 million in 2016) (see Note 21).

Future minimum rent payables under operating leases are as follows:

	2018	2017
Within one year	**₱44,255**	₱42,005
After one year but not more than five years	**123,067**	94,461
After more than five years	**44,587**	21,640
	₱211,909	₱158,106

24. **Related Party Transactions and Balances**

In the ordinary course of business, the Bank can enter into loan and other transactions with its related parties and with certain directors, officers, stockholders, and related interests (DOSRI). Under the Bank's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. The amount of individual loans to DOSRI, of which 70.00% must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Bank. These limits do not apply to loans secured by assets considered as non-risk as defined in the regulations.

BSP Circular No. 560, *Ceilings on loans, other credit accommodations and guarantees granted to subsidiaries and affiliates*, provides the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding loans, credit accommodations and guarantees to each of the bank's subsidiaries and affiliates should not exceed 10.00% of a bank's net worth, the unsecured portion should not exceed 5.00% of such net worth. Further, the total outstanding exposures should not exceed 20.00% of the net worth of the lending bank.
BSP Circular No. 423, *Amendments to Sections X326 to X338 of the Manual of Regulations of Banks*, provides for the amended definition of DOSRI accounts. The following table shows information relating to DOSRI accounts of the Bank:

	2018	2017
Total outstanding DOSRI loans	**₱3,561,003**	₱2,439,702
Percent of DOSRI accounts granted under BSP Circular No. 423	**12%**	9.00%
Percent of DOSRI accounts to total loans	**12%**	9.00%

Any violation of the provisions under BSP Circular No. 423 is subject to regulatory sanctions. However, loans, other credit accommodations and guarantees, as well as availments of previously approved loans and committed credit lines that are not considered DOSRI (non-DOSRI) accounts prior to the issuance of BSP Circular No. 423 are not covered by such sanctions for a transition period of two years from the effectivity of the Circular or until said loan, other credit accommodations and guarantees become past due, or are extended, renewed or restructured, whichever comes later.

Total interest income on DOSRI accounts amounted to ₱185.1 million and ₱59.1 million in 2018 and 2017, respectively.

The effects of the foregoing transactions are shown under the appropriate accounts in the financial statements.

In the ordinary course of business, the Bank has transactions with related parties summarized as follows:

	2018		2017	
Nature of Transactions	**Transactions during the Year**	**Outstanding Balances**	Transactions during the Year	Outstanding Balances
Entities under Common Management				
Loans and receivables	**₱169,300**	**₱654,002**	₱–	₱484,702
Interest income	**31,883**	**–**	5,848	–
Investment in equity securities	**14,431**	**622,300**	44,861	607,869
Deposit liabilities	**93,200**	**116,400**	20,700	23,200
Interest expense	**2,796**	**–**	621	–
Rent income	**27,997**	**–**	27,100	–
Rent expense	**9,364**	**–**	2,600	–
Advertising expense	**54,273**	**–**	35,790	–
Stockholders				
Loans and receivables	**45,000**	**825,000**	305,000	780,000
Interest income	**44,958**	**–**	13,851	–
Related Interests				
Loans and receivables	**907,002**	**2,082,002**	–	1,175,000
Interest income	**108,230**	**–**	39,362	–

Terms and Conditions

Investment in Equity Securities. Investments in quoted equity securities are classified as financial assets at FVOCI/AFS financial assets.

Loans and Receivables. Bills discounted loan with a term of three to five years and a nominal interest rate of 3.5% to 5.0% in 2018 and 2017.
Deposit Liabilities. Deposits have interest ranging from 0.25% to 3.25% in 2018 and 2017.

Rent Income. Lease transaction, as a lessor, with term of one to 25 years and renewable upon mutual agreement of the parties.

Rent Expense. Lease transaction, as a lessee, with term of one to two years and renewable upon mutual agreement of the parties.

Compensation of Key Management Personnel
Compensation of key management personnel included under compensation and employee benefits.

	2018	2017	2016
Short-term employee benefits	**₱156,513**	₱146,933	₱144,756
Post-employment retirement benefits	**10,226**	20,820	16,304
	₱166,739	₱167,753	₱161,060

25. Income Taxes

Income taxes include corporate income tax and FCDU final taxes, as discussed below, and final tax paid at the rate of 20.00% on gross interest income from government securities and other deposit substitutes. These income taxes, as well as the deferred tax benefits and provisions, are presented as ‘Income tax expense’ in the statement of income.

Effective in May 2004, RA No. 9294 restored the tax exemption of FCDU and offshore banking units (OBU). Under such law, the income derived by the FCDU from foreign currency transactions with nonresidents, OBU, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBU or other depository banks under the expanded system is subject to 10% final income tax.

Components of income tax expense (benefit) are as follows:

	2018	2017	2016
Current taxes			
Final tax	**₱515,057**	₱471,217	₱388,441
MCIT	**–**	4,126	1,136
Deferred income tax	**(53,375)**	(141,587)	(149,831)
	₱461,682	₱333,756	₱239,746

The reconciliation of the income tax expense at statutory tax rate and income tax expense as presented in the statement of comprehensive income is as follows:

	2018	2017	2016
Income tax expense at statutory tax rate	**₱385,633**	₱583,655	₱391,965
Tax effects of:			
Nontaxable income	**(802,060)**	(522,211)	(408,808)
Nondeductible expenses	**572,015**	366,567	283,239
Change in unrecognized deferred tax assets	**466,319**	81,784	23,840
Interest income subjected to final tax	**(266,097)**	(235,717)	(196,526)
Expiration of NOLCO and MCIT	**105,872**	59,678	146,036
	₱461,682	₱333,756	₱239,746

Deferred tax assets arise from the following:

	2018	2017
Deferred tax assets on:		
Allowance for credit and impairment losses	**₱1,056,468**	₱997,687
MCIT	**5,262**	10,091
Accrued rent expense	**4,554**	4,614
Retirement liability	**2,062**	2,168
	1,068,346	1,014,560
Deferred tax liability on -		
Rent receivable	**(3,907)**	(3,356)
	₱1,064,439	₱1,011,204

Net deferred tax benefit (expense) is recognized as follows:

	2018	2017
Through:		
Profit or loss	**₱1,075,861**	₱1,022,158
Other comprehensive income	**(11,422)**	(10,954)
	₱1,064,439	₱1,011,204

Movements of net deferred tax benefit (expense) are recognized as follows:

	2018	2017
Through:		
Profit or loss	**₱53,375**	₱141,587
Other comprehensive income	**(140)**	(471)
	₱53,235	₱141,116

As at December 31, 2018 and 2017, the Bank has not recognized deferred tax assets relating to the following deductible temporary differences:

	2018	2017
NOLCO	**₱724,229**	₱399,720
Allowance for impairment losses on loans and receivables	**137,773**	137,773
Provision for impairment losses on commitments and contingent accounts	**4,037**	–
	₱866,039	₱862,002

Management assessed that it is not probable that sufficient future taxable profit will be available to allow all or part of the deferred tax assets on the foregoing deductible temporary differences to be utilized.

Details of MCIT are as follows:

Year of incurrence	Year of expiry	Amount	Expired	Balance
2015	2018	₱4,829	(₱4,829)	₱–
2016	2019	1,136	–	1,136
2017	2020	4,126	–	4,126
		₱10,091	(4,829)	₱5,262

Details of NOLCO are as follows:

Year of incurrence	Year of expiry	Amount	Expired	Balance
2015	2018	₱336,811	(₱336,811)	₱–
2016	2019	550,155	–	550,155
2017	2020	445,433	–	445,433
2018	2021	1,418,508	–	1,418,508
		₱2,750,907	(₱336,811)	₱2,414,096

26. **Trust Operations**

Securities and other properties (other than deposits) held by the Bank in fiduciary or agency capacities for clients and beneficiaries are not included in the accompanying statement of financial position since these are not assets of the Bank (see Note 27).

In compliance with the requirements of current banking regulations relative to the Bank's trust functions: (a) government securities included under financial assets at amortized cost in the statements of financial position with a total face value of ₱15.6 million and ₱18.3 million as at December 31, 2018 and 2017, respectively, are deposited with the BSP as security for the Bank's faithful compliance with its fiduciary obligations; and (b) a certain percentage of the Bank's trust fee income is transferred to surplus reserve. This yearly transfer is required until the surplus reserve for trust function equals 20.00% of the Bank's authorized share capital.

27. Commitments and Contingent Assets and Liabilities

In the normal course of the Bank's operations, there are various outstanding commitments and contingent liabilities which are not reflected in the accompanying financial statements. Management does not anticipate any material losses as a result of these transactions.

The following is a summary of contingencies and commitments of the Bank with the equivalent peso contractual amounts:

	2018	2017
Trust department accounts	**₱948,471**	₱897,242
Unused commercial letters of credit	**338,406**	363,091
Outward bills for collection	**18,072**	2,652
Inward bills for collection	**12,518**	19,418
Late deposits/payments received	**7,323**	149
Outstanding guarantees issued	**354**	1,036
Items held as collateral	**5**	4
	₱1,325,149	₱1,283,592

28. Reclassification

Prior year financial statement amounts have been reclassified to conform to current year presentation. These reclassifications had no effect on the reported results of operations.

29. Financial Performance

The key financial performance indicators of the Bank are presented below:

	2018	2017	2016
Return on average equity	**3.67%**	6.94%	4.60%
Return on average assets	**0.54%**	1.05%	0.74%
Net margin	**1.29%**	1.64%	1.55%
Capital to risk assets	**34.12%**	44.56%	37.65%

REPORT OF INDEPENDENT AUDITORS
TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING WITH THE SECURITIES AND EXCHANGE COMMISSION

The Stockholders and the Board of Directors
Philtrust Bank (Philippine Trust Company)
Philtrust Bank Bldg., 1000 United Nations Avenue corner
San Marcelino St., Manila

We have audited the accompanying financial statements of Philtrust Bank (Philippine Trust Company) (the Bank) as at and for the years ended December 31, 2018 and 2017, on which we have rendered our report dated May 14, 2019.

In compliance with Securities Regulation Code Rule 68, as amended, we are stating that the Bank has 83 stockholders owning 100 or more shares each as at December 31, 2018.

REYES TACANDONG & CO.

Haydee M. Reyes

HAYDEE M. REYES
Partner
CPA Certificate No. 83522
Tax Identification No. 102-095-265-000
BOA Accreditation No. 4782; Valid until August 15, 2021
SEC Accreditation No. 0663-AR-3 Group A
Valid until August 30, 2020
BIR Accreditation No. 08-005144-006-2017
Valid until January 13, 2020
PTR No. 7334335
Issued January 3, 2019, Makati City

May 14, 2019
Makati City, Metro Manila

REYES TACANDONG & CO.
FIRM PRINCIPLES. WISE SOLUTIONS.

BOA/PRC Accreditation No. 4782
October 4, 2018, valid until August 15, 2021
SEC Accreditation No. 0207-FR-2 (Group A)
September 27, 2016, valid until September 27, 2019

Citibank Tower
8741 Paseo de Roxas
Makati City 1226 Philippines
Phone : +632 982 9100
Fax : +632 982 9111
Website : www.reyestacandong.com

**REPORT OF INDEPENDENT AUDITORS
ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors
Philtrust Bank (Philippine Trust Company)
Philtrust Bank Bldg., 1000 United Nations Avenue corner
San Marcelino St., Manila

We have audited in accordance with Philippine Standards on Auditing, the accompanying financial statements of the Philtrust Bank (Philippine Trust Company) as at and for the years ended December 31, 2018 and 2017, and have issued our report dated May 14, 2019. Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Adoption of Effective Accounting Standards and Interpretations is the responsibility of the management of Philtrust Bank (Philippine Trust Company). This schedule is presented for purposes of complying with Securities Regulation Code Rule 68, as amended, and is not part of the financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, fairly states, in all material respects, the financial data required to be set forth therein in relation to the financial statements taken as a whole.

REYES TACANDONG & CO.

HAYDEE M. REYES
Partner
CPA Certificate No. 83522
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PHILTRUST BANK (PHILIPPINE TRUST COMPANY)
Index to Financial Statements
As at and For the Year Ended December 31, 2018

Table of Contents

Part I

Part II

PHILTRUST BANK (PHILIPPINE TRUST COMPANY)
Schedule I - Reconciliation of Retained Earnings Available for Dividend Declaration
December 31, 2018
Amounts in Thousands

Unappropriated Retained Earnings, beginning	₱11,817,160
Adjustments for prior-year adjustments	(521,162)
Unappropriated Retained Earnings, as adjusted, beginning	11,295,998
Net income during the period closed to Retained Earnings	823,762
Less: Unrealized foreign exchange gain - net (except those attributable to Cash and Cash Equivalents)	(254,900)
	568,862
Add (Less):	
Dividend declarations during the period	–
Total Retained Earnings, End Available For Dividend	₱11,864,860

PHILTRUST BANK (PHILIPPINE TRUST COMPANY) AND SUBSIDIARY
Schedule II - Financial Soundness Indicators
December 31, 2018

	2018	2017
Current Ratio (1)	0.558	0.594
Debt to Equity Ratio (2)	7.066	5.499
Asset to Equity Ratio (3)	8.066	6.499
Interest Coverage Ratio (4)	0.242	0.710
Net Interest Margin Ratio (5)	0.017	0.020
Return on Assets (6)	0.002	0.010
Return on Equity (7)	0.014	0.068
Solvency Ratio (8)	0.003	0.014

(1) Current ratio is measured as current assets divided by current liabilities.
(2) Debt to equity ratio is measured as total liabilities divided by total equity.
(3) Asset to equity ratio is measured as total assets divided by total equity.
(4) Interest coverage ratio is measured by EBIT, or earnings before interest and taxes, divided by total financing costs.
(5) Net interest margin ratio is derived by dividing net interest income with average interest earning assets.
(6) Return on assets is measured by dividing net income after tax with total assets.
(7) Return on equity is measured by dividing net income after tax with total capital accounts.
(8) Solvency ratio is measured by dividing net income after tax plus depreciation with total liabilities.

PHILTRUST BANK (PHILIPPINE TRUST COMPANY)

SUPPLEMENTARY SCHEDULE OF ADOPTION OF EFFECTIVE ACCOUNTING STANDARDS AND INTERPRETATIONS

DECEMBER 31, 2018

Title	Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics	✓		
PFRS Practice Statement Management Commentary			✓
PFRS Practice Statement 2: Making Materiality Judgments	✓		

Philippine Financial Reporting Standards (PFRS)

PFRS	Title	Adopted	Not Adopted	Not Applicable
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendments to PFRS 1: First-time Adoption of Philippine Financial Reporting Standards - Deletion of Short-term Exemptions for First-time Adopters			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations	✓		
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓

PFRS	Title	Adopted	Not Adopted	Not Applicable
	Amendment to PFRS 3: Scope Exceptions for Joint Ventures			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Amendment to PFRS 5: Changes in Methods of Disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendment to PFRS 7: Servicing Contracts			✓
	Amendment to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
PFRS 8	Operating Segments			✓
	Amendments to PFRS 8: Aggregation of Operating Segments			✓
	Amendments to PFRS 8: Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets			✓
PFRS 9	Financial Instruments	✓		
PFRS 10	Consolidated Financial statements			✓
	Amendments to PFRS 10: Transition Guidance			✓
	Amendments to PFRS 10: Investment Entities			✓
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation Exception			✓
PFRS 11	Joint Arrangements			✓

PFRS	Title	Adopted	Not Adopted	Not Applicable
	Amendments to PFRS 11: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities			✓
	Amendments to PFRS 12: Transition Guidance			✓
	Amendments to PFRS 12: Investment Entities			✓
	Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception			✓
	Amendment to PFRS 12: Clarification of the Scope of the Standard			✓
PFRS 13	Fair Value Measurement	✓		
	Amendment to PFRS 13: Short-term receivables and Payables	✓		
	Amendment to PFRS 13: Portfolio Exception			✓
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
	Amendments to PFRS 15: Clarifications to PFRS 15	✓		

Philippine Accounting Standards (PAS)

PAS	Title	Adopted	Not Adopted	Not Applicable
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendment to PAS 1: Clarification of the Requirements for Comparative Presentation	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		

PAS	Title	Adopted	Not Adopted	Not Applicable
PAS 12	Income Taxes	✓		
	Amendments to PAS 12: Recovery of Underlying Assets	✓		
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	✓		
PAS 16	Property, Plant and Equipment	✓		
	Amendment to PAS 16: Classification of Servicing Equipment	✓		
	Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation	✓		
	Amendment to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendment to PAS 16: Agriculture: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendment to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
	Amendment to PAS 19: Discount Rate: Regional Market Issue	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendment to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Financial statements	✓		
	Amendments to PAS 27: Investment Entities			✓
	Amendments to PAS 27: Equity Method in Financial statements			✓

PAS	Title	Adopted	Not Adopted	Not Applicable
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓
	Amendments to PAS 28: Investment Entities: Applying the Consolidation Exception			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Financial Instruments: Presentation	✓		
	Amendments to PAS 32: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 32: Tax Effect of Distribution to Holders of Equity Instruments			✓
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
	Amendment to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities			✓
	Amendment to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report'			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Nonfinancial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendment to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization			✓
	Amendment to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 40	Investment Property	✓		
	Amendment to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-occupied Property	✓		
	Amendments to PAS 40: Transfers of Investment Property	✓		
PAS 41	Agriculture			✓
	Amendment to PAS 41: Agriculture: Bearer Plants			✓

Philippine Interpretations

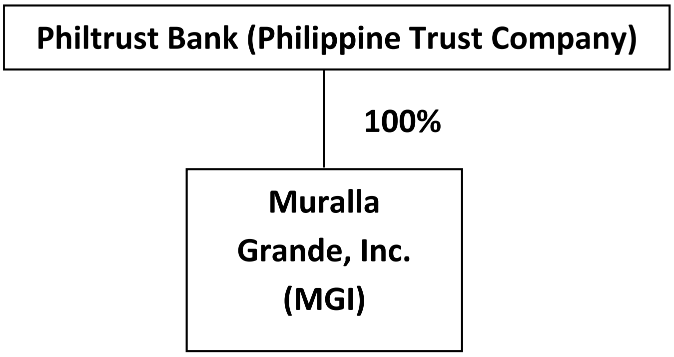
Interpretations	Title	Adopted	Not Adopted	Not Applicable
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC 9: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓

Interpretations	Title	Adopted	Not Adopted	Not Applicable
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
IFRIC 22	Foreign Currency Transactions and Advance Consideration	✓		

PHILIPPINE INTERPRETATIONS - SIC

Interpretations	Title	Adopted	Not Adopted	Not Applicable
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

PHILTRUST BANK (PHILIPPINE TRUST COMPANY)
Schedule IV - Map of the Relationships of the Companies
December 31, 2018



On July 31, 2018, the Board of Directors (BOD) approved the dissolution of MGI by shortening its corporate life from 50 years to four years until November 29, 2018.

As at December 31, 2018, the Bank is still awaiting approval of the Bureau of Internal Revenue (BIR) on the business closure and corporate dissolution.

PHILTRUST BANK (PHILIPPINE TRUST COMPANY)
Schedule A – Financial Assets
December 31, 2018
Amounts in Thousands

Name of issuing entity and association of each issue	Number of shares	Amount shown on the balance sheet	Valued based on market quotation at balance sheet date	Income received and accrued
Cash and cash equivalents				
Cash and other cash items		₱1,134,062	₱1,134,062	₱–
Due from Bangko Sentral ng Pilipinas (BSP)		18,390,980	18,390,980	1,087,000
Due from other banks		3,491,325	3,491,325	13,976
		₱23,016,367	₱23,016,367	₱1,100,976

Name of issuing entity and association of each issue	Number of shares	Amount shown on the balance sheet	Valued based on market quotation at balance sheet date	Income received and accrued
Financial Asset at Fair Value through Other Comprehensive Income – Equity Securities				
Euromed Lab. Phil., Inc.	365,111	₱620,689	₱620,689	₱18,256
Philippine Bank of Communications	46,519	939,684	939,684	–
Centro Escolar University	29,893	233,164	233,164	–
Manila Electric Company	34	13,032	13,032	–
San Miguel Corp.	3	453	453	4
Philippine Long Distance Corporation	2	2,102	2,102	120
Casino Espanol De Manila	–	120	120	–
Philippine Columbian Association	–	27	27	–
Manila Executive Center	–	21	21	–
	441,562	₱1,809,292	₱1,809,292	₱18,380

Name of issuing entity and association of each issue	Principal amount of bonds or notes	Amount shown on the balance sheet	Valued based on market quotation at balance sheet date	Income received and accrued
Financial Asset at Fair Value through Other Comprehensive Income – Debt Securities Peso-denominated				
PIBD0724D595	₱2,400,000	₱2,128,281	₱2,128,281	₱108,000
PIBD0723D588	1,500,000	1,306,286	1,306,286	52,500
PIBD2032B183	1,200,000	1,074,077	1,074,077	70,500
PIBD2033C206	1,150,000	780,577	780,577	41,688
PIBD0721C574	1,000,000	930,085	930,085	35,000
PIBD1027E617	1,000,000	848,361	848,361	47,500
PIBD2037E214	1,000,000	783,013	783,013	52,500
PIBD0520H735	900,000	851,966	851,966	30,375
PIBD0320A229	700,000	676,330	676,330	23,625
PIBD0522A747	700,000	643,491	643,491	28,000
PIBD2038B224	700,000	632,136	632,136	38,928
PIBD0719D531	500,000	496,813	496,813	25,000
PIBD1022H562	500,000	463,037	463,037	24,375
PIBD1024H595	500,000	432,606	432,606	20,625
PIBD1025I608	500,000	410,246	410,246	8,125
PIBD0523C752	300,000	284,617	284,617	13,383
PIBD1028C635	100,000	95,010	95,010	4,826
PIBD0719K560	50,000	48,720	48,720	1,938
PIBD0725D618	50,000	46,921	46,921	2,060
PIBD1022I570	50,000	46,140	46,140	2,375
	₱14,800,000	₱12,978,713	₱12,978,713	₱641,323

Financial Asset at Fair Value through Other Comprehensive Income – Debt Securities Foreign-denominated				
US718286CB15	$123,200	₱6,128,635	₱6,128,635	₱186,748
US718286BW60	66,000	3,841,426	3,841,426	150,971
US718286BD89	40,500	2,613,821	2,613,821	182,624
US718286CC97	37,000	1,820,754	1,820,754	52,075
ODTB1023L018	31,300	1,580,154	1,580,154	47,538
USY7083VAD11	22,000	1,356,093	1,356,093	50,616
XS1277512775	15,009	799,922	799,922	53,733
US718286BG11	9,000	592,912	592,912	213,824
US718286BN61	7,000	407,980	407,980	15,591
	$351,009	₱19,141,697	₱19,141,697	₱953,720

Name of issuing entity and association of each issue	Principal amount of bonds or notes	Amount shown on the balance sheet	Valued based on market quotation at balance sheet date	Income received and accrued
Financial Assets at Amortized Cost				
Peso-denominated				
PIID0522L114	₱5,000,000	₱5,000,000	₱4,608,100	₱231,250
PIID0320D087	4,650,000	4,650,000	4,502,190	197,625
PIID1026I057	3,050,000	3,050,000	2,390,180	106,750
PIID1527C023	1,500,000	1,500,000	1,343,500	58,750
PIID2032C014	1,000,000	1,000,000	891,474	30,625
PIID1023H046	1,000,000	1,000,000	852,050	31,250
PIBD1020B508	500,000	500,000	505,340	38,750
PIID1021J039	500,000	500,000	486,010	28,750
PIID1526J019	500,000	500,000	475,186	80,625
PIID2537J015	500,000	500,000	412,832	32,500
PIID0321F092	200,000	200,000	191,100	5,335
	₱18,400,000	₱18,400,000	₱16,657,962	₱842,210
Foreign-denominated				
US718286CA32	$204,030	₱11,007,439	₱10,151,498	₱354,955
US718286BZ91	165,812	8,954,416	8,490,942	274,911
XS0894336907	10,500	555,895	552,211	20,249
XS0876086975	3,000	160,823	155,536	6,277
	$383,342	₱20,678,573	₱19,350,187	₱656,392

PHILTRUST BANK (PHILIPPINE TRUST COMPANY)

Schedule B – Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)

December 31, 2018

Amounts in Thousands

Name and designation of debtor	Balance at beginning of year	Additions	Amounts collected	Amounts written off	Current	Noncurrent	Balance at end of year
Manila Bulletin Publishing Corp.	₱1,000,000	₱–	₱–	₱–	₱1,000,000	₱–	₱1,000,000
U.S. Automotive Co. Inc.	780,000	45,000	–	–	825,000	–	825,000
Manila Hotel Corporation	478,002	176,000	–	–	654,002	–	654,002
U.N. Properties Development Corp.	175,000	5,000	–	–	180,000	–	180,000
Bedrock Realty & Investment Corporation	6,700	–	6,700	–	–	–	–
Centro Escolar University	8,000	24,000	22,000	–	–	–	10,000
	₱2,447,702	₱250,000	₱28,700	₱–	₱2,659,002	₱–	₱2,669,002

Note: Receivables from Directors, Officers, Employees, Related Parties and Principal Stockholders are subject to usual terms in the normal course of business.

PHILTRUST BANK (PHILIPPINE TRUST COMPANY)

Schedule C – Amounts Receivable from Related Parties which are Eliminated During the Consolidation of the Financial Statements

December 31, 2018

Name of Debtor	Balance at the beginning of the period	Additions	Amounts collected (i)	Amounts written-off(ii)	Current	Non- current	Balance at the end of period

None to report.

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i. **If collected was other than in cash, explain.**

ii. **ii. Give reasons to write-off.**

PHILTRUST BANK (PHILIPPINE TRUST COMPANY)
Schedule D – Intangible Assets - Other Assets
December 31, 2018

Description (i)	Beginning Balance	Additions at Cost (ii)	Charged to cost and expenses	Charged to other accounts	Other charges additions (deduction) (iii)	Ending Balance
Software Cost	₱45,105	₱11,820	₱–	₱–	₱–	₱56,925
Accumulated Amortization	(37,874)	–	(4,009)	–	–	(41,883)
	₱7,231	₱11,820	(₱4,314)	₱–	₱–	₱15,042

i.The information required shall be grouped into (a) intangibles shown under the caption intangible assets and (b) deferrals shown under the caption other assets in the related balance sheet. Show by major classifications.

ii. For each change representing other than an acquisition, clearly state the nature of the change and the other accounts affected. Describe cost of additions representing other than cash expenditures.

iii. If provision for amortization of intangible assets is credited in the books directly to the intangible asset account, the amounts shall be stated with explanations, including the amounts charged. Clearly state the nature of deductions if these represent anything other than regular amortization.

PHILTRUST BANK (PHILIPPINE TRUST COMPANY)

Schedule E – Long-Term Debt

December 31, 2018

Title of issue and type of obligation (i)	*Amount authorized by indenture*	*Amount shon under caption "Current portion of long-term debt in related balance sheet " (ii)*	*Amount shon under caption "Long- term debt in related balance sheet " (iii)*	*Interest Rate %*	*Maturity Date*

None to report.

i. Include in this column each type of obligation authorized.

ii. This column is to be totalled to correspond to the related balance sheet caption.

iii. Include in this column details as to interest rates, amounts or numbers of periodic instalments, and maturity dates

PHILTRUST BANK (PHILIPPINE TRUST COMPANY)

Schedule F – Indebtedness to Related Parties

December 31, 2018

Name of Related Parties (i)	*Balance at the beginning of the period*	*Balance at the end of the period (ii)*

None to report.

i. The related party shall be grouped as in Schedule D. The information called for shall be stated for any persons whose investments shown in separately in such related schedule.

ii. For each affiliate named in the first column, explain in a note hereto the nature and purpose of any material increase during the period that is in excess of 10% of the related balance at either the beginning or end of the period.

PHILTRUST BANK (PHILIPPINE TRUST COMPANY)

Schedule G – Guarantees of Securities of Other Issuers

December 31, 2018

Name of the issuing entity of securities guaranteed by the company for which this statement is fled	*Title of issue of each class of securities guaranteed*	*Total amount of guaranteed and outstanding (i)*	*Amount owned by person of which statement is filed*	*Nature of Guarantee (ii)*

None to report.

i. Indicate in the note any significant changes since the date of the last balance sheet file. If this schedule is filed in support of consolidated financial statements, there shall be set forth guarantees by any person included in the consolidation except such guarantees of securities which are included in the consolidated balance sheet.

ii. There must be a brief statement of the nature of the guarantee, such as "Guarantee of Principal and Interest"', "Guarantee of Interest" or "Guarantee of Dividend". If the guarantee is of interest, dividends, or both, state the annual aggregate amount of interest or dividends so guaranteed.

PHILTRUST BANK (PHILIPPINE TRUST COMPANY)
Schedule H – Share Capital
December 31, 2018

Title of Issue (i)	*Number of shares authorized*	*Number of shares issued and outstanding as shown under the related balance sheet caption*	*Number of shares reserved for options, warrants, conversion and other rights*	*Number of shares held by related parties (ii)*	*Directors, officers and employees*	*Others (iii)*
Common	2,200,000	1,000,000	–	–	8,998	–

i. Include in this column each type of issue authorized

ii. Related parties referred to include persons for which separate financial statements are filed and those included in the consolidated financial statements, other than the issuer of the particular security.

iii. Indicate in a note any significant changes since the date of the last balance sheet filed.

ANNEX "C-1"

Management's Discussion and Analysis of Financial Condition and Results of Operations for Calendar Year 2016

Financial Condition

The year 2016 proved to be another fruitful year for our Bank, as Total Resources reached a new record high of P153.386 Billion compared to P136.064 Billion in 2015. Growth in resources came primarily from deposit liabilities which rose by 16.08% or by P18.015 Billion. Deposit growth came mainly from relatively stable and low cost savings deposits, time deposits and demand deposits with an increase of 18.16%, 11.57% and 23.62% respectively. Due from Bangko Sentral ng Pilipinas, representing 19.08% of Total Resources, decreased by 1.07% as the funds were invested in Reverse Repurchase Agreement with the Bangko Sentral ng Pilipinas thus increasing Loans and Other Receivables by 21.64% or by P9.803 Billion compared from last year's level. The 44.20% decrease in Due from Other Banks reflects higher operating balances maintained from both local and foreign correspondent banks. Loans Arising from Repurchase Agreements increased by P10.693 Billion as funds were invested with the Bangko Sentral ng Pilipinas. Available for Sale Securities and Held to Maturity Securities increased by P5.434 Billion and P854.609 Million respectively due to increase in market value and the effect of mark to market valuation at year end. Cash and other cash items decreased by P16.212 Million as funds were invested at Overnight Deposit Facility (ODF) and Term Deposit Facility (TDF) with the Bangko Sentral ng Pilipinas. Movements in other asset accounts can be accounted for by transactions in the ordinary course of business.

Deposit liabilities of P130.030 Billion increased by 16.08% compared to last year's level of P112.015 Billion. Deposit growth came mainly from all types of deposits. It continued to be the Bank's main source of funding. The 35.57% increase in Manager's Checks represents higher volume of outstanding checks issued. Deferred credits and other liabilities decreased by 15.73% due to lower level of trade transactions. All payables were paid within stated terms.

Capital Funds at year end closed at P22.796 Billion. Other Comprehensive Income, Net Unrealized Gains/(Losses) decreased by P1.583 Billion or 43.09% due largely on account of mark to market valuation of investments. The Capital Adequacy Ratio (CAR) for the period is 37.65%, which is well above the BSP minimum requirements of 10%, is indicative of the sufficiency of the Bank's capital to support the current level of its risk assets.

The Bank has outstanding commitments, contingent liabilities and bank guaranties that arise from the normal course of operations. The Bank does not anticipate any losses that will materially affect its financial positions and results of operations. Changes in nature and amounts in the financial statements were due more to market related factors.

Results of Operations

The Bank generated a P1.066 Billion net income for the year 2016. Gross earnings amounted to P6.542 Billion compared to P5.883 Billion of last year's level. Declining interest rate on loans resulted in the decrease on interest on loans and advances by 6.37%. Interest on Deposit with Banks increased by P221.206 Million or 25.03% due to higher placements with the Bangko Sentral ng Pilipinas . Income from foreign exchange profits decreased by P9.668 Million due to lower exchange rate compared from last year's level. Other operating income increased by P338.173 Million or by 68.17% due to higher profit on Sale or Redemption of Investments.

Interest expense increased by 9.70% due to higher average of outstanding balance compared form last year's level. Occupancy and Equipment related expenses increased by 8.67% due to advance payments of annual rentals of leased properties. The acquisitions of furniture, fixtures and other equipment resulted to higher provision of depreciation expense by 11.88%. We provided additional allowance for credit losses for the year, thus increasing provision for probable losses by P411.099 Million. The provision for tax expense closed at P240.036 Million compared to P388.441 Million, a 8.76% decrease, as large portion of income earned were subjected to 20% final tax withheld at source.

For the past 100 years, the Bank continued to be conservative in the development and management of depositor and stockholder funds. The Bank also continues to expand in geographic coverage and now have a total of 60 branches of which 36 are located in bank owned buildings. Furthermore, more branches will be opened including ATM offsite and onsite in strategic locations to provide access to our valued clients. The Bank is proud of its record of performance in growth, profitability, liquidity and stability.

Key Performance Indicators

The performance of the bank is reflected in the following financial ratios:

	Dec. 31, 2016	Dec. 31, 2015
Return on Average Equity	4.10%	4.56%
Return on Average Assets	0.72%	0.84%
Net Interest Margin	1.94%	2.14%
Capital to Risk Assets	37.65%	38.24%
Cost to Income Ratio	64.51%	58.02%

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

Key Performance Indicator	Formula
1. Return on Average Equity (%)	$\frac{\text{Net Income After Income Tax}}{\text{Average Total Capital Accounts}}$
2. Return on Average Assets (%)	$\frac{\text{Net Income After Income Tax}}{\text{Average Total Assets}}$
3. Net Interest Margin (%)	$\frac{\text{Net Interest Income}}{\text{Average Interest Earning Assets}}$

4. Capital to Risk Assets (%)	Total Qualifying Capital / Market and Credit Risk Weighted Exposures	
5. Cost to Income Ratio (%)	Total Operating Expenses / Net Interest Income + Other Income	

Part II - Other Information

Our financial report for the year 2016 was prepared in compliance with Generally Accepted Accounting Principles as set forth in Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, PAS and SIC/IFRIC interpretations which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC pronouncements. The same accounting policies and methods of computation were consistently followed in our financial statements as compared with the annual audited financial statements. On April 26, 2016, the Board of Directors approved Cash Dividend of P 0.20 per share for stockholders of record as of June 30, 2016. Payment date was set on July 11, 2016. Cash dividends were paid during the third quarter of 2016. There were no material contingencies or any other unusual events or transactions affecting our financial condition since December 31, 2015. There are no known trends, demands, commitments, events or uncertainties that would have had a material conflict on our financial condition or results of operations or unfavorable impact on net revenues from continuing operations. There is no material commitment for capital expenditures. We don't anticipate any events that may cause any default or acceleration of an obligation. There are no material off-balance sheet transactions, arrangements, obligations, including contingent obligations with unconsolidated entities.

PFRS 9, Financial Instruments: Classification and Measurement. The standard became effective for annual period or after January 1, 2013 but change the mandatory effective date to January 1, 2018. The Bank opted not to implement early adoption of PFRS 9 on its financial reporting. An evaluation was conducted early this year using the outstanding balances of financial statements as of December 31, 2015. We believe that there is no material impact in the financial statements for the adoption of PFRS 9.

For the year 2016, the Bank had no transactions that would require the following information or disclosures:

a. Explanatory comments about the seasonality or cyclicality of interim operations;
b. The nature and amounts of items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature size or incidents;
c. The nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period;
d. Issuances, repurchases and repayments of debt and equity securities;
e. Segment revenue and segment result for business segments or geographical segments, whichever is the issuer's primary basis of segment reporting;
f. Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period;
g. The effect of changes in the composition of the issuer during the interim period, including business combinations, acquisition or disposal of subsidiaries and long term investments, restructurings, and discounting operations;
h. Existence of material contingencies and any other events or transactions that are material to an understanding of the current interim period;
i. Any significant elements of income or loss that did not arise from the issuer's continuing operations;
j. Any seasonal aspects that had a material effect on the financial condition or results of operations;
k. There were no events that will trigger direct or contingent financial obligation that is material to the company including any default or acceleration of an obligation.

FINANCIAL RISK DISCLOSURE		REMARKS
a. Assess the financial risk exposures of the company and its subsidiaries particularly on currency, interest, credit, market and liquidity risks. If any change thereof would materially affect the financial condition and results of operation of the company, provide a discussion in the report on the qualitative and quantitative impact of such risks and include a description of any enhancement in the company's risk management policies to address the same;		A. **Assessment of Financial Risk Exposure of the Bank as of December 31, 2016**. **I. Market Risk**: Foreign Exchange and Interest Rates. 1.1 **Foreign Exchange Position** The net overbought open FX position of the bank, the bulk of which is in USD as of December 31,2016 is in **USD31.37 Million**, the peso equivalent of **Php1.56 Billion or 7.96%** of the bank's unimpaired capital which is well within the 20 percent limit prescribed by BSP regulation. The overbought (long) USD position is exposed to foreign exchange risk as well as interest rate risk. But the probability of risks is small because of low volatility of exchange rates and owing to effective monetary policy of BSP and strong economic fundamentals of the country. In our specific case, the bank consistently made foreign exchange gain for the 4th quarter of 2016. It is our view that foreign exchange and interest rates volatility will remain low and manageable for the following reasons: 1.1.1 BSP's effective management of foreign exchange reserves vis-à-vis the major global currencies, to wit: USD, EURO, SGD, GBP, JPY, HKD and AUD. 1.1.2 The interest rates on the major global currencies will remain low up to the medium term. 1.1.3 Net open position of our bank is relatively minimal and manageable.

		II. Liquidity Risk The risk profile of the bank's balance sheet remains low with more concentration in liquid assets and investments in government securities other than lending. Liquid assets and investment securities accounted for **Php121.26 Billion** while loans amounted to **Php25.197 Billion**. Marginal returns have been affected by the distribution in our assets portfolio but the bank has always been strategically conservative in business policy. **III. Credit Risk** The bulk of bank loans are fully secured by real estate. Some major loan accounts are backed by guarantees, and a small percentage of the loans are clean, without collateral or guarantee but extended to clients who are known to the bank for their good credit reputation. The lending process begins with credit selection and continues to administration and review of loan accounts on a regular basis. Reporting to and review by the credit committee are parts of the whole credit process and done on a regular basis.
b. Evaluate whether the company could provide clearer and more transparent disclosure regarding its financial instruments including but not limited to the following information:		
1. A description of the financial instruments of the company and the classification and measurements applied for each. If material in amount, provide detailed explanation on complex securities particularly on derivatives and their impact on the financial condition of the company;		1. The bank has none of hedging or derivatives financial contracts. The bank main financial contracts are: Available for Sale Securities and Held to Maturity Securities. The bulk of these securities are securitized government obligations.

2. The amount and description of the company's investment in foreign securities;		2. The bank has no investment in foreign securities or equities.
4. An explanation of how risk is incorporated and considered in the valuation of assets or liabilities;		4. Asset and liability management involved in matching the economic characteristics of the bank cash flows. Our bank strives to match inflows and outflows despite the natural structural difference of the terms of assets and liabilities by averaging and scheduling terms and maturities of assets vs. liabilities. We look at duration, the fixed/floating nature of our commitments, the repricing period and over liquidity position and stress testing. Strategic decisions are made regarding interest rate exposure. Impairments are recognized via valuation reserves as in loan valuation.
6. The criteria used to determine whether the market for a financial instrument is active or inactive, as defined under PAS 39-Financial instruments.		6. Before our bank makes any investment decision, it is a precondition that the market especially the secondary, must have liquidity, breadth and depth to transact all tenors of financial instruments.

ANNEX "C-2"

Management's Discussion and Analysis of Financial Condition and Results of Operations for Calendar Year 2017

Financial Condition

The Bank closed the year 2017 with Total Resources reaching P153.956 Billion, an increase of P596.978 Million, over the previous year. Due from Bangko Sentral ng Pilipinas decreased by 12.88% as funds were invested in Reverse Repurchase Agreement with the Bangko Sentral ng Pilipinas. Loans and Receivables decreased by 15.39% or by P8.488 Billion, this was mainly due to decreased in Reverse Repurchase Agreement with the Bangko Sentral ng Pilipinas. Available for Sale Securities increased by 28.72% or by P14.874 Billion as The Bank rationalized its holdings of investment securities. Held to Maturity Investments fell down by 37.15% or by P2.025 Billion as the Bank sold its maturing securities for profit taking. Movements in the other asset accounts can be accounted for by transactions in the ordinary course of business.

Deposit Liabilities closed at P129.664 Billion, compared to P130.078 Billion from last year's level. The 9.38% increase in Manager's Checks represents higher volume of outstanding checks issued. Accrued Taxes and Other Expenses payables increased by 19.21% due to accrual of fringe benefits and interest on deposits. Deferred credits and other liabilities increased by 43.15% due to higher level of trade transactions. All payables were paid within the stated terms.

Capital Funds now at P23.690 Billion, reflected a P900.204 Million increase compared to last year's level of P22.789 Billion. Other Comprehensive Income, Net Unrealized Gains (Losses) decrease by 21.16% or by P391.513 Million due largely on account of mark to market valuation of investments. The Capital Adequacy Ratio (CAR) for the period is 44.56%, which is well above the BSP minimum requirements of 10% is indicative of the sufficiency of the Bank's capital to support the current level of its risk assets.

The Bank has outstanding commitments, contingent liabilities, and bank guarantees that arise from the normal course of operations. The Bank does not anticipate any losses that will materially affect its financial position and results of operation. Changes in nature and amounts in the financial statement were due more to market related factors inherent in nature of the issuers business operations and were not considered unusual.

Results of Operations

Total Gross Earnings amounted to P7.261 Billion compared to P6.556 Billion of the previous year. Declining interest rates on loans resulted in the decrease on interest on loans and advances by 12.93% or by P235.633 Million. The Bank continued to adapt an aggressive stance in the market through sales of bonds and securities, thus gains from Available for Sale Securities increased by 17.36% or by P404.589 Million while Held to Maturity Securities decreased by 52.59% or by P195.619 Million due to small amount of maturing securities compared from last year's level. Interest on deposits with Banks increased by 11.41% due to large availment of Reverse Repurchase Agreement with the Bangko Sentral. Income from foreign exchange profit increased by 17.67% due to higher exchange rate compared from last year's level. Service charges and fees increased by 14.88% or by P7.769 Million due to higher volume of transactions. Other operating income increased by 70.89% due to higher profits on Sale or Redemption of Investments. We provided additional allowance for credit losses for the year, thus provision for probable losses closed at P477.205 Million. Other operating expenses increased by 15.80% brought about by higher GRT remittances and other related BIR payments. Provision for income tax increased by 31.21% compared from last year's level due to higher income subjected to 20% final tax. Net income for the period closed as P1.612 Billion.

For the past 101 years, the Bank continued to be conservative in the development of depositors' and stockholders' funds. The Bank will continue to focus on its core business and to deepen its banking relationship with more prospective clients and to offer more excellent customer service.

We are confident that we can successfully meet the challenges of the times as we have proven in the past and make the Bank an even stronger financial institution. We will continue investing in technology and thereby fully support electronic commerce in the coming years.

Key Performance Indicators

The performance of the bank is reflected in the following financial ratios:

	Dec. 31, 2017	Dec. 31, 2016
Return on Average Equity	6.37%	4.60%
Return on Average Assets	0.96%	0.74%
Net Interest Margin	1.64%	1.55%
Capital to Risk Assets	44.56%	37.65%
Cost to Income Ratio	50.31%	64.51%

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

Key Performance Indicator	Formula
1. Return on Average Equity (%)	Net Income After Income Tax / Average Total Capital Accounts
2. Return on Average Assets (%)	Net Income After Income Tax / Average Total Assets
3. Net Interest Margin (%)	Net Interest Income / Average Interest Earning Assets
4. Capital to Risk Assets (%)	Total Qualifying Capital / Market and Credit Risk Weighted Exposures

5. Cost to Income Ratio (%)

$$\frac{\text{Total Operating Expenses}}{\text{Net Interest Income + Other Income}}$$

Part II - Other Information

Our financial report for the year 2017 was prepared in compliance with Generally Accepted Accounting Principles as set forth in Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, PAS and SIC/IFRIC interpretations which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC pronouncements. The same accounting policies and methods of computation were consistently followed in our financial statements as compared with the annual audited financial statements. On April 25, 2017, the Board of Directors approved Cash Dividend of P 0.20 per share for stockholders of record as of July 11, 2017. Payment date was set on July 12, 2017. Cash dividends were paid during the third quarter of 2017. There were no material contingencies or any other unusual events or transactions affecting our financial condition since December 31, 2016. There are no known trends, demands, commitments, events or uncertainties that would have had a material conflict on our financial condition or results of operations or unfavorable impact on net revenues from continuing operations. There is no material commitment for capital expenditures. We don't anticipate any events that may cause any default or acceleration of an obligation. There are no material off-balance sheet transactions, arrangements, obligations, including contingent obligations with unconsolidated entities.

PFRS 9, Financial Instruments: Classification and Measurement. The standard became effective for annual period or after January 1, 2013 but change the mandatory effective date to January 1, 2018. The Bank opted not to implement early adoption of PFRS 9 on its financial reporting. An evaluation was conducted early this year using the outstanding balances of financial statements as of December 31, 2016. The Bank has performed a preliminary assessment of the impact of PFRS 9 on the financial statements based on an analysis of the financial assets and liabilities and the facts and circumstances that exist as at December 31, 2017. The Bank has no transaction wherein hedge accounting requirements will apply.

For the year 2017, the Bank had no transactions that would require the following information or disclosures:

a. Explanatory comments about the seasonality or cyclicality of interim operations;
b. The nature and amounts of items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidents;
c. The nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period;
d. Issuances, repurchases and repayments of debt and equity securities;
e. Segment revenue and segment result for business segments or geographical segments, whichever is the issuer's primary basis of segment reporting;
f. Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.
g. The effect of changes in the composition of the issuer during the interim

period, including business combinations, acquisition or disposal of subsidiaries and long terms investments, restructurings, and discontinuing operations;

h. Existence of material contingencies and any other events or transactions that are material to an understanding of the current interim period.
i. Any significant elements of income or loss that did not arise from the Issuer's continuing operations,
j. Any seasonal aspects that had a material effect on the financial condition or results of operations.

FINANCIAL RISK DISCLOSURE		REMARKS
a. Assess the financial risk exposures of the company and its subsidiaries particularly on currency, interest, credit, market and liquidity risks. If any change thereof would materially affect the financial condition and results of operation of the company, provide a discussion in the report on the qualitative and quantitative impact of such risks and include a description of any enhancement in the company's risk management policies to address the same;		A. **Assessment of Financial Risk Exposure of the Bank as of December 31, 2017**. **I. Market Risk**: Foreign Exchange and Interest Rates. 1.1 **Foreign Exchange Position** The net overbought open FX position of the bank, the bulk of which is in USD as of December 31, 2017 is in **USD42.317 Million**, the peso equivalent of **Php2.113 Billion** or **10.95% o**f the bank's unimpaired capital which is well within the 20 percent limit prescribed by BSP regulation. The overbought (long) USD position is exposed to foreign exchange risk as well as interest rate risk. But the probability of risks is small because of low volatility of exchange rates and owing to effective monetary policy of BSP and strong economic fundamentals of the country. In our specific case, the bank consistently made foreign exchange gain for this fourth quarter of 2017. It is our view that foreign exchange and interest rates volatility will remain low and manageable for the following reasons: 1.1.1 BSP's effective management of foreign exchange reserves vis-à-vis the major global currencies, to wit: USD, EURO, SGD, GBP, JPY, HKD and AUD. 1.1.2 The interest rates on the major global currencies will remain low up to the medium term. 1.1.3 Net open position of our bank is relatively minimal and manageable.

		II. Liquidity Risk The risk profile of the bank's balance sheet remains low with more concentration in liquid assets and investments in government securities other than lending. Liquid assets and investment securities accounted for **Php122.546 Billion** while loans amounted to **Php24.608 Billion**. Marginal returns have been affected by the distribution in our assets portfolio but the bank has always been strategically conservative in business policy. **III. Credit Risk** The bulk of bank loans are fully secured by real estate. Some major loan accounts are backed by guarantees, and a small percentage of the loans are clean, without collateral or guarantee but extended to clients who are known to the bank for their good credit reputation. The lending process begins with credit selection and continues to administration and review of loan accounts on a regular basis. Reporting to and review by the credit committee are parts of the whole credit process and done on a regular basis.
b. Evaluate whether the company could provide clearer and more transparent disclosure regarding its financial instruments including but not limited to the following information:		
1. A description of the financial instruments of the company and the classification and measurements applied for each. If material in amount, provide detailed explanation on complex securities particularly on derivatives and their impact on the financial condition of the company;		1. The bank has none of hedging or derivatives financial contracts. The bank main financial contracts are: Available for Sale Securities and Held to Maturity Securities. The bulk of these securities are securitized government obligations.

2. The amount and description of the company's investment in foreign securities;		2. The bank has no investment in foreign securities or equities.
4. An explanation of how risk is incorporated and considered in the valuation of assets or liabilities;		4. Asset and liability management involved in matching the economic characteristics of the bank cash flows. Our bank strives to match inflows and outflows despite the natural structural difference of the terms of assets and liabilities by averaging and scheduling terms and maturities of assets vs. liabilities. We look at duration, the fixed/floating nature of our commitments, the repricing period and over liquidity position and stress testing. Strategic decisions are made regarding interest rate exposure. Impairments are recognized via valuation reserves as in loan valuation.
6. The criteria used to determine whether the market for a financial instrument is active or inactive, as defined under PAS 39-Financial instruments.		6. Before our bank makes any investment decision, it is a precondition that the market especially the secondary, must have liquidity, breadth and depth to transact all tenors of financial instruments.

ANNEX C3

Management's Discussion and Analysis of Financial Condition and Results of Operations for Calendar Year 2018

Financial Condition

The Bank closed the year 2018 with Total Resources amounting to P153.010 Billion, a minimal decrease of P947.329 Million, over the previous year of P153.958 Billion. Due from Bangko Sentral ng Pilipinas representing 12.02% of Total Resources decreased by P7.108 Million or by 27.87% as funds were invested in Reverse Repurchase Agreement with the Bangko Sentral ng Pilipinas, thus increasing Loans and Other Receivables by 10.62% or by P4.950 Billion compared from last year's level. The 15.45% or P638.221 Million decrease in Due from Other Banks reflects lower operating balance maintained from both local and foreign correspondent banks. Cash and Other Cash Items increased by 36.84% or by P305.313 Million, arising from more effective management of reserve deposits. Held to Maturity Investments increased by 1,040.46% whereas Available for Sale Investments decreased by 50.19% due to reclassification of Available for Sale Investments to Held to Maturity Investments. Upon reassessment of business model under PFRS 9 the Bank reclassified some of its government securities from AFS financial assets to financial assets at amortized cost. Other Assets decreased by 10.45% or by P22.104 Million as movements in these accounts can be accounted for by transactions in the ordinary course of business.

Deposit Liabilities stood at P131.177 Billion, compared to P129.664 Billion from last year's level, a P1.513 Billion increase. Deposit increase came mainly from Demand Deposit with a 15.96% increase from last year's level. The decrease of 12.15% in Manager's Checks represents lesser outstanding payables compared from last year's level. Deferred credits and other liabilities increased by 39.60% or by P75.078 Million due to higher level of transactions for the period.

Capital Funds closed at P21.150 Billion, reflecting a P2.539 Billion decrease from last year's level of P23.690 Billion. Other Comprehensive Income, Net Unrealized Gains (Losses) decrease by P2.762 Billion due largely on account of mark to market valuation of investments. The Capital Adequacy Ratio (CAR) for the period is 34.12%, which is well above the Bangko Sentral ng Pilipinas minimum requirements of 10% is indicative of the sufficiency of the Bank's capital to support the current level of its risk assets.

The Bank has outstanding commitments, contingent liabilities, and bank guarantees that arise from the normal course of operations. The Bank does not anticipate any losses that will materially affect its financial position and results of operations. Changes in nature and amounts in the financial statements were due more to market related factors inherent in nature of the issuers business operations and were not considered unusual.

Results of Operations

The Bank generated at year end a Gross Earnings amounting to P7.090 Billion compared to P7.261 Billion from the previous year. With less accrual compared from previous year, interest on Loans and Advances decreased by a minimal 9.02%. Interest on Held to Maturity Investments increased by 429.41% or P757.277 Million compared from year's level of P176.354 Million due to maturing securities for the period. The Bank opted not to engage in the market thru sales of bonds and securities because of low market rate, thus a decrease of 20.27% on Available for Sale Securities. Interest on Deposits with Banks decreased by 10.55% due to lower placements with the Bangko Sentral ng Pilipinas. Income from foreign exchange profits increased by 152.18% due to higher exchange rate compared from last year's level. Other operating income decreased by a minimal 121.71%. With the adoption of PFRS 9, we provided additional valuation for Loans and Receivables.

Interest expense increased by 17.57% compared from last year's level due to higher interest rate. Depreciation/Amortization decreased by 49.51% due to disposal of some office and IT related equipments. Provision for income tax closed at P461.682 Million compared to P333.756 Million of previous year. Net Income closed at P823.761 Million.

For the past 102 years, the Bank continued to be conservative in the development of depositors' and stockholders' funds. The Bank will continue to focus on its core business and to deepen its banking relationship with more prospective clients and to offer more excellent customer service.

We are confident that we can successfully meet the challenges of the times as we have proven in the past and make the Bank an even stronger financial institution. We will continue investing in technology and thereby fully support electronic commerce in the coming years.

Key Performance Indicators

The performance of the bank is reflected in the following financial ratios:

	Dec. 31, 2018	Dec. 31, 2017
Return on Average Equity	3.93%	6.37%
Return on Average Assets	0.54%	0.96%
Net Interest Margin	1.66%	1.64%
Capital to Risk Assets	34.12%	44.56%
Cost to Income Ratio	66.78%	50.31%

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

Key Performance Indicator	Formula
1. Return on Average Equity (%)	$\frac{\text{Net Income After Income Tax}}{\text{Average Total Capital Accounts}}$
2. Return on Average Assets (%)	$\frac{\text{Net Income After Income Tax}}{\text{Average Total Assets}}$

3. Net Interest Margin (%)	$\dfrac{\text{Net Interest Income}}{\text{Average Interest Earning Assets}}$
4. Capital to Risk Assets (%)	$\dfrac{\text{Total Qualifying Capital}}{\text{Market and Credit Risk Weighted Exposures}}$
5. Cost to Income Ratio (%)	$\dfrac{\text{Total Operating Expenses}}{\text{Net Interest Income + Other Income}}$

Part II - Other Information

Our financial report for the year 2018 was prepared in compliance with Generally Accepted Accounting Principles as set forth in Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, PAS and SIC/IFRIC interpretations which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC pronouncements. The same accounting policies and methods of computation were consistently followed in our financial statements as compared with the annual audited financial statements. There were no cash dividends paid during the year of 2018. There were no material contingencies or any other unusual events or transactions affecting our financial condition since December 31, 2017. There are no known trends, demands, commitments, events or uncertainties that would have had a material conflict on our financial condition or results of operations or unfavorable impact on net revenues from continuing operations. There is no material commitment for capital expenditures. We don't anticipate any events that may cause any default or acceleration of an obligation. There are no material off-balance sheet transactions, arrangements, obligations, including contingent obligations with unconsolidated entities.

PFRS 9, Financial Instruments: Classification and Measurement

Transition. As allowed under transitory provisions of PFRS 9, the Bank applied the requirements of PFRS 9 retrospectively but opted not to restate the comparative information. Differences in the carrying amounts of financial assets resulting from the adoption of PFRS 9 were recognized in the unrealized gains and losses and beginning balance of cumulative unrealized gains on investment securities and other upon reclassification of the financial assets. The beginning balances of allowance for credit and impairment losses on loans and receivables and surplus were adjusted as a result of the adoption of PFRS 9.

Classification and Measurement. Based on the Bank's analysis of its business model and the contractual cash flow characteristics of its financial assets and liabilities as at January 1, 2018, the Bank has concluded that all of its financial assets and liabilities shall continue to be measured on the same basis as under PAS 39, except for some of its government securities

Impairment. The Bank has determined that the application for the new requirement for impairment under PFRS 9 resulted in an additional allowance for credit and impairment losses on loans and receivables and investment securities.

For the year 2018, the Bank had no transactions that would require the following information or disclosures:

a. Explanatory comments about the seasonality or cyclicality of interim operations;
b. The nature and amount of items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidents;
c. The nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period;

d. Issuances, repurchases and repayments of debt and equity securities;
e. Segment revenue and segment result for business segments or geographical segments, whichever is the issuer's primary basis of segment reporting;
f. Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.
g. The effect of changes in the composition of the issuer during the interim period, including business combinations, acquisition or disposal of subsidiaries and long term investments, restructurings, and discontinuing operations;
h. Existence of material contingencies and any other events or transactions that are material to an understanding of the current interim period.
i. Any significant elements of income or loss that did not arise from the issuer's continuing operations.
j. Any seasonal aspects that had a material effect on the financial condition or results of operations.

FINANCIAL RISK DISCLOSURE		REMARKS
a. Assess the financial risk exposures of the company and its subsidiaries particularly on currency, interest, credit, market and liquidity risks. If any change thereof would materially affect the financial condition and results of operation of the company, provide a discussion in the report on the qualitative and quantitative impact of such risks and include a description of any enhancement in the company's risk management policies to address the same;		A. **Assessment of Financial Risk Exposure of the Bank as of December 31, 2018**. **I. Market Risk**: Foreign Exchange and Interest Rates. 1.1 **Foreign Exchange Position** The net overbought open FX position of the bank, the bulk of which is in USD as of **December 31, 2018** is in **USD49.391 Million**, the peso equivalent of **Php2.597 Billion** or **15.00% o**f the bank's unimpaired capital which is well within the 20 percent limit prescribed by BSP regulation. The overbought (long) USD position is exposed to foreign exchange risk as well as interest rate risk. But the probability of risks is moderate because of normal volatility of exchange rates and owing to effective monetary policy of BSP and strong economic fundamentals of the country. In our specific case, the bank consistently made foreign exchange gain for year of 2018. It is our view that foreign exchange and interest rates volatility will remain stable because of BSP proactive stance and any variance would be within our level of confidence for the following reasons: 1.1.1 BSP's effective management of foreign exchange reserves vis-à-vis the major global currencies, to wit: USD, EURO, SGD, GBP, JPY, HKD and AUD. 1.1.2 The interest rate curve outlook on the USD will flat to decreasing because of recessionary conditions in the US in the medium term and longer term and in

		which case the bank will necessarily align its position. 1.1.3 Net open position of our bank is not speculative and manageable. **II. Liquidity Risk** The risk profile of the bank's balance sheet remains low with more concentration in liquid assets and investments in government securities other than lending. Liquid assets and investment securities accounted for **Php121.705 Billion** while loans amounted to **Php25.884 Billion**. Marginal returns have been low by the distribution in our assets portfolio but the bank has always been strategically conservative in business policy. **III. Credit Risk** The bulk of bank loans are fully secured by real estate. Some major loan accounts are backed by guarantees, and a small percentage of the loans are clean, without collateral or guarantee but extended to clients who are known to the bank for their good credit reputation. The lending process begins with credit selection and continues to administration and review of loan accounts on a regular basis. Reporting to and review by the credit committee are parts of the whole credit process and done on a regular basis.
b. Evaluate whether the company could provide clearer and more transparent disclosure regarding its financial instruments including but not limited to the following information:		
1. A description of the financial instruments of the company and the classification and measurements		1. The bank has none of hedging or derivatives financial contracts. The bank main financial contracts are:

applied for each. If material in amount, provide detailed explanation on complex securities particularly on derivatives and their impact on the financial condition of the company;		Available for Sale Securities and Held to Maturity Securities. The bulk of these securities are securitized government obligations.
2. The amount and description of the company's investment in foreign securities;		2. The bank has no investment in foreign securities or equities.
4. An explanation of how risk is incorporated and considered in the valuation of assets or liabilities;		4. Asset and liability management involved in matching the economic characteristics of the bank cash flows. Our bank strives to match inflows and outflows despite the natural structural difference of the terms of assets and liabilities by averaging and scheduling terms and maturities of assets vs. liabilities. We look at duration, the fixed/floating nature of our commitments, the repricing period and over liquidity position and stress testing. Strategic decisions are made regarding interest rate exposure. Impairments are recognized via valuation reserves as in loan valuation.
6. The criteria used to determine whether the market for a financial instrument is active or inactive, as defined under PAS 39- Financial instruments.		6. Before our bank makes any investment decision, it is a precondition that the secondary market must have liquidity, breadth and depth to transact all tenors of financial instruments.

Philippine Trust Company (Philtrust Bank)
Bank-Owned Properties (Land & Building) - Existing Bank Sites
As of December 31, 2018

Branch Office	Location	Improvements/Condition of Properties	Mortgage, Lien or Encumbrance and Limitations on Ownership or Usage
Metro Manila Branches			
Aurora Blvd. Branch	Aurora Blvd. cor. 15th Ave., Cubao, Quezon City	The branch occupies a portion/unit of the ground floor of a 6-storey condominium building. The building is in good condition.	None
Bambang Branch	Philtrust Bank Building, 1499 G. Masangkay corner Bambang Sts., Tondo, Manila	3-storey building in good condition. The branch occupies only the ground floor.	None
Binondo Branch	Philtrust Bank Building, Quintin Paredes St. cor. Dasmariñas and Plaza Cervantes Sts., Binondo, Manila	The branch occupies the ground floor of a 6-storey building. The building is in good condition.	None
Caloocan Branch	Philtrust Bank Building, Samson Road (near Bonifacio Monument), Caloocan City	2-storey building in good condition, fully occupied by the branch.	None
Divisoria Branch	Philtrust Bank Building, 539 C.M. Recto Ave. cor. Carmen Planas St., Divisoria, Tondo, Manila	4-storey building in good condition. The branch occupies only the ground floor.	None
Elcano Branch	Philtrust Bank Building, Elcano cor. Lavezares Sts., Binondo, Manila	2-storey building in good condition, fully occupied by the branch.	None
Ermita Branch	Philtrust Bank Building, A. Mabini St. cor. U.N. Avenue, Brgy. 667 Zone 72, Ermita, Manila	4-storey building in good condition. The branch occupies only the ground floor.	None
Escolta Branch	Philtrust Bank Building, 277 Escolta St., Binondo, Manila	5-storey building in good condition. The branch occupies only the ground floor.	None
Juan Luna Branch	Philtrust Bank Building, Juan Luna cor. San Fernando Sts., Binondo, Manila	5-storey building in good condition. The branch occupies the ground floor and the 2nd floor.	None
Las Piñas Branch	Philtrust Bank Building, Alabang Zapote Road., Almanza 1, Las Piñas City	1-storey building in good condition, fully occupied by the branch.	None
Libertad Branch	Philtrust Bank Building, Taft Avenue cor. A. Arnaiz Avenue, Pasay City	3-storey building in good condition. The branch occupies only a portion of the ground floor.	None
Mandaluyong Branch	Philtrust Bank Building, Shaw Blvd. cor. Gen. Kalentong St., Mandaluyong City	3-storey building in good condition, fully occupied by the branch.	None

Philippine Trust Company (Philtrust Bank)
Bank-Owned Properties (Land & Building) - Existing Bank Sites
As of December 31, 2018

Branch Office	Location	Improvements/Condition of Properties	Mortgage, Lien or Encumbrance and Limitations on Ownership or Usage
Marikina Branch	Philtrust Bank Building, Sumulong Highway cor. P. Burgos St., Sto. Niño, Marikina City	3-storey building in good condition. The branch occupies only a portion of the ground floor and the 2nd floor.	None
Maypajo Branch	Philtrust Bank Building, A. Mabini cor. L. Lupa St., Maypajo, Caloocan City	4-storey building in good condition. The branch occupies only the ground floor.	None
Morayta Branch	Philtrust Bank Building, 890-892 Dr. Nicanor Reyes cor. R. Papa Sts., Sampaloc, Manila	2-storey building in good condition, fully occupied by the branch.	None
Pasig Branch	Philtrust Bank Building, Dr. S. Antonio Avenue, Caniogan, Pasig City	1-storey building in good condition, fully occupied by the branch.	None
Puyat Ave. Branch	Philtrust Bank Building, 259-263 Sen. Gil Puyat Ave., Makati City	9-storey building in good condition. The branch occupies only a portion of the ground floor.	None
Quezon Ave. Branch	Quezon Avenue cor. Sto. Domingo St., Quezon City	2-storey building in good condition. The branch occupies only a portion of the ground floor.	None
Reina Regente Branch	Philtrust Bank Building, Reina Regente cor. Soler and Alvarado Sts., Binondo, Manila	4-storey building in good condition. The branch occupies the ground floor and the 2nd floor.	None
Sta. Cruz Branch	Philtrust Bank Building, Rizal Ave. cor. Plaza Lacson, Sta. Cruz, Manila	5-storey building in good condition. The branch occupies only the ground floor.	None
Taguig Branch	Unit 101-A, One Global Place, 5th Ave. cor. 25th St., Bonifacio South District, Bonifacio Global City, Taguig	The branch occupies a portion/unit of the ground floor of a 25-storey building. The building is in good condition.	None
Valenzuela Branch	Philtrust Bank Building, McArthur Highway (Fronting Valenzuela City Hall), Brgy. Malinta, Valenzuela City	3-storey building in good condition. The branch occupies a portion of the ground floor.	None

Philippine Trust Company (Philtrust Bank)
Bank-Owned Properties (Land & Building) - Existing Bank Sites
As of December 31, 2018

Branch Office	Location	Improvements/Condition of Properties	Mortgage, Lien or Encumbrance and Limitations on Ownership or Usage
Provincial Branches Angeles Branch	Philtrust Bank Building, McArthur Highway cor. B. Aquino St., Angeles City, Pampanga	1-storey building in good condition, fully occupied by the branch.	None
Bacolod Branch	Philtrust Bank Building, Gatuslao cor. Cuadra Sts., Bacolod City	5-storey building in good condition. The branch occupies only the ground floor.	None
Bulacan Branch	Philtrust Bank Building, Paseo Del Congreso, Malolos City, Bulacan	2-storey building in good condition. The branch occupies only the ground floor.	None
Cabanatuan Branch	Philtrust Bank Building, Burgos Ave. cor. Beedle St., Cabanatuan City	2-storey building in good condition, fully occupied by the branch.	None
Cagayan De Oro Branch	Philtrust Bank Building, S. Osmeña cor. J. Ramonal Sts., Cogon, Cagayan De Oro City	3-storey building in good condition. The branch occupies only the ground floor.	None
Cavite Branch	Philtrust Bank Building, Km. 41 Aguinaldo Highway, Silang, Cavite	1-storey building in good condition, fully occupied by the branch.	None
Cebu Colon Branch	Colon St., Cebu City	2-storey building in good condition, fully occupied by the branch.	None
Cebu Magallanes Branch	Philtrust Bank Building, Magallanes cor. F. Gonzales St., Cebu City	4-storey building in good condition. The branch occupies the ground floor and the 2nd floor.	None
Davao Sta. Ana Branch	Philtrust Bank Building, Monteverde Ave. cor. F. Bangoy St., Sta. Ana, Davao City	2-storey building in good condition. The branch occupies only the ground floor.	None
Dumaguete Branch	Philtrust Bank Building, Silliman Avenue cor. Real St., Brgy. Poblacion 007, Dumaguete City	2-storey building in good condition. The branch occupies only the ground floor.	None

Philippine Trust Company (Philtrust Bank)
Bank-Owned Properties (Land & Building) - Existing Bank Sites
As of December 31, 2018

Branch Office	Location	Improvements/Condition of Properties	Mortgage, Lien or Encumbrance and Limitations on Ownership or Usage
Iloilo Branch	Philtrust Bank Building, Quezon cor. Delgado Sts., Iloilo City	5-storey building in good condition. The branch occupies only the ground floor.	None
Limay Branch	Philtrust Bank Building, Brgy. Luz, National Road, Limay, Bataan	1-storey building in good condition, fully occupied by the branch.	None
Naga Branch	Philtrust Bank Building, Caceres cor. E. Angeles Sts., Naga City, Camarines Sur	2-storey building in good condition. The branch occupies only the ground floor.	None
Roxas Branch	Philtrust Bank Building, Roxas Ave. cor. Primero De Mayo St., Roxas City, Capiz	2-storey building in good condition, fully occupied by the branch.	None
Santiago Branch	Maharlika Highway cor. Abauag St., Santiago City, Isabela	4-storey building in good condition. The branch occupies only a portion of the ground floor and the 2nd floor.	None
Urdaneta Branch	Philtrust Bank Building, McArthur Highway cor. Ambrosio St., Urdaneta City, Pangasinan	2-storey building in good condition. The branch occupies only the ground floor.	None

Annex "D-1"

Philippine Trust Company (Philtrust Bank)
Leased Bank Sites
As of December 31, 2018

Branch Office	Location	Amount of Lease Payment Per Month	Lease Expiration Date	Lease Term
Metro Manila Branches				
Ayala Branch	National Life Insurance Bldg., 6762 Ayala Avenue, Makati City	Php724,739.29	Dec. 31, 2018	1 year
Edsa-Muñoz Branch	EDSA cor. Roosevelt Ave., Quezon City	Php198,223.87	June 30, 2028	20 years
Grace Park Branch	225 Rizal Ave. Ext., Grace Park, Caloocan City	Php526,823.08	Sept. 30, 2025	10 years
Greenhills Branch	Metrosquare Building, 224 Ortigas Avenue, North Greenhills, San Juan City	Php179,520.32	Jan. 15, 2019	5 years
Makati-Pasay Road Branch	Liberty Building, 835 A. Arnaiz Ave., Makati City	Php539,774.77	Sept. 30, 2020	5 years
Malabon Branch	Rizal Avenue cor. Leoño St., Tañong, Malabon City	Php108,226.27	Feb. 28, 2022	5 years
Malate Branch	Remedios cor. M.H. Del Pilar Sts., Malate, Manila	Php399,168.00	Dec. 31, 2018	1 year
Morayta Branch Ext. (CEU - Mendiola)	Ground Floor, Generosa De Leon Science Center Building, Centro Escolar University, No. 9 Mendiola St., San Miguel, Manila	Php62,750.48	March 31, 2021	5 years
NAIA Branch (Terminal 1)	Departure Level, NAIA Terminal 1, Parañaque City	Php44,817.57	Dec. 31, 2018	1 year
NAIA Branch Ext. (Terminal 3)	Stall No. 12 Arrival Level, NAIA Terminal 3, Pasay City	Php34,608.00	Dec. 31, 2018	1 year
Ongpin Branch	Ongpin cor. Padilla Sts., Binondo, Manila	Php420,000.00	Oct. 31, 2022	5 years
Ortigas Branch	Unit No. UG-2, One San Miguel Avenue Condo., San Miguel Ave. cor. Shaw Blvd., Ortigas Center, Pasig City	Php402,271.78	April 9, 2020	5 years

Philippine Trust Company (Philtrust Bank)
Leased Bank Sites
As of December 31, 2018

Branch Office	Location	Amount of Lease Payment Per Month	Lease Expiration Date	Lease Term
Paco Branch	Simplicia Bldg., Pedro Gil cor. A. Linao Sts., Paco, Manila	Php65,296.00	-	Monthly
Padre Rada Branch	Padre Rada cor. Ilaya Sts., Tondo, Manila	Php296,352.00	Dec. 31, 2026	25 years
Quiapo Branch	F & C Tower, Plaza Miranda, Quiapo, Manila	Php298,144.00	June 30, 2022	5 years
Sucat Branch	Dr. A. Santos Ave. cor. Sta. Rita St., Parañaque City	Php132,291.76	Jan. 3, 2026	10 years
Tabora Branch	Tabora cor. M. De Santos Sts., San Nicolas, Manila	Php164,640.00	Dec. 31, 2018	1 year
Taft Branch	1844 Taft Avenue, Pasay City	Php249,213.22	June 6, 2022	5 years
Tordesillas Branch	Unit 101 Le Metropole Condominium, Sen. Gil Puyat Ave. cor. Tordesillas St., Makati City	Php184,177.46	Aug. 31, 2023	5 years
Provincial Branches Batangas Branch	Rizal Avenue cor. P. Gomez St., Batangas City	Php131,183.36	March 14, 2023	5 years
Cebu Fuente Branch	Osmeña Blvd. cor. J. Llorente St., Cebu City	Php183,942.63	March 31, 2022	5 years
Davao Recto Branch	Caritas Building, C.M. Recto St., San Pedro, Davao City	Php45,015.36	Oct. 1, 2019	1 year
La Union Branch	Diocesan Buildiing, P. Gomez St., San Fernando City, La Union	Php90,000.00	Dec. 31, 2018	3 years
Lucena Branch	Quezon Ave. cor. Don Queblar St., Lucena City, Quezon	Php98,387.52	Aug. 1, 2020	10 years

Philippine Trust Company (Philtrust Bank)
Bank-Owned Properties - Future Bank Sites
As of December 31, 2018

Branch Office	Location	Mortgage, Lien or Encumbrance and Limitations on Ownership of Usage
Metro Manila Branches		
Grace Park Branch	Rizal Avenue Ext., Grace Park, Caloocan City	None
Parañaque Branch	NAIA Road cor. Quirino Avenue, Parañaque City	None
Roosevelt Branch	274 Roosevelt Avenue, San Francisco Del Monte, Quezon City	None
Taft Avenue Branch	1812 Taft Avenue, Pasay City	None
Provincial Branches		
Gen. Santos Branch	Roxas Avenue cor. Osmeña St., Dadiangas, General Santos City	None
Kalibo Branch	Roxas Blvd. Extension, Brgy. Andagao, Kalibo, Aklan	None
La Union Branch	Quezon Avenue cor. Ancheta St., San Fernando City, La Union	None
Laoag Branch	Brgy. 13, Nuestra Señora de Visitacion, Laoag City	None
Mandaue Branch	A. Del Rosario & Zamora Sts., Centro, Mandaue City, Cebu	None
Ozamiz Branch	Rizal cor. Juan Luna St., Ozamiz City	None
Tarlac Branch	McArthur Highway cor. R. Mercado St., Brgy. Sto. Cristo, Tarlac City	None
Tuguegarao Branch	No. 1 Bonifacio St., Tuguegarao City, Cagayan	None
Vigan Branch	Bonifacio cor. Jacinto Sts., Vigan City, Ilocos Sur	None

Annex "E"

ITEMS REPORTED UNDER CURRENT REPORT
(SEC Form 17-C)

Date of Report	Item Reported
January 30, 2018	Re-appointment of Maceda, Valencia & Co. (MVC) as the Bank's external auditor for the year 2017 as authorized by the stockholders.
March 5, 2018	Approval by the Board on February 27, 2018 of the change of external auditor from MVC to Reyes Tacandong to comply with BSP accreditation requirement.
March 5, 2018	Bank approval on February 27, 2018 setting the annual stockholders on Tuesday, May 15, 2018 at 8:00 a.m. at the Philtrust Building, 1000 United Nations Avenue corner San Marcelino Street, Manila.
April 11, 2018	Amendment of the above report to include therein the reason for the date set and to make the said report under oath.
April 26, 2018	Approval by the Board on April 20, 2018 of the amendment to Article SIXTH of the Articles of Incorporation (AOI) increasing the number of directors from 11 to 12.
April 26, 2018	Approval by the Board on April 20, 2018 of the amendments to the By-Laws (BL): a.) ARTICLE I, SEC 1 – changing the venue, time and date of the annual stockholders meeting to Philtrust Bank Building, 1000 United Nations Avenue corner San Marcelino Street, Manila at eight a.m. on the last Tuesday of May in each year; and b.) ARTICLE II, SEC 1 – increasing the number of directors from 11 to 12
May 16, 2018	Stockholders' approval on May 15, 2018 of the aforesaid amendment to Article SIXTH of the AOI.
May 16, 2018	Stockholders' approval on May 15, 2018 of the aforesaid amendments to the ARTICLE I, SEC 1 and ARTICLE II, SEC 1 of the BL.

Date of Report	Item Reported
May 16, 2018	Authority granted by the Stockholders on May 15, 2018 for the Board to appoint and/or change the Bank's external auditor for the year 2018.
May 16, 2018	Election on May 15, 2018 of the eleven (11) Directors of the Bank for the ensuing year 2018-2019.
May 16, 2018	Results of the May 15, 2018 Organizational Meeting of the Board.
November 27, 2018	Re-appointment of Reyes Tacandong & Co. as the Bank's external auditor for the year 2018.