COVER STORY
ANNUAL REPORT
2018

Stability. Strength. Sustainability. Built over the years, these are what enabled BMI to sail through 2018 -- a year marked by financial and economic challenges, and an uneasy political environment not only in the country but globally, as well.

Consistent prudent management of our business, the ability to adopt to change and shift strategies according to market demand have enabled BMI to continue its upward trajectory. We closed 2018 with 52% and 34% total net income and equity respectively.

Economists have predicted that 2019 will be a better year for the financial markets than 2018. While inflation rates have eased, continuing geopolitical uncertainties make it difficult to tell whether that forecast will become reality.

As we move forward, BMI will continue to strive for growth hinged on stability, strength and sustainability.

content

Our Mission

We exist to help more people attain better financial security.

We value our role in economic development and our contribution to social progress.

We are dedicated to the continuing growth of the Bank.

We are commited to the well-being of our employees and to providing them a work-life environment that brings out the best of their abilities, talents and behavior.

We aim to provide our shareholders optimum returns on their investments.

In pursuit of our mission, we shall be guided by the values of

TEAMWORK, INTEGRITY, CONCERN AND EXCELLENCE.

Our Vision

We aim to be the mSME bank of choice, creating value through innovative and responsive financial products and services.

We will be:

- Recognized for our ability to satisfy and delight our customers;
- Admired for the competence and commitment of our people; and,
- Respected for the values and principles we stand for.

THE BMI BRAND

BMI's catch phrase, "Diretso. Asenso." conveys the aspirations of our bank's target market: the impassioned micro, small and medium entrepreneur (mSME); the hardworking young professional; the budget-conscious consumer; the father who aims to provide for his family; the mother who tries to make ends meet; and the student who dreams of finishing school.

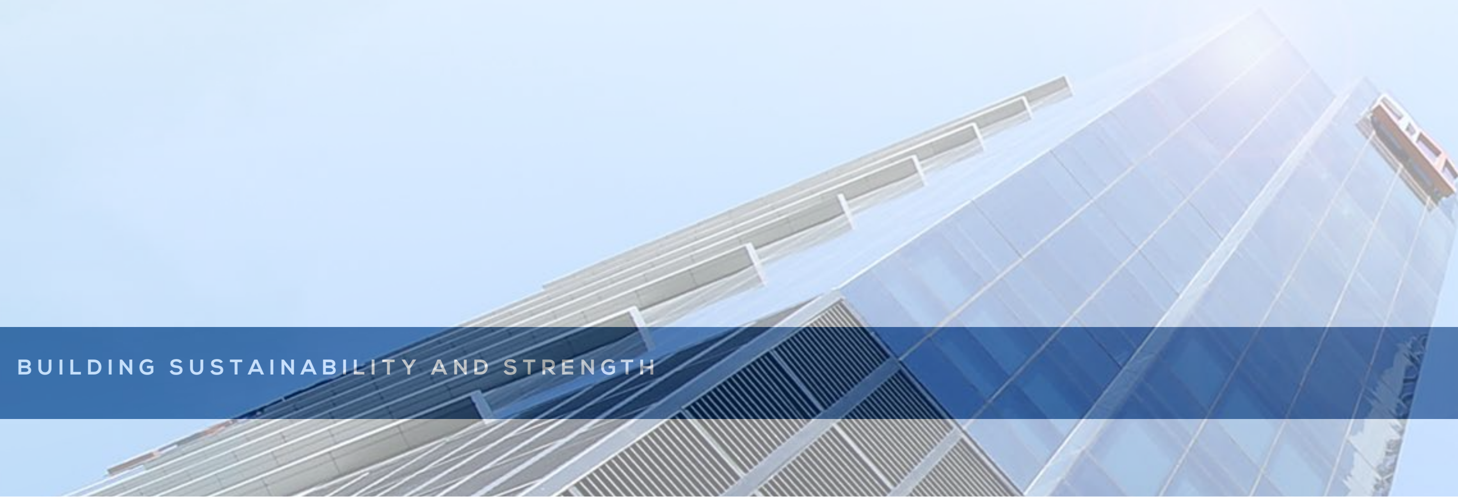
They desire to earn and save money for a better future, or to grow their business or pursue a dream. Yet they are hampered by the lack of know-how and determination. With "Diretso. Asenso." we offer them a means to achieve their goals through simple and no-frills banking.

At Bank of Makati, we make it easy for Filipino savers and entrepreneurs to open an account or secure a loan through our accessible and affordable products, and friendly, personalized service.

- Our Power Negosyo Enterprise Loan 300 provides micro and small businessmen a non-collateral loan with minimal documentary requirements.
- Our loan products come with low interest rates suitable for striving businesses.
- Savers seeking to avail of our deposit products can open accounts with low initial deposits.
- Our bank personnel go out of their way to make it easy for clients to transact business with us, from doing house calls to deliver documents to assisting in getting financial statements in order

With more than 60 years in community banking, Bank of Makati has helped countless Filipinos fulfill their dreams through our "Diretso. Asenso." brand of service.

In the coming years, we look forward to further building our community of Filipino savers and entrepreneurs!



BUSINESS model

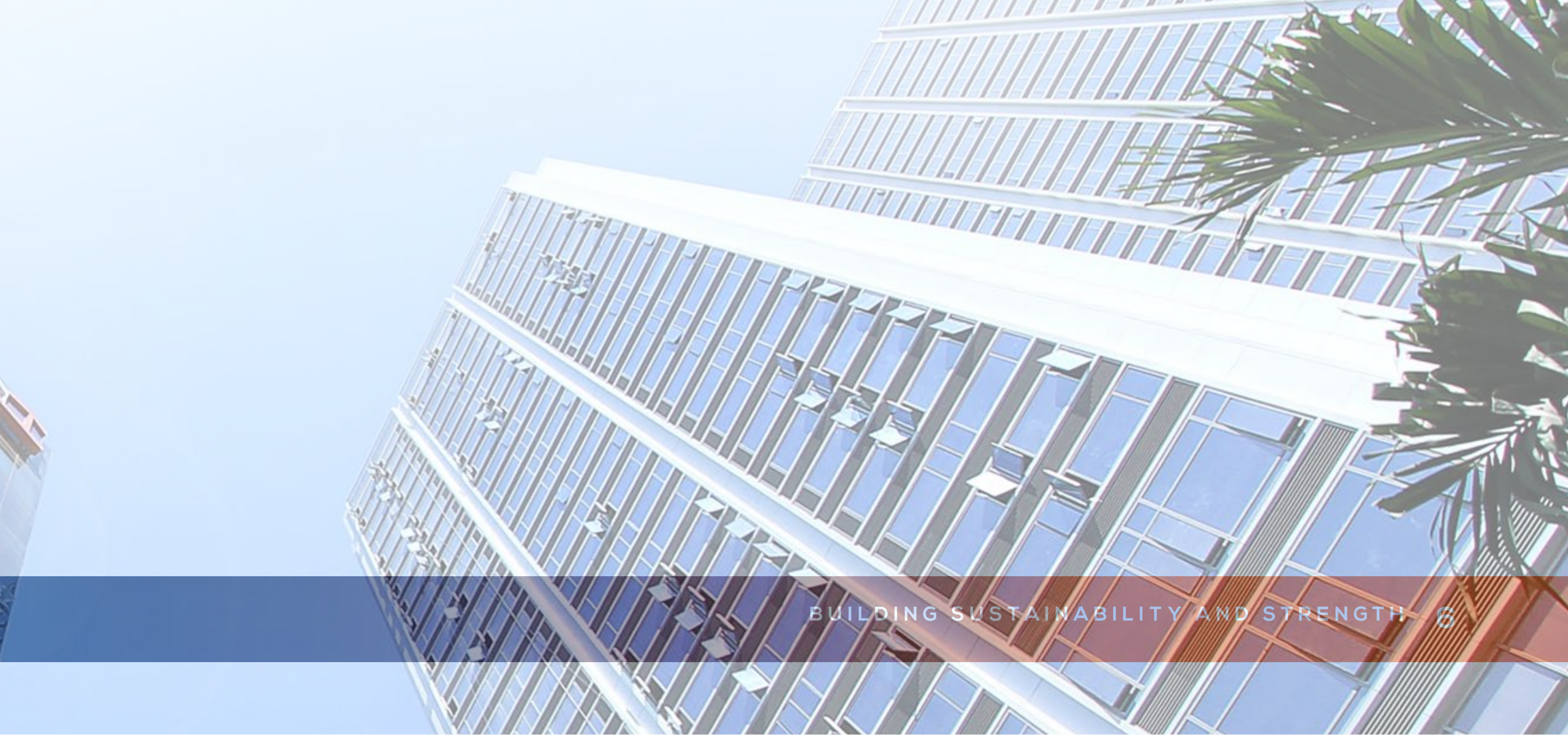
Bank of Makati, from being the leading rural bank in the country, upgraded to a savings bank in 2015 as part of its long-range strategic plans. BMI envisions itself to be the micro, small and medium entrepreneurs' (mSME) bank of choice. With a well-defined market, BMI zeroed in on how we can better serve our targeted clients who want simpler, easier and straightforward banking. Our service delivery proposition is DIRETSO. ASENSO. In addition, as a powerful sales call to our market, mSMEs, we adopted as our tagline MALALAPITAN, MAAASAHANG KAIBIGAN.

BMI is a low-cost, high quality provider of financial services. We have established 62 branches in key provincial cities and towns in the country, including Metro Manila. In support of our vision to promote financial inclusion, BMI aims to be present in more unbanked/underbanked areas, a market, which, according to a study by the BSP, is still at 69%.

BMI has range of deposit and loan products that cater to our target market. Under the loans product line, BMI has Malalapitan Microfinance Loan, Power Negosyo Enterprise Loan, Expanded Motor Loan, Business Loans and other Consumer Loans that cater to the lower C, D and E income strata segments.

For deposit products, we have low-cost current, savings deposit and small-denominated time deposit.

To serve Filipino savers and entrepreneurs, we consciously adopt a customer care program and philosophy that provides our customers friendly, personalized service and makes them feel that that "BMI cares".



THOMAS C. ONGTENCO

CHAIRMAN

LUIS M. CHUA

PRESIDENT

Message from the Chairman and the President

The business of banking has and always will be one of service. As such, it is imbued with public trust--integrity, competence, excellence and concern at its core. More than ever, the significance of banking cannot be overemphasized given the fast-evolving political, environmental and economic conditions, both locally and around the world. Fueling these are the rapidly advancing technology and the aggressive desire for growth, which when negatively applied become ingredients for crimes and losses.

As we strive to become the mSME bank of choice, we believe and live by our core values of teamwork, integrity, concern, and excellence. Our desire to be of service to the "unbanked" drove us to extend and expand our reach. With our Motorcycle Loans leading our array of financial products --and upon which we have established Bank of Makati as the leading provider of Motorcycle Loans in the industry-- as well as other consumer loans such as Auto Loans, Personal Loans, Power Payday Loans, Business Loans from Corporate to Micro Enterprises. We are proud to say that we remain on course toward our goal.

Together with our regulators, our Internal Audit Group, Risk Management Group, Compliance Group, Legal Group, the guidance of our Board of Directors and all its committees, we ensure to continuously improve the quality of our assets and keep the good reputation of the Bank in keeping with the principles of good corporate governance.

We foresee our Motorcycle Loans to continue experiencing robust growth from the traditional market segment such as individual motorcycle riders, service providers and entrepreneurs to emerging endeavors powered by technology such as ride-hailing systems and e-shopping.

We realized our 2018 overall business targets showing the following increasing trends.

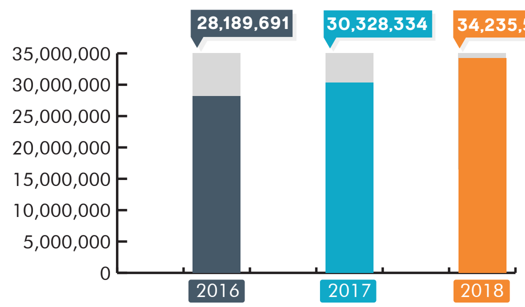
(in thousands)	2015	2016	2017	2018
Total Resources	27,875,598	28,189,691	30,328,334	34,235,518
Total Loans and Receivables-Net	18,292,324	19,593,432	22,082,180	26,238,103
Total Deposit Liabilities	20,648,909	20,746,232	22,005,929	26,223,231
Total Equity	6,138,764	6,350,629	7,145,874	9,593,455
Total Net Income	392,946	644,951	1,403,099	2,133,682

The above results of operations were made possible by the passion and hardwork of all Bank of Makati officers and staff, the trust and confidence of our stockholders, the guidance of our Board of Directors, the support of our regulators, the patronage of our customers, and the providence of our Divine Creator.

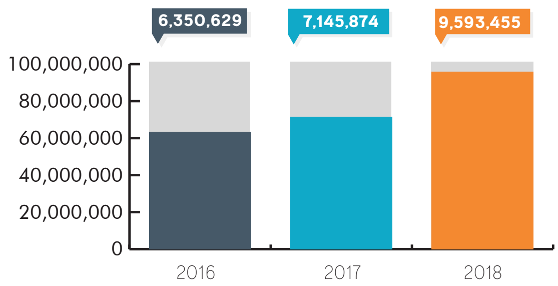
As we move forward, we envision Bank of Makati as serving more customers and attaining greater significance in the community we serve and the industry to which we belong, always steadfastly committed to the values we hold dear.

FINANCIAL HIGHLIGHTS

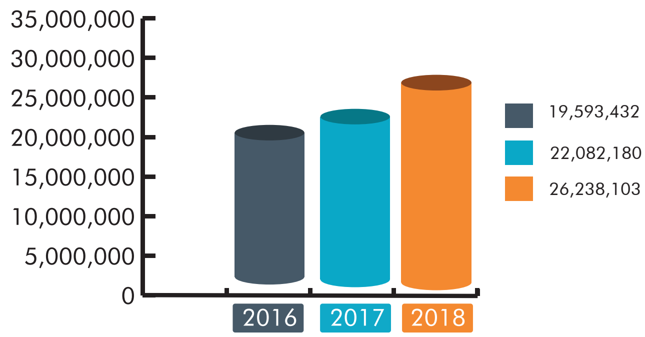
RESOURCES (IN THOUSANDS)



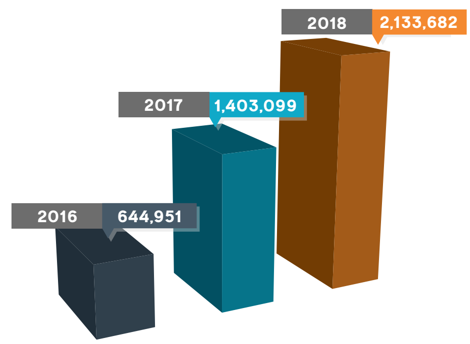
EQUITY (IN THOUSANDS)



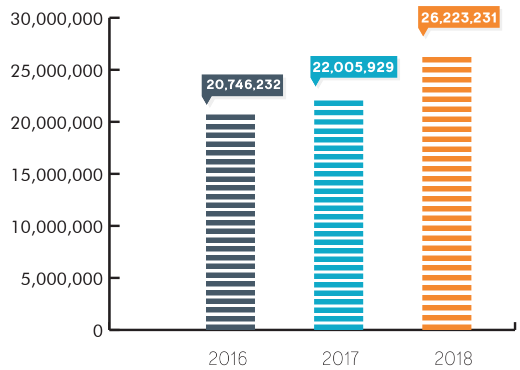
LOANS AND RECEIVABLES-NET (IN THOUSANDS)



NET INCOME (IN THOUSANDS)



DEPOSIT LIABILITIES (IN THOUSANDS)



(in thousands)	2016	2017	2018
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Total Equity	6,350,629	7,145,874	9,593,455
Total Net Income	644,951	1,403,099	2,133,682
Total Revenues	5,761,050	6,417,996	8,298,911
Total Expenses	5,116,098	5,014,897	6,165,229
Return on Resources	2.27%	4.80%	6.61%
Return on Equity	10.21%	20.79%	25.49%
Regular Branches	46	48	48
Microfinance Branches	14	14	14
Loan Centers	-	-	-

The Risk Oversight Committee (ROC) supports the Board of Directors in overseeing risk management. The ROC is composed of three members, all of them independent directors of the Bank. The Committee meets on a monthly basis, led by the Chief Risk Officer.

The Board of Directors sets the risk appetite of the Bank and approves policies relating to risk management. It actively participates in risk management discussions, often attending ROC meetings as resource persons. This participation serves to relate risk management issues being monitored with the Bank's overall strategic business plan. It also brings to discussion new market and business developments not always within the purview of ROC. But while the Board considers risk management in support of the Bank's overall business strategy, the ROC endeavors to ensure that the risk oversight functions of the Board are effectively delivered.

The Chief Risk Officer heads the Risk Management Group (RMG) and under his supervision, the RMG tackles all risk issues and prepares related reports for the consideration by the ROC. The ROC regularly reviews the Bank's key risk indicators: credit, operational, market and liquidity. Risk issues relating to IT, and actual risk incidents are also reviewed. Special studies on self-risk assessment, review of policies and procedures, and new risk thresholds are presented to the ROC. Necessary amendments to existing policy are endorsed to the Board for approval.

When exercising its risk management functions, the Bank goes beyond mere compliance with BSP guidelines. To further its compliance and to create a Bank-wide risk management culture, Risk Control Self Assessment (RCSA) lectures are given to the various units regularly. A Functional Risk Advocate (FRA) is assigned to each unit. In addition, the RMG coordinates with the Learning and Development Department (L&DD) to implement the required training that will strengthen the Bank's risk management culture.

The Bank's Business Continuity Plan (BCP), approved in 2017, is continually being validated as changes come from evolving business processes and technology applications. The Plan's required processes have been cascaded at least once to all concerned units.

Imelda S. Singzon
RISK OVERSIGHT COMMITTEE CHAIRMAN

AUDIT AND COMPLIANCE COMMITTEE

The Audit and Compliance Committee (ACC) is composed of three Board Members, at least two (2) of whom are independent directors including the Chairperson. The ACC assists the Board of Directors in fulfilling its statutory and fiduciary responsibilities, enhancing shareholder value, and protecting shareholders' interest through (a) effective oversight of internal and external audit functions, (b) transparency and proper reporting, (c) compliance with laws, rules and regulations; and code of conduct, and (d) adequate and effective internal controls.

The Bank has an Internal Audit Group (IAG) which reports directly to the ACC. The IAG is committed to assist in the achievement of the Bank's goals and objectives in partnership with Management by providing independent appraisal, analysis, counsel related to identification and implementation of internal controls, enhancements that will improve efficiency and effectiveness of business functions, compliance with existing laws and assessment and management of business risks.

IAG is headed by the Chief Audit Executive who is accountable to the ACC and the Management in developing and executing a risk-based internal audit plan that focuses on effectively reviewing and monitoring the Bank's key enterprise risks and related controls; ensuring that the Internal Audit Group collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the Internal Audit Charter and maintaining a quality assurance and improvement program that covers all aspects of the internal audit activity.

The Chief Audit Executive is authorized to lead a comprehensive risk-based audit program of all the Bank's business units. IAG shall also have the authority to access all functions, records, documents, personnel and physical properties of the Bank's operating units pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information; allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports and obtain assistance from the necessary personnel of the Bank as well as other specialized services from within or outside the Bank in order to complete the engagement.

IAG is responsible in issuing an audit report for each audit conducted summarizing significant findings, recommendations and the responses and/or actions taken or committed to be taken with planned target dates of the business unit audited. The ACC receives and reviews reports of internal auditors to monitor and evaluate the adequacy and effectiveness of the Bank's governance, internal control system, including financial reporting, operational and compliance controls, risk management and information technology security on a going concern basis, reporting the same to the Board, communicating the same to Management for appropriate action and monitoring the implementation of corrective measures. The ACC shall ensure that a compliance program is defined for the Bank and that compliance issues are resolved expeditiously. For this purpose, the ACC oversees the Compliance Program. The Compliance Program shall set out the planned activities of the compliance function, such as the review and implementation of specific policies and procedures, compliance risk assessment, compliance testing, educating staff on compliance matters, monitoring compliance risk exposures and reporting to the board of directors or board-level committee.

The Compliance Group (CG) is headed by a Chief Compliance Officer (CCO) who has the necessary qualifications, experience and professional background and a sound understanding of relevant laws and regulations and their potential impact on the Bank's operations. The CCO oversees the identification and management of the Bank's compliance risk and supervises the compliance function group. The CCO liaises with the Bangko Sentral on compliance related issues and is responsible for ensuring the integrity and accuracy of all documentary submissions to the Bangko Sentral.

CG is responsible in assisting Management in ensuring reasonable basis that bank-wide activities of the Bank and its employees are in conformity with applicable laws and regulations, Code of Ethics, policies and procedures, and generally with sound banking practices.

Atty.Alfredo P. Pineda
AUDIT AND COMPLIANCE COMMITTEE CHAIRPERSON

ANTI-MONEY LAUNDERING COMPLIANCE

The Bank has an approved Money Laundering and Terrorist Financing Prevention Program (MTPP) which provides policies on various AML Areas for Compliance

i. Customer Identification and Due Diligence
ii. Covered and Suspicious Transaction Monitoring and Reporting
iii. Record Keeping and Retention
iv. Training
v. AML Compliance and Audit Programs

The Bank provides and observes the four major Areas of Sound Risk Management Practices.

i.Board and SM Management Oversight

a. The members of the Board of Directors are composed of seven (7) active individuals who is the ultimate responsible body of the Bank and three (3) of whom are Independent Directors. This is compliant with MORB Section 132. a and c which provide that composition of board memberships shall be at least 5 and a maximum of 15 , with 1/3 or at least two (2) are independent directors. All were confirmed by BSP to serve as directors of the Bank.
b. Compliance function has a personality in the institution and has designated the Chief Compliance Officer to oversee the implementation of its Compliance Program.

ii.Bank Manuals

a. The Bank provides for written manuals such as MTPP and various operations manuals that are duly approved by the Board, as endorsed by the
b. Management and Board-Level Committees.
c. It created the System and Development Department who is in charge of facilitation and safekeeping of manuals.
   These manuals are accessible to all employees thru the Bank-provided portal.

iii.Monitoring and Management System

a. The Bank sees to it that relevant information from top to bottom or vv is adequately and timely communicated.
b. Monitoring of all aspects of operation requiring the attention of the management or the board is duly implemented.
c. It provides for various systems that processes and maintains relevant data of Bank operation.

iv. Internal Controls and Audit

a. The Bank provides for various lines of defence to combat fraud/crimes, internal and external. The units with client interface are provided adequate number of people to perform the frontline functions.
b. Risk-based and depending on level of authority, corresponding transactions require approval prior to execution. The Bank observes processes that provides dual control and maker-checker rule, among
c. others to ensure that no transaction is created and processed and implemented by a single individual only.
d. The Bank's 2nd line of defence, the Compliance Group. Thru its Chief Compliance Officer, sees to it that the Bank's Compliance Program is regularly updated and implemented
e. The 3rd line of defence, the Internal Audit Group. Thru its Chief Audit Executive, it ensures timely and adequate implementation of the Annual Audit Program.

CORPORATE GOVERNANCE

Good Corporate Governance in Bank of Makati (A Savings Bank), Inc. (BMI) plays a major role in maintaining corporate integrity while being aligned with the Bank's strategic direction.

The Corporate Governance Committee, which was duly appointed by the Board, is ultimately responsible for ensuring that BMI follows the principles of Good Corporate Governance at all times. The Committee is composed of three Independent Directors.

The Board maximizes shareholder value through fairness, accountability, independence and transparency. It is the thrust of the Board to continuously strengthen the corporate governance within the Bank.

Rest assured that BMI will continuously comply with the best practices in Good Corporate Governance to serve you, our dear Stakeholders.

OVERALL CORPORATE GOVERNANCE STRUCTURE AND PRACTICES

The Board of Directors and the Management of the Bank value the principles of good corporate governance, which it believes is an integral part of a sound strategic business management. As such, BMI builds and implements a framework to support its advocacy of carrying out good corporate governance across the Bank. This framework includes (1) Board of Directors and Board-level Committees as primarily responsible in approving and overseeing the implementation of the Bank's strategic objectives, risk strategies, control functions and good governance; (2) Executive Management and Operating Management, which are responsible for the implementation of the policies and procedures, strategies and initiatives approved by the Board; and (3) Internal Control Groups, which are responsible for the implementation of key control functions consisting of Compliance, Risk Management and Internal Audit Group.

The Bank's Board of Directors, Management, Officers and staff adhere to the principles of fairness, transparency, accountability and good governance as embodied in the Bank's Articles of Incorporation, By-Laws, Code of Conduct, Corporate Governance Manual, and other rules and regulations mandated by the Republic of the Philippines and regulatory bodies.

SELECTION PROCESS FOR THE BOARD AND SENIOR MANAGEMENT

The Bank selection process for the Board and Senior Management and their appointment in their respective committees is part of the responsibility of the Corporate Governance Committee. The committee determines whether the nominees are fit for the position in accordance with the rules and regulations. In determining whether a person is fit for the position, the following matters are considered: Integrity/probity, physical/mental fitness, relevant education/financial literacy/training, competencies relevant to the job, such as knowledge and experience, skills, diligence, and independence of mind and sufficiency of time to fully carry out responsibilities.

BOARD'S OVERALL RESPONSIBILITY

The Board of Directors is primarily responsible for the governance of the Bank, ensuring that the Bank runs in a prudent and sound manner under high standards of honesty, integrity and best practice. It shall lead in establishing the tone of good governance from the top and in setting corporate values, code of conduct and other standards appropriate for itself, the Senior Management and employees. The Board provides strategic guidance to the Bank and keeps an eye on the future so that the Bank has the necessary and adequate resources to secure its long-term position. It shall approve and oversee the implementation of strategies to achieve corporate objectives, implementation of the risk governance framework, the systems of checks and balances, a sound corporate governance framework and values, taking into account the vision and mission, long-term financial interest, its level of risk tolerance and its ability to manage risk effectively. The Board shall ensure that a robust internal reporting system is in place, which enables each employee to contribute to the appreciation of the Bank's overall exposure.

CHAIRMAN OF THE BOARD

The Chairman of the Board provides leadership and ensures the effective functioning of the Board, which includes maintaining a relationship of trust with Board members. The chairman's responsibilities include: (1) Ensuring that the meeting agenda focuses on strategic matters, including discussions on risk appetite, and key governance concerns. (2) Maintaining quality and timeliness of communication between the Board and Management. (3) Assisting in ensuring compliance with the Bank's guidelines on corporate governance. (4) Ensuring sound decision-making process and promoting critical discussion, and ensuring dissenting views can be expressed within the process. (5) Ensuring the conduct of performance evaluation of the Board of Directors at least once a year.

INDEPENDENT AND NON-EXECUTIVE DIRECTORS

These Directors devote time and attention necessary to properly discharge their duties and responsibilities, and exercise independent judgment on corporate affairs requiring the decision or approval of the Board.

Independent Directors, apart from their fees and shareholdings, are independent of Management and free from any business or other relationship, which could materially interfere with their exercise of independent judgment in carrying out their responsibilities as directors.

Non-Executive Directors are those who are not part of the day-to-day management of the bank's operations.

Corazon S. Delos Santos
CORPORATE GOVERNANCE COMMITTEE CHAIRPERSON

Age
- 62

Nationality
- Filipino

Education
- Bachelor of Science in Electronics & Communications Engineering, University of the East

Current Position in the Bank
- Chairman

Date of First Appointment
- April 8, 2005

Directorship in other Companies

Director:
- BMI Finance Corporation
- Veradex Development Corporation
- HAODENG Holdings, Inc.
- Transnational Investors Corporation
- Broadvue Traders, Inc.
- Moneyline Lending Investors Inc.

Other Current Position
- President, Motorjoy Depot Inc.
- President, BMI Finance Corporation
- President, Motrotrade Topline, Inc.
- President, Monacor, Inc.
- President, Transnational Properties, Inc.
- Corporate Secretary, OSM Citycars, Inc.

Previous Companies/ Position
- Director, Northpoint Development Bank
- Director, Intertrade Credit Corp.
- Director, Oiltech Resources, Inc.
- Director, Intertrust Finance Corp.

Age
- 48

Nationality
- Filipino

Education
- Bachelor of Science in Commerce Major in Accountancy, University of Santo Tomas
- MS Computational Finance, De La Salle University
- Master of Business Administration (underthesis), University of Santo Tomas

Current Position in the Bank
- President

Date of First Appointment
- June 23, 2017

Directorship in other Companies
- None

Other Current Position
- Alfredo M. Velayo – College of Accountancy Faculty of Arts and Letters

Previous Companies/ Position
- Faculty Member, UST
- Faculty Member, St. Paul College of Manila
- Audit In Charge, SGV & CO., CPAs
- Manager Diners Card Corporation
- Manager, Security Bank Corporation
- Reviewer, Center for Training and Development, Inc.
- Manager II, United Coconut Planters Bank
- Assistant Vice President, Citibank, N.A.
- Bank Officer I, Bangko Sentral ng Pilipinas

Age
- 62

Nationality
- Filipino

Education
- Bachelor of Science in Electronics and Communications Engineering, University of the East
- Certificate in Business Economics, University of Asia and Pacific

Current Position in the Bank
- Managing Director

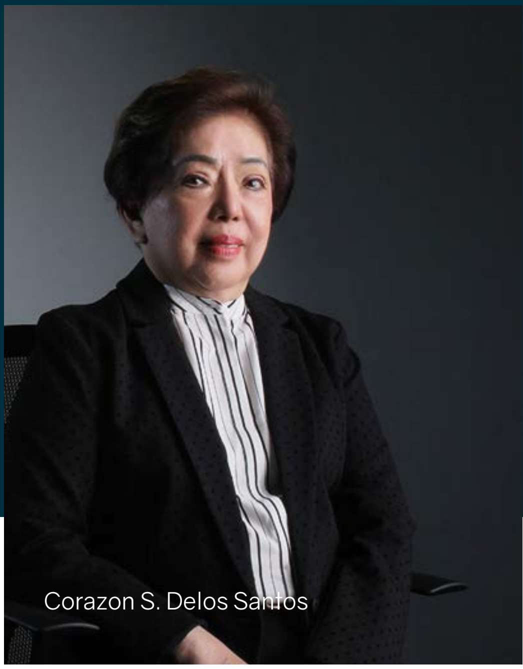
Date of First Appointment
- October 22, 2001

Directorship in other Companies
- Chairman of the Board, Aisen Prime Holdings Inc.
- Chairman of the Board, MOS Autosolutions Inc.
- Chairman of the Board, Sentai Holdings Inc.
- Chairman of the Board, OSM City Cars
- Chairman of the Board, Northpoint Development Bank
- Chairman of the Board, Motorjoy Depot Inc.
- Trustee, Christ Commission Foundation Inc.
- Trustee, Uplift Cares Movement Foundation Inc.
- Trustee, CCF Life Academy Inc.
- Trustee, The Master's Academy
- Trustee, Tanglaw ng Buhay Foundation
- Director, Transnational Investors Corporation

Other Current Position
- President, Honda Prestige TradersInc.
- President, Veradex Development Corporation

Previous Companies/ Position
- Trustee, CCF Ministries, Inc.
- President, Federation of Metro Manila Rural Bank
- Treasurer, Rural Bank Association of the Philippines
- President, Motortrade Nationwide Corporation

Board of Directors



Corazon S. Delos Santos

Age	• 74
Nationality	• Filipino
Education	• Bachelor of Science in Business Administration, University of the East
Current Position in the Bank	• Independent Director
Date of First Appointment	• April 4, 2015
Directorship in other Companies	• None
Other Current Position	• Chief Operating Officer, Sanvil Inc. • Consultant, Pampanga Development Bank
Previous Companies/ Position	• Director, Eppie's Garments • Director, Money Market Association of the Philippines • Director, Second Bulacan Development Bank • Director, Land Bank Insurance Brokerage Ind. • Director, Millennium Bank • Director, First Provincial Bank • Sr. Vice President, Land Bank of the Philippines • Undersecretary, Department of Finance

Atty. Alfredo S. Pineda

Age	• 65
Nationality	• Filipino
Education	• AB Communication Arts, Ateneo De Manila University • Bachelor of Laws, Ateneo De Manila University
Current Position in the Bank	• Independent Director
Date of First Appointment	• March 2, 2007
Directorship in other Companies	• None
Other Current Position	• None
Previous Companies/ Position	• Branch Manager/ Legal Officer, Rizal Commercial Banking Corporation • Head, Loans and Remedial Management (LRM) Department, Equitable Banking Corporation • Head, Legal and Documentation, Asia United Bank

Ma. Rodora E. Bañares

Age	•56
Nationality	• Filipino
Education	• Bachelor of Science in Business Administration, University of the Philippines – Diliman • Master in Business Administration, De La Salle University • Master of Arts in Early Education (units), De La Salle University
Current Position in the Bank	• Director
Date of First Appointment	• June 19, 2010
Directorship in other Companies	• None
Other Current Position	• None
Previous Companies/ Position	• Senior Vice President – Retail Banking Sector, Asiatrust Development Bank • Senior Vice President, Retail Banking Sector, Security Bank • Executive Vice President/ Chief Operating Officer, Federal Savings Bank • Senior Vice President, Asiatrust Development Bank

Imelda S. Singzon

Age	• 68
Nationality	• Filipino
Education	• Bachelor of Science in Statistics, University of the Philippines – Diliman • Master in Arts in Demography (Candidate), University of the Philippines – Diliman • Masteral Certificate in Developmental Economics, University of the Philippines – Diliman jointly with University of Wisconsin
Current Position in the Bank	• Independent Director
Date of First Appointment	• June 23, 2017
Directorship in other Companies	• None
Other Current Position	• None
Previous Companies/ Position	• Independent Director, United Coconut Planters Bank • Independent Director, UCPB Savings Bank • Independent Director, UCPB Leasing and Finance Corporation • Independent Director, Philippine Bank of Communication • Independent Director, Export Industry Bank • Member of Executive Council, Research and Guidance, Finance and Planning and Asia Pacific • Member, Regional Committee of International Association of Deposit Insurers • Vice President, First Philippine Fund New York, New York, USA • Director, Provident Fund Insurance Brokerage Co., Inc. Executive Vice President, Philippine Deposit Insurance Corporation • First Senior Vice President, Philippine National Bank (PNB) • President, PNB – Retirement Fund, Inc. • Deputy Managing Director, PNB Investment Limited • Director/ Treasurer/ Senior Vice President, PNB Republic Bank Ventures • Director, PNB Insurance Brokerage • Chief Economic Development Specialist, National Economic & Development Authority

Atty. Generosa R. Jacinto
Corporate Secretary

Florido P. Casuela
Senior Adviser

Shirley O. Tan

Age	• 55
Nationality	• Filipino
Education	• Bachelor of Science in Commerce Major in Accounting, University of Santo Tomas
Current Position in the Bank	• Senior Vice President, Corporate Treasurer
Relevant Experiences	• Treasury Group Head, Bank of Makati (A Savings Bank), Inc. (2003 – 2014) • Manager, UOB Philippines (1999-2002) • Accountant, Wesmont/UOB Philippines (1997-1999) • Accountant, Pacific Mills Inc. (1995-1997) • A/P Payroll, Standard Electric MFG (1991-1992) • A/R Inventory ADVTSG, Standard Appliances Corporation (1988-1990) • S/A Bookkeeper, PHILTRUST Bank (1985-1988)

Gina L. Salud

Age	• 62
Nationality	• Filipino
Education	• Bachelor of Science in Business Administration, University of the Philippines – Diliman
Current Position in the Bank	• Senior Vice President, Head – Business Sector
Relevant Experiences	• Acting Business Sector Head (2013-2014) • Head – Branch Banking Group (2010-2014); • North Region Head (2006-2010), Bank of Makati (A Savings Bank), Inc. • Manager, BDO Universal Bank (2006) • Branch Manager, United Overseas Bank Phil. (1999-2006) • Branch Manager, Westmont Bank (1997-1999) • Operations Officer, Phil. Trust Company (1997-1996) • New Accounts Clerk, China Banking Corporation (1977-1979) • Assistant Treasurer, La Suerte Gold Mining Corporation (1976-1977)

Rowell A. Umali

Age	• 34
Nationality	• Filipino
Education	• Bachelor of Science in Accountancy, Polytechnic University of the Philippines
Current Position in the Bank	• Vice President, Controller
Relevant Experiences	• Acting Head – Controllership Group (2012-2014), Bank of Makati (A Savings Bank), Inc.(BMI) • Head – Financial and Management Accounting Division,(2012), BMI • Audit Manager, UBIX Corporation (2010-2012) • Audit Senior Associate, Punongbayan and Araullo(2005-2010)

Executive Officer & Senior Management

Rosa Maria G. Tumangday

Age	•55
Nationality	• Filipino
Education	• Bachelor of Science in Business Administration Major in Accounting, University of the East
Current Position in the Bank	• Vice President, Chief Audit Executive
Relevant Experiences	• Asset Management Group Operations Head, BDO Unibank Inc. (2014) • Department Head (2004-2013), Security Bank Corporation (SBC) • Branch Audit Team Leader (2001-2004) , SBC • Branch Audit Examiner (1990-2001), SBC • Accountant, VM Management Group of Companies (1987-1990) • Accountant Cascade Commercial Corporation (1985-1987)

Irish Janne B. Escio

Age	• 36
Nationality	• Filipino
Education	• Bachelor of Science in Accountancy, Ateneo de Naga University
Current Position in the Bank	• First Assistant Vice President, Chief Compliance Officer
Relevant Experiences	• Acting Chief Compliance Officer (2018), Bank of Makati (ASavings Bank), Inc. (BMI) • Regulatory Compliance Department Head (2018),BMI • Chief Compliance Officer, Citystate Savings Bank, Inc. (2013-2018) • Compliance, MIS and Budget Analyst, BDO Leasing and Finance, Inc. (2006- 2011)

Carlo Clixto D. Dugayo

Age	•37
Nationality	• Filipino
Education	• AB Political Science, University of Santo Tomas • Bachelor of Laws, University of Santo Tomas
Current Position in the Bank	• Vice President, Chief Legal Officer
Relevant Experiences	• Legal Officer, Universal Robina Corporation (2013) • Legal Officer Philippine Deposit Insurance Corporation (2012-2013) • Associate Lawyer, De Guzman Dionido Caga Jucaban & Associates Law Office (2007-2012) • Associate Lawyer, Lazaro Law Firm (2006-2007) • Legal Researcher/Legal Intern, Caraan & Associates Law Office (2006)

Age	• 59
Nationality	• Filipino
Education	• Business Administration and Management, Adamson University
Current Position in the Bank	• Senior Vice President, Head – Branch Banking Group
Relevant Experiences	• Area Head, Security Bank Corporation (2003-2016) • Sales Force Head, Security Bank Corporation (2000-2003) • Branch Manager (1993-2000) Philippine Commercial International Bank (PCIB) • Project Streamline/ Branch Support (1990-1993), PCIB • Branch Operation Head (1985-1986 & 1988-1990), PCIB • Sales Head (1986-1988), PCIB • LND Foreign Bookkeeper/Branch Accountant (1984-1985) PCIB • Import Export Processor(1983-1984), PCIB • General Accounting Clerk (1982-1983), PCIB • Setling Clerk/ Distributing Clerk (1981-1982), PCIB

Age	• 58
Nationality	• Filipino
Education	• Bachelor of Science in Business Administration Major in Accounting, University of the East
Current Position in the Bank	• First Vice President, Head – Treasury Group
Date of First Appointment	• June 23, 2017
Relevant Experiences	• Director and stockholder of Dela Torre and Co. Inc. • Vice President, Philippine Postal Savings Bank (2006-2012) • Assistant Vice President (1999-2003) Land Bank of the Philippines (LBP) • Account Manager (1994-1999), LBP • Bank Executive Officer (1992-1994), LBP • Chief of Division III (1990-1992), LBP • Officer Manager, Laguna Rubber Co. Inc (1987-1990) • Senior Staff – Visitation and Control Group, Asian Bank (1983-1987)

Jo D. Borromeo

Age	• 53
Nationality	• Filipino
Education	• Bachelor of Science in Civil Engineering
Current Position in the Bank	• Head - Credit Investigation and Collection Group (2014-2016) Bank of Makati (A Savings Bank, Inc.) (BMI)
Relevant Experiences	• Head – CCRG (2010-2014), BMI • National Collection Manager (2008-2009) Motortrade Nationwide Corporation (MNC) • Regional Manager (2004-2007) MNC • Area Manager (1995-2004), MNC

Angelito C. Chua

Age	•44
Nationality	• Filipino
Education	• Bachelor in Clinical Psychology, Polytechnic University of the Philippines
Current Position in the Bank	• Vice President, Head – Corporate Services Group • Concurrent Head – Human Resource Department, Bank of Makati (A Savings Bank), Inc. (2010 to present)
Relevant Experiences	• HR Specialist – Compensation and Benefits, Zamil Industrial Investment Co. (2008-2010) • HR and Admin. Manager, Hytech Integrated Prod. (2005-2008) • Human Resource Department Head, Furnimaxx Int'l Co. Ltd. (2003-2005) • Career Management Associate, Philippine Savings Bank (1996-2002)

Sean Ivan Vernier W. Valentin

Age	• 52
Nationality	• Filipino
Education	• Bachelor of Science in Business Management, San Beda College
Current Position in the Bank	• Vice President, Head – Loans and Treasury Operations Group
Relevant Experiences	• Group Head – Head Office Operations (2015-2018) Bank of Makati (A Savings Bank), Inc. (BMI) • Group Head – CSRG (2013-2015), BMI • Acting Head – CSRG (2012-2013) BMI • Head – Loans Operations Department II (2010-2012) BMI • Head – Loans Operation Department III (2010),BMI • Head – Branch Lending Group (2007-2010), BMI • Head – Business Development Department (2005-2007), BMI • Consultant, Mayon System Philippines (2002-2005) • Manager, Metropolitan Bank and Trust Company (1988- 2002)


Eleanor P. Javier

Age	• 43
Nationality	• Filipino
Education	• Bachelor of Science in Mass Communication, Pamantasan ng Lungsod ng Maynila
Current Position in the Bank	• Assistant Vice President, Head – Loans Operations Group (Consumer)
Relevant Experiences	• Systems Officer (2008-2011) Bank of Makati (A Savings Bank), Inc. (BMI) • Lending Center Department (2011-2015), BMI • Operations Analyst (2000-2008), Rizal Commercial Banking Corporation (RCBC) • Remittance Processor (1999-2000), RCBC • New Accounts Processor (1996-1999), RCBC


Alen Roie T. Tatco

Age	• 36
Nationality	• Filipino
Education	• Bachelor of Science in Computer Science, San Sebastian College – Recoletos Manila
Current Position in the Bank	• Acting Head – Information Technology Group (2018 to present) • Concurrent Head - Business Application System Support Department (2013 to present)
Relevant Experiences	• Application Systems Engineer – Business Application System Support Department (2006-2012) Bank of Makati (A Savings Bank) Inc. (BMI) • Production Support Engineer – Business Application System Support Department (2005-2006), BMI • Programmer – Business Application System Support Department (2005), BMI • Junior Programmer, Virjen Shipping Corporation (2003- 2005) • MIS Assistant, Ever Gotesco and Holdings Inc. (2002- 2003) • Technical Support Assistant, Ever Group Stores (2002)

	Board of Directors	Type of Directorship	Principal Stockholder represented, if nominee	No. of Years served as Director	No. of Direct & Indirect shares Held	% of shares Held to Total Outstanding Shares of Bank
1	Thomas C. Ongtenco	NED (Chairman)	N/A	13	49,969,958	9.9939916
2	Luis M. Chua	ED (President)	N/A	1	10	0.0000020
3	Ramon B. Manzana	ED (Managing Director)	N/A	17	25,124,252	5.0248504
4	Corazon S. Delos Santos	ID	N/A	3	32	0.0000064
5	Alfredo P. Pineda*	ID	N/A	11	474	0.0000948
6	Ma. Rodora E. Bañares	NED	N/A	8	42	0.0000084
7	Imelda S. Singzon	ID	N/A	1	10	0.0000020

*Director Alfredo P. Pineda was a member of the Board of Director from 2007 to 2017 and was re-elected as Independent Director in June 22, 2018.

BOARD-LEVEL COMMITTEES, MEMBERSHIP AND FUNCTIONS

Board-Level Committees	Members	Functions
Executive Committee (EXCOM)	Chairperson: Mr. Ramon B. Manzana Members: 1. Ms. Ma. Rodora E. Bañares 2. Mr. Luis M. Chua	This Committee has been delegated by The Board of Directors with some of its powers and responsibilities as provided for in the by-laws, including but not limited to the supervision of other board committees and subject to the limitations and restrictions as may be imposed by The Board of Directors.
Corporate Governance Committee (CGC)	Chairperson: Ms. Corazon S. Delos Santos Members: 1. Atty. Alfredo Pineda 2. Ms. Imelda S. Singzon	The Corporate Governance Committee is responsible for the development, implementation and review of the Bank's Corporate Governance Compliance program, which shall include a set of effective corporate governance policies and procedures applicable to business. It assists the Board in fulfilling its corporate governance responsibility by reviewing and evaluating the qualifications of all persons nominated to the Board, as well as those nominated to other positions requiring the appointment of the Board of Directors.
Audit and Compliance Committee (ACC)	Chairperson: Atty. Alfredo Pineda Member: 1. Ms. Imelda S. Singzon 2. Ms. Corazon S. De los Santos	The Audit and Compliance Committee (The "AuditCom") is a sub-committee of The Board that plays a key role in Corporate Governance. The establishment of the AuditCom is an important/positive step toward providing assistance to the Board in the discharge of the latter's oversight responsibility, particularly in relation to Financial Reporting, Integrity, Internal Control, Risk Management and Corporate Standards of behavior.

Related Party Transaction Committee (RPTC)	Chairperson: Ms. Corazon S. De los Santos Members: 1. Atty. Alfredo Pineda 2. Ms. Imelda S. Singzon	The Related Party Transactions Committee has been created to assist the Board in ensuring that transactions with related parties (including Internal Group Transactions) are reviewed to assess risks, are subject to appropriate restrictions to ensure that such are conducted at arm's-length terms, and that corporate or business resources of the bank are not misappropriated or misapplied. After appropriate review, the committee shall disclose all information and endorse to the Board with recommendations, the proposed related party transactions.
Risk Oversight Committee	Chairperson: Ms. Imelda S. Singzon Members: 1. Ms. Corazon S. Delos Santos 2. Atty. Alfredo P. Pineda	The Risk Oversight Committee (ROC), as the extension of the Board of Directors (BOD), is responsible for the development and oversight of the risk management program of the Bank. It oversees the system of limits to discretionary authority that the Board delegates to Management, ensure that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached. The ROC is also responsible to identify and evaluate the risk exposures, develop risk management strategies for managing and controlling the major risk, oversee the implementation of the risk management plan and review and revise the plan as needed.

DIRECTORS' ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

JANUARY - DECEMBER 2018	BOARD COMMITTEE No. of meeting: 15		CORPORATE GOVERNANCE COMMITTEE No. of meeting: 13		EXECUTIVE COMMITTEE No. of meetings: 15		AUDIT AND COMPLIANCE COMMITTEE No. of meeting: 31		RISK OVERSIGHT COMMITTEE No. of meetings: 30		RELATED PARTY TRANSACTION COMMITTEE No. of meetings: 19	
Composition	Attendance	Percentage	Attendance	Percentage	Attendance	Percentage	Attendance	Percentage	Attendance	Percentage	Attendance	Percentage
Thomas C. Ongtenco*	13	87%	3	50%	7	78%						
Ramon B. Manzana	12	80%			14	93%						
Ma. Rodora E. Banares**	13	87%			14	93%			14	100%	10	100%
Luis M. Chua	14	93%			15	100%						
Christine C. Ongtenco ***	5	56%			3	33%	5	31%				
Corazon De Los Santos	14	93%	12	92%			31	100%	25	83%	18	95%
Imelda S. Singzon	15	100%	13	100%			30	97%	30	100%	19	100%
Alfredo P. Pineda****	6	100%	7	100%			14	93%	16	100%	9	100%

* Replace as CGC and EXCOM member in June 2018
** Replace as ROC and RPTC member in June 2018
*** Replace as Member in June 2018
**** Appointed as Member in June 2018

CHANGES IN THE BOARD OF DIRECTORS

In June 2018, the Stockholders approved the re-election of all Board Members except for Ms. Christine C. Ongtenco as she decided to personally focus on other business of the family. Ms. Ongtenco served as Director of Bank of Makati from 2001-2004 and was re-elected on 2012-2017.

The Bank welcomed Mr. Alfredo P. Pineda as a replacement of Ms. Ongtenco and to act as new Independent Director on June 22, 2018. Mr. Pineda is not relatively new to the Bank as he already served the Bank as a Regular Director from 2007 until 2017.

PERFORMANCE ASSESSMENT PROGRAM

Bank of Makati expects to increase the productivity of its people. Productivity translates into profit results, a high level of motivation for excellent achievement and a people proud of their Bank. To properly gauge employees' performance, the following assessment program was formulated to review the performance of the members of the Board of Directors, Senior Management, Officers and Staff:

1. The Board shall assess at least annually its performance and effectiveness as a body, as well as its various committees and individual directors (including the President and the Bank itself, if deemed necessary), which shall be facilitated by the Corporate Governance Committee through the Compliance Group. Towards this end, a system and procedure for evaluation shall be adopted, which shall include, but not limited to the setting of benchmark and peer group analysis.
2. For Senior Management, Officers and Staff, the Bank utilizes and implements a Performance Management and Development System containing (a) Key Result Areas (KRAs) or output requirements of major responsibilities or function; and (b) Behavioral Norms or ways to institutionalize the practice of culture and values set by the Bank.

Performance assessment guidelines are continuously enhanced to strengthen the review mechanism and ensure accuracy of performance evaluation.

ORIENTATION AND CONTINUING EDUCATION

Orientation for first-time Directors will begin immediately after they are selected and before their first Board meeting. The Bank shall provide all first-time directors with a copy of the general responsibility and specific duties and responsibilities of the Board of Directors and of a Director.

The Board as a group and as individual directors should have sufficient knowledge relevant to the Bank's activities to provide effective governance and oversight. The bank shall liaise with internal or external training providers for training and seminars of directors.

RETIREMENT AND SUCCESSION PLANNING

The Bank provides retirement benefits to eligible employees who have reached their retirement age as declared in the Bank's policy, in recognition of their contribution, service and loyalty to the Bank.

To ensure business continuity, BMI's succession plan creates a pool of future officers who will serve as successors of those who hold critical positions in the organization, and officers who have reached their retirement age. It also provides procedures and guidelines in the assignment and development of a potential successor/s to the incumbent officer. The defined and standardized procedures and guidelines ensure a smooth and efficient process in preparing to fill-out any temporary or permanent vacancy for officer-level post.

This shall form part of the management's Annual Business Plan for each Group/Department.

RETIREMENT POLICY

The Bank provides retirement benefits to eligible employees who have reached their retirement age as provided in the Bank's policy, in recognition of their contribution, service and loyalty to the Bank.

(i.) Normal retirement age- 55 years*
(ii.) Early retirement age - 50 years*
(iii.) Compulsory retirement age – 65 years

*This shall apply to employees hired before January 14, 2011.

The Bank adopts the BSP regulations on the retirement of our directors. Independent Directors may only serve the Bank for a maximum cumulative term of nine (9) years but may continue to serve as regular director. The nine (9) cumulative term for independent directors shall be reckoned from 2012.

REMUNERATION POLICY

Remuneration and other incentives policy is aligned with the strategic and financial interest of the Bank which aims to promote good performance and to convey acceptable risk-taking behavior defined under the code of ethics and complies with legal and regulatory requirements.

The remuneration policy of the Bank is reasonably sufficient to be able to attract and retain the services of qualified and competent directors and officers. A portion of the remuneration of executive directors may be structured or based on corporate and individual performance. A Director is not allowed to participate in deciding his remuneration.

The compensation package for senior management and bank officers consists of monetary and non-monetary benefits and bank's fringe-benefits which include among others, monthly compensation, guaranteed bonuses based on bank's policy, allowance for business-related expenses or official travel, loyalty awards, retirement plan, health care plan, life insurance, leave privileges, car plan and loan facilities.

POLICIES AND PROCEDURES ON RELATED PARTY TRANSACTIONS

The Bank values the principles of good corporate governance, hence it eliminates conflicts of interest within the institution. Thus, the Board appointed and authorized the Related Party Transaction (RPT) Committee (RPTC) with the responsibility of strengthening governance and practices particularly in transactions with related parties, DOSRI, subsidiaries and affiliates of the Bank.

In carrying out its function, the RPTC performs the following among others: (1) Identify, review, and evaluate all RPTs, particularly those considered as "Material" per Bank's policy; (2) Endorse all material RPTs to the Board for final approval; (3) Formulate, revise and approve policies on RPTs; (4) Ensure that all RPTs are conducted with arm's length basis and not undertaken on more favorable economic terms to such related parties; and (5) Require all responsible units to submit reports and information to carry out their function.

SELF-ASSESSMENT FUNCTION

The Board shall recognize and acknowledge the importance of the assessment of the independent and competent internal and external audit, as well as the risk and compliance office, in ensuring the safety and soundness of the operations of the Bank on a going-concern basis, and communicate the same throughout the Bank. This shall be displayed by undertaking timely and effective actions on identified issues.

The Bank established an internal audit, compliance, and risk management system that can reasonably assure the Board, Management and Stockholders that its key organizational and operational controls are faithfully complied with. The Board requires reporting to the respective board-level committees in the organization that allows internal audit, compliance, and risk management to fulfill their respective mandates.

COMPLIANCE FUNCTION

Consistent with the strategic objectives of the Bank and in compliance with BSP regulations, an appropriate organizational structure must be in place to manage the compliance function and execute the approved compliance program. The Compliance Office shall be headed by a qualified Chief Compliance Officer and shall be manned by full-time officers and staff to properly execute its mandates.

The Compliance Office assists the Board and the Management in ensuring that the bank's activities and its employees are in conformance with the rules and regulations set by the regulatory bodies, Code of Ethics, Policies and Procedures, and conduct safe and sound banking practices. It carries out its responsibility on its own initiative and/or as mandated by the Board across the bank where compliance risk exists and must be provided with assistance and/or resources. It shall have access to any documents and records considered necessary to carry out its responsibility. The Compliance Office shall facilitate management of compliance risk through independent compliance testing and monitoring.

Being an independent body, the Compliance Office directly reports to the Audit and Compliance Committee (Board-level committee) and the Board of Directors all relevant laws, rules and regulations, irregularities or breaches and keeps them informed of developments in these areas.

Moreover, the Compliance Office shall act as a contact person within the Bank for compliance queries and shall maintain a constructive working relationship with the regulatory bodies.

INTERNAL AUDIT FUNCTION

The Internal Audit Group (IAG) is committed to assist in the achievement of Bank of Makati's goals and objectives in partnership with Management by providing independent appraisal, analysis, and counsel related to identification and implementation of internal controls, enhancements that will improve efficiency and effectiveness of business functions, compliance with existing laws and assessment, and management of business risks.

The IAG is established by the Audit and Compliance Committee (ACC) as part of its duties and responsibilities. The Chief Audit Executive is authorized to lead a comprehensive risk-based audit program for all the Bank's business units. IAG shall also have the authority to: (1) Access all functions, records, documents, personnel and physical properties of the Bank's operating units pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information; (2) Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports; (3) Obtain assistance from the necessary personnel of Bank of Makati, as well as other specialized services from within or outside BMI, in order to complete the engagement.

The IAG presents all audit reports to the Board of Directors through the ACC, after which the audit reports are submitted to the following: President; Managing Director; Auditee Unit/ Department Head/ Division Head/ Group Head/ Sector Head; Chief Risk Officer; and Chief Compliance Officer.

DIVIDEND POLICY

Dividends shall be declared at such times and in such percentages as the Board may determine. Dividends are paid out of unrestricted retained earnings subject to prior approval of the BSP. Dividends shall be declared or paid in accordance with the law, and rules and regulations of regulatory bodies.

CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

The Bank seeks to make a meaningful presence in and impact on the communities it serves by means of conducting corporate social responsibility projects and programs. Such undertaking is organized by the bank and/or in partnership with a foundation/non-government organization (NGO).

The Bank acknowledges its responsibility to contribute to sustainable development by delivering economic, social and environmental benefits for all stakeholders, to uplift the morale and improve people's quality of life with due consideration for their human rights.

CONSUMER PROTECTION PRACTICES

Role and Responsibility of the Board and Senior Management for the development of consumer protection strategy and establishment of an effective oversight over the Bank's consumer protection programs.

The Board of Directors is responsible for developing the Bank's consumer protection strategy and establishing an effective oversight over the Bank's consumer protection programs. They are primarily responsible for:

1. Approving and overseeing theimplementation of the Bank's consumer protection policies, as well as the mechanism to ensure compliance with said policies;
2. Monitoring and overseeing the performance of Senior Management in the day-to-day consumer protection activities of the Bank;
3. Delegating other duties and responsibilities to Senior Management and/or Committees created for the purpose, but not the function, of overseeing compliance with the BSP-prescribed Consumer Protection Framework, and MI's own Consumer Protection Framework;
4. Developing and maintaining a sound CPRMS that is integrated into the overall frame work for the entire product and service life-cycle,and approving Consumer Assistance policies and procedures, as well as Risk Assessment Strategies relating to Effective Recourse by the Consumer;
5. Ensuring compliance with consumer assistance policies and procedures; and
6. Reviewing Consumer Assistance policies at least annually.

THE CONSUMER PROTECTION RISK MANAGEMENT SYSTEM

The fundamental philosophy behind the Bank's Financial Consumer Protection Framework is based on the principle that the customer is the driver of business; no business can survive without the patronage of consumers. As such, BMI has put in place an approved – Consumer Protection Risk Management System, which includes consumer protection policies and procedures, among others.

The Board and Senior Management ensure that consumer protection practices are embedded in the Bank's business operations. They also ensure that policies and procedures are being reviewed periodically and kept-up-to-date as they serve as reference for employees in their day-to-day activities.

Independent of the compliance function, the Internal Audit Group reviews the consumer protection practices, adherence to internal policies and procedures, and compliance with existing laws, rules and regulations.

CONSUMER ASSISTANCE MANAGEMENT SYSTEM

The Bank acknowledges the indispensable role of financial consumers in bringing about a strong and stable financial system, their right to be protected in all stages of their transactions, and be given an avenue to air their grievances regarding the Bank's products and services. The Bank has set Consumer Assistance Management System (CAMS) guidelines on institutionalizing a consumer assistance mechanism.

The Customer Assistance Unit under the Business Development and Marketing Services Department handles consumer concerns received either through the Bank's customer hotline, e-mail or Facebook account. It shall also monitor, supervise and consolidate concerns received by the Designated Consumer Assistance Officer in the Bank's branches.

Complaints and requests must be acknowledged and resolved within the reasonable time specified in the Bank's policies and procedures. This shall be elevated to the concerned group/department for appropriate action and/or investigation.

The CAU records in the database all complaints and requests, and shall prepare and submit a report on a monthly basis to the Board and Senior Management.

CAPITAL STRUCTURE AND ADEQUACY

	Dec-17	Dec-18
Tier 1 Capital		
Paid-up Common Stock	4,750,000	5,000,000
Retained earnings	1,016,363	2,444,234
Undivided profits	1,403,099	2,147,062
	7,169,462	9,591,296
Deductions from Tier 1 Capital		
Unrealized losses on available for sale equity securities purchased	0	-4,000
Deferred income tax	637,554	518,184
Significant minority investment in other financial allied undertakings	1,076,080	1,217,002
	1,713,634	1,731,186
Total Tier 1 Capital	**5,455,828**	**7,860,110**
Tier 2 Capital		
Net unrealized gains on available for sale equity securities purchased	2,904	
General loan loss provision	53,492	420
	56,396	420
Deductions from Tier 2 Capital		
Significant minority investment in other financial allied undertakings	56,396	420
Total Tier 2 Capital		
Total Qualifying Capital	**5,455,828**	**7,860,110**
Risk-Weighted Assets		
Credit Risk-Weighted Assets	24,816,171	28,464,225
Operational Risk-Weighted Assets	6,728,337	7,103,262
Market Risk-Weighted Assets		
	31,544,508	**35,567,487**
RISK-BASED CAPITAL ADEQUACY RATIO	**17.30%**	**22.10%**
RISK-BASED CAPITAL ADEQUACY RATIO (Tier 1)	**17.30%**	**22.10%**

Knowledge Skills & Attitude

A MILESTONE YEAR

2018 was a milestone year for the Learning & Development Department (L&DD). The Department was transformed into a very active, dynamic and productive team with new and returning talents.

The Department also covered new seminar topics which were introduced through new ways of learning that had not been done before. These topics included Training the Trainers, 7 Habits for Highly Effective People, 4 Disciplines of Execution, Understanding the Millenials, Motivating Oneself, Motivating Another One, Value of Feedback (2 versions), Project Management, Effective Problem Solving and Decision Making, English Only Please, Business Writing, and Speed of Trust.

Our Onboarding and Anti-Money Laundering Act Programs are now being taught via 2nd generation Subject Matter Experts (SMEs) who were trained by our 1st generation SMEs. The programs were not limited to Metro Manila employees but were brought to our provincial colleagues through L&DD's Travelling Trainer, who goes from province to province.

We now hardly engage external speakers for various seminars as L&DD trainers acquire knowledge and skills by attending public seminars and then transfer the knowledge to BMI employees via internal seminars, which we tailor-fit to BMI's culture. This way, we further develop our trainers and save on costs.

Recently, L&DD adopted the Team Facilitation style of training that has become popular among training circles. All our L&DD Officers were paired up to produce and conduct at least one (1) seminar per pair.

We have also significantly improved our documentation system as we now maintain a semi-automated database system that can be used to produce various reports and statistical studies that reveal the Department's performance throughout the previous month.

These and a lot more new ideas are being worked on by L&DD to better the BMIer's learning experience. The L&DD aims to have every BMIer incorporate learning and development into his/her own lifestyle.

19
NEW COURSES

141
COURSES OFFERED

62
BRANCHES REACHED

1254
EMPLOYEES REACHED

the management

Treasury Group

DIANA C. NG
Fund Management Department

SHIRLEY O. TAN
Corporate Treasurer

ALDA R. BAÑEZ
Treasury Group

SUSAN U. TAN
Treasury Marketing Department

Branch Banking Group

SOCORRO R. YABUT
South Luzon Branches

ANGEL D. MUYOT JR.
Branch Banking Group

ALVIN P. DEL PONSO
Metro Manila Branches

CHARLIE V. MENDOZA
Microfinance Branches

ANGELO MICHAEL C. PLATA
North Luzon Branches

CORPORATE AND RETAIL LENDING GROUP

FEDERICO F. JIMENEZ JR.
Collection Task Force

MARVIN Q. MARANAN
Commercial Lending Department Area 4

EDWIN I. MAGHIRANG
Micro and Small Lending Division

JOHN MARTIN T. VILLANUEVA
Real Estate and Consumer Lending Department

RANDY B. CARTABIO
Enterprise Department

DARYL E. SANDOVAL
Microfinance Department

JESSICA ANGELA A. NAQUIMEN
Commercial Lending Department Area 2

RHODORA A. VILLAPANDO
Consumer Lending Department

GINA L. SALUD
Business Sector Head /
Corporate and Retail Lending Group - Head

ANA MARIA L. PARAS
Commercial Lending Division

FORTUNATA D. GAFFUD
Commercial Lending Department Area 3

EILLEN G. BARANDA
Commercial Lending Department Area 1

FINANCIAL PLANNING & CONTROL GROUP

RAMON CARLO T. QUINTERO
Accounting Division

RODOLFO B. MATI III
Loans Treasury and Accounting Department

ROWELL A. UMALI
Financial Planning and Regulatory Compliance Division

ROSEMARIE O. DARBIN
Financial Accounting Department

OLIVER B. GUINTO
Branch Accounting and Reconcilation Department





LOANS OPERATION *Group*

ELEANOR P. JAVIER
Loans Operations Group - Consumer

JOMILYN D. OBILLO
Credit Authorization Department

ROSALIE L. SANDOVAL
Loans Operation Department 1

MARISA A. YAP
Loans Operation Review and Support Department

MARIA DOLOR D. REMOLACIO
Loans Management Department

CREDIT *Division*

MARY POPS A. NUESTRO
Credit Investigation Department

IVAN REY A. TAGPIS
Credit Appraisal Department

CLARISSA V. BEREÑA
Credit Division

RYAN T. CONCEPTION
Micro Small Credit Department

REINA FILIPINA V. DEACOSTA
Consumer Credit Department

GERALD M. SUBA
Credit Evaluation and Policy Department

HEAD OFFICE *Support Group*

SEAN IVAN VERNIER W. VALENTIN
Loans and Treasury Operations Group / Loans Operation Department 2

LUZ G. VALLEJERA
CRLG Remedial and Disposal Department

KATHRYN JOY G. BAUTISTA
Institutional Borrowing Department

BRANCH CENTRAL OPERATIONS DIVISION

MARIA RAMONA C. FAJARDO
Central Support Operations Department

ARSENIO V. PIAMONTE
Branch Banking Operations Department

INFORMATION TECHNOLOGY Group

ALEN ROIE T. TATCO
Information Tehnology Group /
Business Application System Support Department

ALEX S. OPIDA
Desktop, Network and Access Department

ARTEMIO B. CALDERON
System Administration Department

EMMANUEL A. NAVARRO
Data Center Operations Department

RENE A. CENTENO
Remedial Collection Division

SHERWIN L. OPERIO
Remedial Collection Department

ABNER Y. FERRER
Legal and External Agency Department

CORPORATE SERVICES *Group*

ANGELITO C. CHUA
Corporate Services Group and
Human Resources Department

DENNIS ACHILLES D.G. AREÑO
Learning and Development Department

EXXON B. SALAS
Safety and Security Department

MYLA S. DELA PAZ
General Services Admin Department

MICHAEL L. ADAN
Facilities and Property Management
Department

LEGAL *Group*

ATTY. CARLO CALIXTO D. DUGAYO
Legal Group

ATTY. JAMMELLE MARIE A. GUCO
Legal Advisory and Documentation
Department

REPO MANAGEMENT AND DISPOSAL GROUP

MA. JHOAN G. CRAME
Customer Center Management Department

JO D. BORROMEO
Repo Management and Disposal Group

DARIUS V. ALBARINA
Repo Management and Disposal Department

CORPORATE AFFAIRS *Division*

HELEN S. PASCUA
Corporate Affairs Division

JOSE ENRICO T. SANDOVAL
Business Development and
Marketing Services Department

JENNIFER L. SUICO
Systems Development Department

DIOSDADO M. SUBA
Corporate Affairs Department

RISK MANAGEMENT *Group*

REBECCA D. ANCANAN
Credit Risk Management Department

JAN ALBERT P. ALCANTARA
Operational Risk Management Department

COMPLIANCE *Group*

IRISH JANNE B. ESCIO
Compliance Group / Compliance Department

ALMA D. PACULANAN
AML Department

RAMSE C. OSANO JR.
Data Governance and Analytics Department

INTERNAL AUDIT *Group*

ROSA MARIA G. TUMANGDAY
Internal Audit Group

GABRIEL Z. PUNSALAN
IT Audit Department

JAMES KENNETH V. LLAUDERES
Field Audit Department

INFORMATION SECURITY *Department*

MA. MELYN B. RAMOS
Information Security Department

BRANCH MANAGERS

SOUTH LUZON

FERMIN P. ANGCAO
CALAPAN

JEDDAH CINDY A. JASMIN
ZAPOTE

EMILY M. CRUZ
DASMARIÑAS

LANE SEAN M. BALLESTEROS
NAGA

JESUS M. MOLATO
LEGAZPI

GIL BRYAN M. CHIANG
PUERTO PRINCESA

DOMINADOR JAMES A. CALUEN V
MUNTINLUPA

CELESTE B. CARIG
LIPA

DANILO O. GAYETA
BATANGAS

SHERRY LYN B. MARANAN
LUCENA

MARIBEL S. LESABA
DAET

ALOHA A. MANGUNAY
SAN PABLO

SOCORRO R. YABUT
AREA HEAD

MARIA LANLET C. ARZOLA
BIÑAN

JOGIE F. FABELLANO
LAS PINAS

NORTH LUZON

RANDY U. VALIENTE
SANTIAGO

ROBIN M. DUNGO
PAMPANGA

MICHAEL D. SERAFICA
NUEVA ECIJA

ANGELO MICHAEL C. PLATA
AREA HEAD

GINA C. ZARENO
DAGUPAN

CELESTE L. DEL ROSARIO
BATAAN

NELDA C. CASAS
LAOAG

MARIA VICTORIA L. ESPANOL
TUGUEGARAO

SHERYL M. VERDEFLOR
URDANETA

ROSELYN A. ADALID
TARLAC

VIS-MIN

REYNALDO A. DEHUNLAY
PAGADIAN

ELMER MARTIN N. ALMADEN JR.
TACLOBAN

ANGEL D. MUYOT JR
BRANCH BANKING GROUP/ AREA HEAD

RHAPSODY V. ALONSABE
ILOILO

JOEL C. CABUSAO
BUTUAN

NORBERTO R. VALERIO
BACOLOD

METRO MANILA

GIOVANNI R. TROCIO
AYALA (MAIN BRANCH)

JEFFERSON P. DUMANDAN II
MARIKINA

MA. CELESTE F. LIAMZON
RODRIGUEZ

HAZELL P. SANTIAGO
MEYCAUAYAN

ROSAL G. JURADO
CALOOCAN

CARLYN I. SUALOG
MARCOS HIGHWAY

ALVIN P. DEL PONSO
AREA HEAD

GARY Q. DE GUZMAN
BALIUAG

MARCELINA S. BAUTISTA
ANTIPOLO

MONICA BIANCA M. ADOLFO
MALOLOS

DIANNE LOUIE F. MADAMBA
VALENZUELA

MICROFINANCE

JONATHAN U. MANGLALLAN
PASIG - C. RAYMUNDO

CORAZON E. PINERO
BLUMENTRITT

CHARLIE V. MENDOZA
AREA HEAD

KIRBY V. CANULLAS
BUENDIA

ETHEL MARIE D. IMPELIDO
GUADALUPE

ROBERTO C. SANTOS
MAKATI - EVANGELISTA

MARY ANN H. DIMAAPI
COMMONWEALTH

Report of Independent Auditors

The Board of Directors
Bank of Makati (A Savings Bank), Inc.
Bank of Makati Building
Ayala Avenue near corner Metropolitan Avenue
Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Bank of Makati (A Savings Bank), Inc. (the Bank), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying 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 our audits 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.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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.

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2018 required by the Bureau of Internal Revenue as disclosed in Note 25 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: **Christopher M. Ferareza**
Partner

CPA Reg. No. 0097462
TIN 184-595-975
PTR No. 7333693, January 3, 2019, Makati City
SEC Group A Accreditation
Partner - No. 1185-AR-2 (until May 9, 2021)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002511-34-2017 (until Jun. 19, 2020)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

March 12, 2019

BANK OF MAKATI (A SAVINGS BANK), INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017
(Amounts in Philippine Pesos)

	Notes	2018	2017
RESOURCES			
CASH	7	**P 79,075,209**	P 59,212,747
DUE FROM BANGKO SENTRAL NG PILIPINAS	7	**1,757,148,127**	2,116,067,079
DUE FROM OTHER BANKS	7	**356,261,356**	319,936,628
TRADING AND INVESTMENT SECURITIES - Net	8	**3,014,215,064**	3,109,272,065
LOANS AND RECEIVABLES - Net	9	**26,238,102,650**	22,082,180,266
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	10	**292,524,534**	267,882,431
ASSETS HELD FOR SALE - Net	11	**409,314,033**	313,187,687
INVESTMENT PROPERTIES - Net	12	**231,825,798**	179,916,074
INVESTMENT IN AN ASSOCIATE	13	**1,218,414,112**	1,132,475,940
DEFERRED TAX ASSETS - Net	21	**529,038,740**	637,553,908
OTHER RESOURCES - Net	14	**109,598,565**	110,649,290
TOTAL RESOURCES		**P 34,235,518,188**	P 30,328,334,115
LIABILITIES AND EQUITY			
DEPOSIT LIABILITIES	15	**P 23,223,231,218**	P 22,005,928,874
BILLS PAYABLE	16	**405,476,499**	-
ACCRUED EXPENSES AND OTHER LIABILITIES	16	**1,013,355,701**	1,176,531,322
Total Liabilities		**24,642,063,418**	23,182,460,196
EQUITY	17		
Capital stock		**5,000,000,000**	4,750,000,000
Retained earnings		**4,577,916,083**	2,169,462,085
Stock dividends distributable		**-**	250,000,000
Revalutation reserves		**15,538,687**	(23,588,166)
Total Equity		**9,593,454,770**	7,145,873,919
TOTAL LIABILITIES AND EQUITY		**P 34,235,518,188**	P 30,328,334,115

See Notes to Financial Statements.

BANK OF MAKATI (A SAVINGS BANK), INC.
STATEMENTS OF PROFIT OR LOSS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Amounts in Philippine Pesos)

	Notes	2018	2017
INTEREST INCOME			
Loans and receivables	9	**P 7,157,945,380**	P 5,333,216,217
Trading and investment securities	8	**158,440,315**	165,649,146
Due from Bangko Sentral ng Pilipinas and other banks	7	**35,841,486**	36,586,768
		7,352,227,181	5,535,452,131
INTEREST EXPENSE			
Deposit liabilities	15	**(958,128,034)**	(857,227,905)
Bills payable	16	**(23,569,964)**	-
Others	19	**(1,055,700)**	(1,654,900)
		(982,753,698)	(858,882,805)
NET INTEREST INCOME		**6,369,473,483**	4,676,569,326
IMPAIRMENT LOSSES			
Financial assets	9	**(1,191,515,854)**	(1,004,966,665)
Non-financial assets	11, 12	**(322,758,031)**	(230,546,955)
		(1,514,273,885)	(1,235,513,620)
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**4,855,199,598**	3,441,055,706
OTHER OPERATING EXPENSES	18	**(2,856,945,298)**	(2,432,005,061)
OTHER OPERATING INCOME	18	**700,745,306**	637,404,666
SHARE IN PROFIT OF ASSOCIATE	13	**245,938,172**	245,139,138
PROFIT BEFORE TAX		**2,944,937,778**	1,891,594,449
TAX EXPENSE	21	**(811,255,791)**	(488,495,474)
NET PROFIT		**P 2,133,681,987**	P 1,403,098,975

See Notes to Financial Statements.

BANK OF MAKATI (A SAVINGS BANK), INC.
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Amounts in Philippine Pesos)

	Notes	2018	2017
NET PROFIT		**P 2,133,681,987**	P 1,403,098,975
OTHER COMPREHENSIVE INCOME (LOSS)			
Item that will not be reclassified subsequently to profit or loss			
Gain on remeasurements of defined benefit plan	19	**6,209,300**	2,210,200
Fair value loss on equity securities classified at fair value through other comprehensive income (FVOCI)	8	**(4,000,000)**	-
Tax expense	21	**(1,862,790)**	(663,060)
		346,510	1,547,140
Item that will be reclassified subsequently to profit or loss			
Fair value loss on debt securities classified at FVOCI	8	**(2,637,804)**	-
Fair value loss on available-for-sale (AFS) financial assets	8		
Fair value losses during the year		**-**	(41,418,147)
Fair value losses on disposed AFS financial assets reclassified to profit or loss		**-**	(9,857,640)
		(2,637,804)	(51,275,787)
Other Comprehensive Loss - Net of Tax		**(2,291,294)**	(49,728,647)
TOTAL COMPREHENSIVE INCOME		**P 2,131,390,693**	P 1,353,370,328

See Notes to Financial Statements.

BANK OF MAKAT
STATEMENTS C
FOR THE YEARS ENDI
(Amounts

	Notes	**Capital Stock**	**Stock Dividends Distributable**	
Balance at January 1, 2018				
As previously reported		P 4,750,000,000	P 250,000,000	P
Effect of adoption of PFRS 9	2	-	-	
As restated		4,750,000,000	250,000,000	
Stock dividend distributed during the year	17	250,000,000	(250,000,000)	
Total comprehensive income for the year		-	-	
Balance at December 31, 2018	17	**P 5,000,000,000**	**P -**	**P**
Balance at January 1, 2017		P 3,000,000,000	P -	P
Stock dividends during the year	17			
Declared and distributed		1,750,000,000	-	(
Declared		-	250,000,000	(
Cash dividend paid during the year	17	-	-	(
Total comprehensive income for the year		-	-	
Balance at December 31, 2017	17	P 4,750,000,000	**P** 250,000,000	P

See Notes t

AKATI (A SAVINGS BANK), INC.
NTS OF CHANGES IN EQUITY
ENDED DECEMBER 31, 2018 AND 2017
ounts in Philippine Pesos)

	Revaluation Reserves			
Retained Earnings	Unrealized Fair Value Gains (Losses) on Financial Assets	Remeasurements of Defined Benefit Plan	Total	Total Equity
2,169,462,085	(P 41,418,147)	P 17,829,981	(P 23,588,166)	P 7,145,873,919
274,772,011	41,418,147	-	41,418,147	316,190,158
2,444,234,096	-	17,829,981	17,829,981	7,462,064,077
-	-	-	-	-
2,133,681,987	(2,637,804)	346,510	(2,291,294)	2,131,390,693
4,577,916,083	**(P 2,637,804)**	**P 18,176,491**	**P 15,538,687**	**P 9,593,454,770**
3,324,488,110	P 9,857,640	P 16,282,841	P 26,140,481	P 6,350,628,591
1,750,000,000)	-	-	-	-
250,000,000)	-	-	-	-
558,125,000)	-	-	-	(558,125,000)
1,403,098,975	(51,275,787)	1,547,140	(49,728,647)	1,353,370,328
2,169,462,085	(P 41,418,147)	P 17,829,981	(P 23,588,166)	P 7,145,873,919

otes to Financial Statements.

BANK OF MAKATI (A SAVINGS BANK), INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Amounts in Philippine Pesos)

	Notes	2018	2017 (As Restated - See Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 2,944,937,778	P 1,891,594,449
Adjustments for:			
Interest income	7, 8, 9	(7,352,227,181)	(5,535,452,131)
Interest received		7,135,681,094	5,138,089,152
Impairment losses	9, 11, 12	1,514,273,885	1,235,513,620
Interest expense	15, 16, 19	982,753,698	858,882,805
Interest paid		(884,176,907)	(1,019,165,718)
Share in profit of associate	13, 18	(245,938,172)	(245,139,138)
Depreciation and amortization	10, 12, 14	103,988,646	115,559,576
Gain on sale of properties - net	11, 12, 18	(24,057,513)	(36,635,480)
Realized gain on trading and investment securities	8, 18	(2,406,483)	(12,761,798)
Operating profit before changes in resources and liabilities		4,172,828,845	2,390,485,337
Increase in loans and receivables		(4,359,674,344)	(3,949,473,126)
Decrease (increase) in assets held for sale		(222,966,258)	82,693,586
Increase in investment properties		(45,434,139)	(28,823,596)
Decrease (increase) in other resources		568,743	(8,485,898)
Increase in deposit liabilities		1,148,827,716	1,259,697,182
Increase (decrease) in accrued expenses and other liabilities		(240,094,435)	244,491,074
Cash from (used in) operations		454,056,128	(9,415,441)
Cash paid for income taxes		(749,290,087)	(256,373,281)
Net Cash Used In Operating Activities		(295,233,959)	(265,788,722)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of investment securities at amortized cost	8	(376,958,592)	-
Proceeds from disposal of trading and investment securities	8	329,227,483	1,392,609,798
Interest received on trading and investment securities	8	201,625,357	165,649,146
Dividends received	13	160,000,000	-
Acquisitions of bank premises, furniture, fixtures and equipment	10	(116,022,112)	(169,238,828)
Proceeds from maturities of investment securities at amortized cost/ held-to-maturity investments	8	79,060,921	98,955,567
Acquisition of financial assets at FVOCI/AFS financial assets	8	(60,500,000)	(833,000,000)
Proceeds from disposal of bank premises, furniture, fixtures and equipment	10	-	557,519
Net Cash From Investing Activities		216,433,057	655,533,202
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of bills payable	16	1,000,000,000	-
Repayment of bills payable	16	(600,000,000)	-
Payment of cash dividend	17	-	(558,125,000)
Net Cash From (Used in) Financing Activities		400,000,000	(558,125,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		321,199,098	(168,380,520)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7		
Cash		59,212,747	51,902,747
Due from Bangko Sentral ng Pilipinas		2,116,067,079	2,052,525,572
Due from other banks		319,936,628	293,236,256
Receivables arising from reverse repurchase agreement		1,016,069,140	1,282,001,539
		3,511,285,594	3,679,666,114
CASH AND CASH EQUIVALENTS AT END OF YEAR	7		
Cash		79,075,209	59,212,747
Due from Bangko Sentral ng Pilipinas		1,757,148,127	2,116,067,079
Due from other banks		356,261,356	319,936,628
Receivables arising from reverse repurchase agreement		1,640,000,000	1,016,069,140
		P 3,832,484,692	P 3,511,285,594

Supplementary Information on Non-Cash Investing Activities:

(1) On January 10, 2017, the Bank's Board of Directors approved the declaration of stock dividends amounting to P1.75 billion and P0.25 billion, which was issued on May 19, 2017 and January 5, 2018, respectively (see Note 17).

(2) Transfers from Loans and Receivables to Assets Held for Sale in 2018 and 2017 amounted to P1.6 billion and P1.4 billion, respectively (see Notes 9 and 11). On the other hand, transfers from Loans and Receivables to Investment Properties as a result of foreclosures amounted to P74.1 million and P34.0 million in 2018 and 2017, respectively (see Notes 9 and 12).

See Notes to Financial Statements.

BANK OF MAKATI (A SAVINGS BANK), INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
(Amounts in Philippine Pesos)

1. CORPORATE MATTERS

1.1 Bank Operations

Bank of Makati (A Savings Bank), Inc. (the Bank) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on July 20, 1956. On September 22, 1956, the Bangko Sentral ng Pilipinas (BSP) granted approval to the Bank to operate as a rural bank. The extension of the corporate life of another 50 years was subsequently approved by the SEC on April 8, 2005.

On November 28, 2013, the BSP approved the Bank's application to upgrade its rural banking license into that of a thrift bank subject to completion of regulatory requirements. Thereafter, on March 23, 2015, the BSP approved and signed the Bank's certificate of authority to operate as a thrift bank.

On February 5, 2015, the SEC approved the Bank's amended articles of incorporation and by-laws to change its corporate name to Bank of Makati (A Savings Bank), Inc. (the Bank).

The Bank started with a capitalization of P1.0 million at its inception. At the end of 2018, the Bank's total equity reached P9.6 billion and has 62 branches (which includes 48 regular branches and 14 microfinance-oriented branches) and 10 automated teller Machines (ATMs).

As a banking institution, the Bank's operations are regulated and supervised by the BSP. In this regard, the Bank is required to comply with the rules and regulations of the BSP such as those relating to maintenance of reserve requirements and adoption and use of safe and sound banking practices as promulgated by the BSP.

The Bank's registered address, which was also its principal place of business, was at 44 Senator Gil Puyat Avenue, Makati City. On January 25, 2018 the SEC approved the change in the Bank's principal place of business to Bank of Makati Building, Ayala Avenue near corner Metropolitan Avenue, Makati City. Its change in address is, however, yet to be approved by the Bureau of Internal Revenue (BIR) as of December 31, 2018.

1.2 Approval of Financial Statements

The financial statements of the Bank as of and for the year ended December 31, 2018 (including the comparative financial statements as of and for the year ended December 31, 2017) were authorized for issue by the Bank's Board of Directors (BOD) on March 12, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) Presentation of Financial Statements

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

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

In 2018, the Bank adopted PFRS 9, *Financial Instruments*, which was applied using the transitional relief allowed by the standard. This allows the Bank not to restate its prior periods' financial statements. Differences arising from the adoption of PFRS 9 in relation to classification and measurement and impairment of financial assets are recognized in the opening balance of Retained Earnings (or other component of equity, as appropriate) in the current year [see Note 2.2(a)(ii)].

In addition, the Bank treated the receivables arising from reverse repurchase agreement amounting to P1.0 billion as part of cash and cash equivalents in the 2017 statement of cash flows to conform with the current classification (see Note 7). Such change in presentation reduced the amount of cash from operations by P265.9 million and increased the beginning and ending cash and cash equivalents by P1.3 billion and P1.0 billion, respectively, in 2017. However, this change in presentation did not affect the other statements, particularly the statements of financial position.

Accordingly, the adoption of PFRS 9 and the change in presentation did not necessitate presentation of a third statement of financial position.

(c) *Functional and Presentation Currency*

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

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

2.2 Adoption of New and Amended PFRS

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

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

PAS 40 (Amendments)	:	Investment Property – Reclassification to and from Investment Property
PFRS 9	:	Financial Instruments
PFRS 15	:	Revenue from Contracts with Customers; Clarifications to PFRS 15
International Financial Reporting Interpretations Committee (IFRIC) 22	:	Foreign Currency Transactions and Advance Consideration
Annual Improvements to PFRS (2014-2016 Cycle)		
PFRS 1 (Amendments)	:	First-time Adoption of Philippine Financial Reporting Standards – Deletion of Short-term Exemptions
PAS 28 (Amendments)	:	Investment in Associates – Clarification on Fair Value through Profit or Loss Classification

Discussed below and in the succeeding pages are the relevant information about these standards, interpretation and annual improvements.

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

(ii) PFRS 9, *Financial Instruments* (issued in 2014). This new standard on financial instruments replaced PAS 39, *Financial Instruments: Recognition and Measurement,* and PFRS 9 issued in 2009, 2010 and 2013. This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;
- an expected credit loss (ECL) model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,
- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

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

a. Financial Assets Reclassified from Available-for-Sale (AFS) to Fair Value Through Other Comprehensive Income (FVOCI)

The Bank reclassified certain government and corporate debt securities and equity securities amounting to P418.8 million as of January 1, 2018 under AFS securities to financial assets at FVOCI because the investment objective of the related business model is to hold these investments to collect the contractual cash flows and sell, but are held for long-term strategic investment and are not expected to be traded in the short to medium-term.

In addition, the securities were analyzed for impairment based on the ECL model developed by the Bank [(see Note 2.2(a)(ii)(e)].

b. Debt Instruments Reclassified from AFS to Amortized Cost

The Bank reclassified certain government and corporate debt securities with fair value of P2.3 billion as of January 1, 2018, which were previously classified as AFS securities, that met the criteria to be classified as investment securities at amortized cost under PFRS 9 because the related business model is to hold these debt instruments to collect contractual cash flows, wherein said cash flows pertain solely to payment of principal and interest (SPPI). Accordingly, the accumulated net unrealized fair value losses on AFS securities amounting to P41.4 million was transferred from Revaluation Reserves as at January 1, 2018 [(see Note 2.2(a)(ii)]. Moreover, the Bank determined whether these securities are impaired based on the ECL model developed by the Bank [(see Note 2.2(a)(ii)(e)].

c. *Financial Assets Reclassified from Held-to-Maturity (HTM) to Amortized Cost*

The Bank reclassified government debt securities under HTM investments amounting to P391.1 million as of January 1, 2018 to Investment securities at amortized cost since the Bank's management determined that the objective of the Bank's business model is to hold these investments to collect the contractual cash flows, wherein said cash flows pertain solely to payments of principal and interest. In addition, the Bank determined that these bonds are impaired based on the expected credit loss model developed by management [see Note 2.2(a)(ii)(e)].

d. *Expected Credit Losses on Loans and Receivables*

The application of the ECL methodology based on the stages of impairment assessment for loans and receivables resulted in the reversal of allowance for credit losses of P392.9 million which, net of deferred tax expense of P117.9 million, was credited to the opening balance of Retained Earnings with adjustment credited to the opening balance of Retained Earnings as at January 1, 2018; the corresponding deferred tax asset was recognized.

e. *Expected Credit Losses on Investment in Debt Securities*

All of the Bank's investment in debt securities classified at amortized cost and at FVOCI are considered to have low credit risk, and the loss allowance recognized was therefore limited to 12-month expected credit loss. Management considers 'low credit risk' for listed and government bonds to be an investment grade credit rating with at least one reputable rating agency. Other instruments are considered to have low credit risk when they have a low probability of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term. Additional allowance for credit losses recognized on these debt securities as at January 1, 2018 amounted to P0.2 million, net of P0.1 million deferred tax impact, adjusted against the opening balance of Retained Earnings.

The table below summarizes the effects of the adoption of PFRS 9 on the carrying amounts and presentation of the categories of certain financial assets in the statement of financial position as of January 1, 2018.

	Notes	Carrying Value PAS 39 December 31, 2017	Reclassification	Remeasurements	Carrying Value PFRS 9 January 1, 2018
AFS securities		P 2,718,176,276	P -	P -	P 2,718,176,276
Reclassification to:					
Investment securities at FVOCI	a	-	(418,816,000)	-	(418,816,000)
Investment securities at amortized cost	b	-	(2,299,360,276)	-	(2,299,360,276)
AFS Securities		**P 2,718,176,276**	**(P 2,718,176,276)**	**P -**	**P -**
HTM investments		P 391,095,789	P -	P -	P 391,095,789
Reclassification to:					
Investment securities at amortized cost	c	-	(391,095,789)	-	(391,095,789)
HTM Investments		**P 391,095,789**	**(P 391,095,789)**	**P -**	**P -**

	Notes	Carrying Value PAS 39 December 31, 2017	Reclassification	Remeasurements	Carrying Value PFRS 9 January 1, 2018
Reclassification from AFS securities	a	P -	P 418,816,000	P -	P 418,816,000
Investment securities at FVOCI		**P -**	**P 418,816,000**	**P -**	**P 418,816,000**
Reclassification from:					
AFS securities	b	P	P 2,292,907,406	(P 41,418,147)	P 2,251,489,259
HTM investments	c	-	391,095,789	-	391,095,789
Investment securities at amortized cost		**P -**	**P 2,684,003,195**	**(P 41,418,147)**	**P 2,642,585,048**

The reconciliation of the prior year's closing allowance for impairment measured in accordance with PAS 39 incurred loss model to the new impairment allowance measured in accordance with the PFRS 9 ECL model is presented below.

	December 31, 2017 PAS 39	Remeasurements	January 1, 2018 PFRS 9
Loans and receivables	P 1,775,263,919	(P 392,872,436)	P 1,382,391,483
Investment securities at amortized cost	-	340,992	340,992
	P 1,775,263,919	**(P 392,531,444)**	**P 1,382,732,475**

The adoption of PFRS 9 had no impact on the classification and measurement of the Bank's financial liabilities; they remained to be classified and measured at amortized cost.

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

	Retained Earnings	Revaluation Reserves	Total Equity
Balance at January 1, 2018 – PAS 39	P 2,169,462,085	(P 23,588,166)	P 7,145,873,919
Effect of reclassification and remeasurements of financial assets	-	41,418,147	41,418,147
Reversal of allowance on loans	392,872,436	-	392,872,436
Recognition of allowance for impairment on debt securities reclassified to amortized cost	(340,992)	-	(340,992)
Tax effects	(117,759,433)	-	(117,759,433)
	274,772,011	41,418,147	316,190,158
Balance at January 1, 2018 – PFRS 9	**P 2,444,234,096**	**P 17,829,981**	**P 7,462,064,077**

In addition to the foregoing, the Bank's accounting policies for its financial instruments have been updated to fully comply with PFRS 9. The updated policies are presented in Notes 2.3 and 2.11.

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

The Bank adopted this new accounting standard using the modified retrospective approach. Based on an assessment of the Bank's revenue streams as at January 1, 2018, management determined that its significant sources of revenues pertain to its lending activities which generate interest income and service fees. Except for service fees, substantial amount of the Bank's revenues is generated from financial instruments which are outside the scope of PFRS 15. The Bank's adoption of PFRS 15 did not result to adjustments of revenue balances previously reported as the revenue recognition policy is consistent with the requirements of PFRS 15. Nevertheless, the accounting policies of the Bank have been updated to fully conform with PFRS 15. The updated accounting policies are in Note 2.13.

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

(v) Annual Improvements to PFRS 2014-2016 Cycle. Among the improvements, the following amendments are relevant to the Bank but had no material impact on the Bank's financial statements as these amendments merely clarify existing requirements:

- PAS 28 (Amendments), *Investment in Associates – Clarification on Fair Value Through Profit or Loss Classification*. The amendments clarify that the option for venture capital organization, mutual funds and other similar entities to elect the FVTPL classification in measuring investments in associates and joint ventures shall be made at initial recognition, separately for each associate or joint venture.

- PFRS 1 (Amendments), *First-time Adoption of Philippine Financial Reporting Standards – Deletion of Short-term Exemptions*. The amendments removed short-term exemptions in PFRS 1 covering PFRS 7, PAS 19, and PFRS 10 because the reporting period to which the exemptions applied have already transpired.

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

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

PFRS 2 (Amendments)	:	Share-based Payment – Classification and Measurement of Share-based Payment Transactions
PFRS 4 (Amendments)	:	Insurance Contracts – Applying PFRS 9 with PFRS 4, *Insurance Contracts*

(c) *Effective Subsequent to 2018 but not Adopted Early*

There are new PFRS, amendments, annual improvements and interpretations to existing standards effective for annual periods subsequent to 2018, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Bank's financial statements:

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

(ii) PAS 28 (Amendments), *Investment in Associates – Long-term Interests in Associates and Joint Ventures* (effective from January 1, 2019). The amendments clarify that the scope exclusion in PFRS 9 applies only to ownership interests accounted for using the equity method. Thus, the amendments further clarify that long-term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9, which shall also include long term interests that, in substance, form part of the entity's net investment in an associate or joint venture.

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

(iv) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*, and its related interpretation of IFRIC 4, *Determining Whether an Arrangement Contains a Lease*. For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right of use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similarly to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similarly to a financial liability using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17, where lease payments are recognized as expense on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

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

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

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

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

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

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

2.3 Financial Assets

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

(a) Classification and Measurement of Financial Assets in Accordance with PFRS 9 (applicable to 2018)

Under PFRS 9, the classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are classified at the following categories: financial assets at amortized cost, at FVOCI, and at FVTPL. The classification and measurement of the financial assets relevant to the Bank are described as follows:

(i) Financial Assets at Amortized Cost

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

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

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

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

Where the business model is to hold assets to collect contractual cash flows, the Bank assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement [(see Note 3.1(b)].

The Bank's financial assets at amortized cost are presented in the statement of financial position as Cash, Due from BSP, Due from Other Banks, as part of Trading and Investment Securities in respect of Investment securities amortized at cost, Loans and Receivables and as part of Other Resources in respect of Rental and utilities deposits.

For purposes of cash flows reporting and presentation, cash comprise of accounts with original maturities of three months or less, including cash, unrestricted balances of due from BSP, due from other banks and certain loans and receivables. These generally include cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

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

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

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

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

At initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Bank for trading.

The Bank has designated certain equity instruments as at FVOCI on initial application of PFRS 9 [see Note 2.2(a)(ii)].

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

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

Interest income on financial assets at amortized cost and on debt securities at FVOCI is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired and those that are purchased or originated credit-impaired assets. For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the net carrying amount of the financial assets (after deduction of the loss allowance). If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying a credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset.

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

(b) Classification and Measurement of Financial Assets in Accordance with PAS 39 (applicable to 2017)

Financial assets are assigned to different categories by management on initial recognition, depending on the purpose for which the investments were acquired and their characteristics. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: loans and receivables, HTM investments and AFS financial assets.

A more detailed description of the three categories of financial assets relevant to the Bank as of and for the year ended December 31, 2017 are as follows:

(i) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognized when cash is advanced to the borrowers or a liability from the accredited dealers is recognized. Included in this category are those arising from direct loans to customers, accrued interest receivable, and accounts receivables.

The Bank's financial assets categorized as loans and receivables are presented in the statement of financial position as Cash, Due from BSP, Due from Other Banks, Loans and Receivables, and as part of Other Resources in respect of Rental and utilities deposits. Cash and cash equivalents comprise cash, unrestricted balances with the BSP, amounts due from other banks and certain loans and receivables which are subject to insignificant risk of changes in value.

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

Unearned discount is amortized monthly to income over the life of the loans using the effective interest method. Interest income on nondiscounted loans is accrued monthly as earned, except in the case of nonaccruing loans.

Loans are classified as nonaccruing when the principal becomes past due, or when, in the opinion of management, collection of interest and principal is already doubtful. Interest income on these loans is recognized only to the extent of actual collections. Loans are not classified as accruing until interest and principal payments are brought to current status or the loan is restructured in accordance with existing BSP regulations and future collections appear assured.

(ii) HTM Investments

This category includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity that the Bank has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. If the Bank were to sell other than an insignificant amount of HTM investments, the whole category would be tainted and reclassified as AFS financial assets. The Bank currently holds government debt securities designated into this category.

Subsequent to initial recognition, HTM investments are measured at amortized cost using the effective interest method, less impairment losses, if any.

(iii) AFS Financial Assets

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

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

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

Interest earned from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured. Interest calculated using the effective interest method for all categories of financial assets is recognized in the statement of profit or loss.

(c) Impairment of Financial Assets Under PFRS 9 (applicable to 2018)

From January 1, 2018, the Bank recognizes allowances for ECL on a forward-looking basis associated with its financial assets at amortized cost.

Recognition of credit losses is no longer dependent on the Bank's identification of a credit loss event. The measurement of the ECL reflects: (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (ii) the time value of money; and, (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

The Bank's ECL model follows a three-stage impairment approach, which guide in the determination of the loss allowance to be recognized in the financial statements. The staging of financial assets, definition of default for purposes of determining ECL, and credit risk assessment are further discussed in Note 4.3.1.2.

ECL is a function of the probability of default (PD), loss-given default (LGD), and exposure-at-default (EAD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgement. These elements are discussed more fully in Note 4.3.1.2(c).

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

The Bank recognizes an impairment loss in profit or loss for all financial instruments subjected to ECL impairment assessment with a corresponding adjustment to their carrying amount through a loss allowance account, except for those classified under FVOCI which is recognized in other comprehensive income.

(d) Impairment of Financial Assets under PAS 39 (applicable to 2017)

As of December 31, 2017, the Bank's assessed impairment of financial assets as follows:

(i) Carried at Amortized Cost – Loans and Receivables and HTM Investments

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate.

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date of the impairment is reversed. The amount of the reversal is recognized in the profit or loss.

(ii) Carried at Fair Value – AFS Financial Assets

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

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

(e) Derecognition of Financial Assets

(i) Modification of Loans

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

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

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

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

(ii) Derecognition of Financial Assets Other than Modification

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

2.4 Offsetting of Financial Instruments

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

2.5 Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost less any accumulated impairment loss. As no finite useful life for land can be determined, related carrying amount is not depreciated. All other items of bank premises, furniture, fixtures and equipment are carried at acquisition costs less accumulated depreciation and amortization and any impairment in value.

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

Depreciation and amortization is computed using the straight-line basis over the estimated useful lives of the assets as follows:

Building and improvements	5 to 15 years
Furniture, fixtures and equipment	3 to 5 years
Computer software	3 to 5 years

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

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

Fully depreciated and amortized 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 bank premises, furniture, fixtures and equipment, and computer software, including the related accumulated depreciation and amortization and impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on 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.

2.6 Assets Held for Sale

Assets held for sale include chattels and other moveable properties acquired through repossession or foreclosure that the Bank intends to sell within one year from the date of classification as held for sale and is committed to immediately dispose the assets through an active marketing program.

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

Assets held for sale are measured at the lower of their carrying amounts immediately prior to their classification as held for sale, and their fair value less costs to sell. The Bank recognizes an impairment loss for any initial or subsequent writedown of the asset to fair value less cost to sell. Gain for any subsequent increase in fair value less cost to sell of an asset is recognized to the extent of the cumulative impairment losses previously recognized. The assets classified as held for sale are not subject to depreciation or amortization.

If the Bank has classified an asset as held for sale, but the criteria for it to be recognized as held for sale are no longer satisfied, the Bank shall cease to classify the asset as held for sale. Any gain or loss on the disposal on the assets classified as held for sale is recognized in profit or loss and is presented as part of Gain (loss) on sale of properties under the Other Operating Income (Expenses) account in the statement of profit or loss.

2.7 Investment Properties

Investment properties pertain to land, buildings and improvements acquired by the Bank, in settlement of loans from defaulting borrowers through foreclosure or dacion in payment. These properties are held by Bank either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes.

The Bank adopted the cost model in measuring its investment properties; hence, these are carried at cost less accumulated depreciation and any impairment in value. The cost of an investment property comprises its purchase price and directly attributable costs incurred. Depreciation and impairment loss are recognized in the same manner as in bank premises, furniture, fixtures and equipment (see Notes 2.5 and 2.15).

Transfers from other accounts (such as bank premises, furniture, fixtures and equipment) are made to investment properties when and only when, there is a change in use, evidenced by ending of owner-occupation or holding the property for capital appreciation, while transfers from investment properties are made when, and only when, there is a change in use, evidenced by commencement of owner-occupation.

Investment properties are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss and is presented as part of Gain (loss) on sale of properties under the Other Operating Income (Expense) account in the statement of profit or loss in the year of retirement or disposal.

2.8 Intangible Assets

Intangible assets, presented under the Other Resources account, pertain to operating licenses and computer software, which are amortized over three to five years.

The cost of the asset is the amount of cash or cash equivalent paid or the fair value of the other consideration given up to acquire the asset at the time of its acquisition. In addition, intangible assets are subject to impairment testing as described in Note 2.15.

2.9 Investment in an Associate

An associate is an entity over which the Bank has significant influence but which is neither a subsidiary nor an interest in a joint venture.

The investment in an associate is initially recognized at cost and subsequently accounted for using the equity method. Acquired investment in an associate is subject to the purchase method. The purchase method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. All subsequent changes to the ownership interest in the equity of the associate are recognized in the Bank's carrying amount of the investment. Changes resulting from the profit or loss generated by the associate is credited or charged against the Share in Profit of Associate account in the statement of profit or loss.

Impairment loss is provided when there is objective evidence that the investment in an associate will not be recovered (see Note 2.15).

Changes resulting from other comprehensive income of the associate or items recognized directly in the associate's equity are recognized in other comprehensive income or equity of the Bank, as applicable. However, when the Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Bank does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognized.

Distribution received from the associate is accounted for as a reduction of the carrying value of the investment.

2.10 Other Resources

Other resources, that are non-financial assets, pertain to other assets that are controlled by the Bank as a result of past events. These are recognized at cost in the financial statements when it is probable that the future economic benefits will flow to the Bank and the asset has a cost or value that can be measured reliably. These are either amortized and charged to profit or loss as they are utilized or reclassified to another asset account if considered capitalizable.

2.11 Financial Liabilities

Financial liabilities, which include Deposit Liabilities, Bills Payable, and Accrued Expenses and Other Liabilities (except for tax-related liabilities and retirement benefit obligation), are recognized when the Bank becomes a party to the contractual terms of the instrument. These are recognized initially at their fair value and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments. All interest-related charges incurred on financial liabilities are recognized as an expense in profit or loss under the caption Interest Expense in the statement of profit or loss.

Dividend distributions to shareholders are recognized as financial liabilities when the dividends are declared by the Bank's BOD.

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

2.12 Provisions and Contingencies

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

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

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

2.13 Revenue and Expense Recognition

Revenue of the Bank is substantially arising from interest income on its lending and investing activities which are recognized in accordance with the policy stated in Note 2.3.

In 2017 and prior years, revenue is recognized to the extent that the revenue can be reliably measured; it is probable that the economic benefits will flow to the Bank; and, the costs incurred or to be incurred can be measured reliably.

Starting January 1, 2018, upon the Bank's adoption of PFRS 15, revenue is recognized only when (or as) the Bank satisfies a performance obligation by transferring control of the promised services to a customer. The transfer of control can occur over time or at a point in time.

Service fees and penalties are generally recognized when the service has been provided. Service fees are recognized based on the applicable service contracts, usually on a time-appropriate basis over time based on output method (actual result of the service performed). Penalties are recognized only upon collection as there is no reasonable degree of certainty as to its collectability (at a point in time).

Costs and expenses are recognized in profit or loss upon utilization of the goods or service or at the date they are incurred. All finance costs are reported in the statement of comprehensive income in accordance with the policy in Note 2.11, except capitalized borrowing costs which are included or part of the cost of the related qualifying asset (see Note 2.17).

2.14 Leases – Bank as Lessee

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

The Bank determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.15 Impairment of Non-financial Assets

Bank premises, furniture, fixtures and equipment, assets held for sale, investment properties, intangible assets, investment in an associate, and other non-financial assets are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

Impairment loss is recognized in profit or loss for the amount by which the assets or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal evaluation of discounted cash flow. Impairment loss is charged pro-rata to the other assets in the cash-generating unit.

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

2.16 Employee Benefits

The Bank's employee benefits are recognized and measured as follows:

(a) Post-employment Defined Benefit Plan

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

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

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Interest Income or Interest Expense account in the statement of profit or loss.

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

(b) *Post-employment Defined Contribution Plan*

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

(c) *Bonus Plans*

The Bank recognizes a liability and an expense for bonuses. The Bank recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

(d) *Termination Benefits*

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

2.17 Borrowing Costs

Borrowing costs are recognized as expense in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

2.18 Income Taxes

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

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

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

Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

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

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

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

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

2.19 Related Party Transactions and Relationships

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

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

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

2.20 Equity

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

Stock dividend distributable pertains to stock dividends declared by the Bank pending actual distributions to the shareholders.

Retained earnings represents all current and prior period results of operations as reported in the statement of profit or loss, reduced by the amounts of dividends declared.

Revaluation reserves pertain to:

(a) Net unrealized fair value gains or losses arising from remeasurements of financial assets at FVOCI (in 2018) and AFS securities (in 2017 and prior years); and,

(b) Remeasurements of post-employment defined benefit plan based on the accumulated balances of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions used in the determination of the defined benefit obligation.

2.21 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Principles

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

(a) Application of ECL to Financial Assets at FVOCI and Amortized Cost (applicable to 2018)

The Bank uses a provision matrix to calculate ECL for all debt instruments carried at FVOCI and amortized cost. The allowance for impairment is based on the ECLs associated with the PD of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since origination of the financial instrument, in such case, a lifetime ECL for the instrument is recognized. This is where significant management judgment is required.

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

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

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

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

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

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

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

In determining the classification of financial assets under PFRS 9, the Bank assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria.

In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Banks assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Bank considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

(d) Classification of Financial Assets as HTM Investments (applicable to 2017)

In classifying non-derivative financial assets with fixed or determinable payments and fixed maturity, such as bonds classified as HTM investments, the Bank evaluates its intention and ability to hold such investments up to maturity. Management has confirmed its intention and determined its ability to hold the investments up to maturity. If the Bank fails to keep these investments to maturity other than for specific circumstances as allowed under the standards, it will be required to reclassify the whole class as AFS financial assets. In such a case, the investments would, therefore, be measured at fair value, not at amortized cost.

(e) *Impairment of AFS Financial Assets (applicable to 2017)*

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

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

(f) *Distinction Between Investment Properties, Assets Held for Sale, and Owner-occupied Properties*

The Bank determines whether a property qualifies as an investment property, assets held-for-sale or owner-occupied properties. 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 the property but also to other assets used in the Bank's operations.

The Bank classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as Assets Held for Sale if the Bank expects that the properties will be recovered through sale within one year from the date of classification, or as Investment Properties if the Bank intends to hold the properties for capital appreciation or for rental.

(g) *Distinction Between Operating and Finance Leases*

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

(h) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.12 and relevant disclosures are presented in Note 23.

3.2 Key Sources of Estimation Uncertainty

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

(a) *Estimation of Allowance for ECL (applicable to 2018)*

The Bank provides ECL for financial instruments that have passed the SPPI test (see Note 2.3). The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions which include: the Bank's criteria for assessing if there has been a significant increase in credit risk; and, development of expected credit loss models, including the choice of inputs relating to macroeconomic variables. The calculation of credit-impairment provisions also involves expert credit judgement to be applied based upon counterparty information received from various sources including relationship managers and on external market information.

The analysis of the allowance for impairment and the ECL assessed on financial assets are shown in Note 4.3.1.3 and Note 9.

(b) *Estimation of Impairment of Loans and Receivables and HTM Investments (applicable to 2017)*

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

The carrying value of loans and receivables and the analysis of allowance for impairment on such financial assets are shown in Note 9, while the information related to HTM investments are presented in Note 8.4.

(c) *Fair Value Measurement for Financial Instruments*

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

The carrying values of the Bank's financial assets at FVOCI (2018) and AFS securities (2017) and the amounts of fair value changes recognized on those assets are disclosed in Note 8.

(d) Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources

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

The carrying amounts of bank premises, furniture, fixtures and equipment, investment properties and intangible assets are analyzed in Notes 10, 12 and 14. Based on management's assessment as of December 31, 2018 and 2017, there are no changes in the useful lives of these assets. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(e) Fair Value Measurement of Non-financial Assets

The Bank's investment properties are composed of land and buildings and improvements. In determining the fair value of these assets, the Bank engages the services of professional and independent appraisers. The fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at the valuation date. Such amount is influenced by different factors including the location and specific characteristics of the property (e.g., size, features, and capacity), quantity of comparable properties available in the market, and economic condition and behaviour of the buying parties.

Assets held for sale pertain to repossessed motorcycles when a borrower defaulted on its required payments. In determining the fair value of these assets, the Bank refers to the most recent list prices or fair value of the motorcycles less the appropriate cost to sell. The valuation is based and consistent with its best and highest use.

The fair values of the investment properties and assets held for sale are presented under Note 6.4.

(f) Determination of Realizable Amount of Deferred Tax Assets

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

The carrying value of deferred tax assets, which management has determined to be fully recoverable as of December 31, 2018 and 2017, is disclosed in Note 21.

(g) *Impairment of Non-financial Assets*

The Bank's policy on estimating the impairment of non-financial assets is discussed in Note 2.15. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Impairment losses recognized on assets held for sale and investment properties are disclosed in Notes 11 and 12, respectively. No impairment losses were recognized for bank premises, furniture, fixtures and equipment, investment in an associate, intangible assets, and other non-financial assets based on management's assessment.

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

The determination of the Bank's obligation and cost of post-employment and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 19.2 and include, among others, discount rates, expected rate of return on plan asset and salary increase rates. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit obligation are presented in Note 19.2.

(i) *Determination of Fair Value Less Cost to Sell of Assets Held for Sale*

In determining the fair value less cost to sell of assets held for sale, management takes into account the most reliable evidence available at the time the estimates are made. These estimates include prices at which the repossessed assets are expected to be sold and the necessary cost to be incurred in disposing the assets. The price and cost estimates, however, could change in the future. The above factor is considered key source of estimation uncertainty and may cause significant adjustments to the Bank's assets held for sale within the next reporting period.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

4.1 Integrated Risk Management Framework

The Bank operates an integrated risk management system to address the risks it faces in its banking activities, including credit, market, liquidity and operations risks. The Bank's risk management objective is to adequately and consistently evaluate, manage, control, and monitor the risk profile of the Bank to optimize the risk-reward balance and maximize return on the Bank's capital.

4.2 Risk Responsibilities

The BOD directs the Bank's over-all risk management strategy and performs an oversight function on the Bank's implementation of its risk policies through various committees that it has created, as follows:

(a) Executive Committee

The Executive Committee approves credit exposures within the limit delegated by the BOD and beyond the limit authorized for the Management Committee, except for directors, officers, stockholders and related interests (DOSRI) loans which are approved by the BOD regardless of amount.

(b) Risk Oversight Committee

The Risk Oversight Committee oversees the risk profile and recommends the risk management framework to the BOD.

(c) Audit and Compliance Committee

The Audit and Compliance Committee through Internal Audit Department and Compliance Department provides the independent assessment of the over-all effectiveness of, and compliance with the Bank's risk management policies and processes.

(d) Corporate Governance Committee

The Corporate Governance Committee (CGC) is primarily responsible for helping the BOD fulfill its corporate governance functions. It advocates and assists the BOD in adopting and implementing sound principles and practices of good corporate governance.

The CGC also recommends corporate governance policies to the BOD based on the regulations of the BSP, SEC and other regulatory bodies, as well as internationally recognized industry best practices.

(e) Related Party Transactions Committee

The Related Party Transactions Committee assists the BOD in fulfilling its responsibility to strengthen corporate governance and practices particularly on related party transactions.

4.3 Financial Risk Management

The Bank does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Bank is exposed to are described below and in the succeeding pages.

4.3.1 Credit Risk

Credit risk is the risk that a counterparty fails to discharge an obligation to the Bank. It arises from lending, treasury and other activities undertaken by the Bank. Managing credit risk involves defining the principles and parameters governing credit activities at various levels, (i.e. strategic level, portfolio level down to individual transaction or account level).

The following procedures, among others, are performed in identifying, assessing and managing credit risk:

(a) establish credit policies, asset allocations and concentration limits, risk asset acceptance criteria, target market and clearly defined approving authorities;
(b) establish credit scoring system to determine qualification of borrowers and periodic review of parameters to evaluate effectiveness through back testing
(c) define documentation policies of approved credit lines;
(d) independence of credit control and monitoring functions from the credit risk-taking function;
(e) regular review of the adequacy of valuation reserves; active loan portfolio management to determine the quality of the loan portfolio, including risks associated with particular industry sectors, regions; monitor portfolio growth, collection performance and delinquency trends, trend of nonperforming loans, concentration risk, and other performance indicators; and,
(f) close monitoring of remedial accounts.

4.3.1.1 Credit Risk Measurement

The Bank's credit risk measurement is performed on different segments of financial asset portfolio such as: (a) consumer, which include motorcycle, housing, auto loans, enterprise, and microfinance loans; (b) corporate, which generally are commercial loans; and, (c) investments in debt securities that are measured at amortized cost and at FVOCI.

Loans and receivables, regardless if the accounts have been fully paid, extended or renewed in subsequent year or period, are subjected to evaluation for possible losses. The Bank's estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows, and the passage of time. The assessment of credit risk of a portfolio of assets requires further estimations as to the PDs occurring, of the associated loss ratios, and of default correlations between counterparties; accordingly, such the credit risk is measured using PD, EAD, and LGD, for purposes of measuring ECL as required by PFRS 9 effective January 1, 2018.

The Bank uses the following approaches in PD computation, depending on the type of financial instruments: Net Rollforward Rate for loans and receivables and Bloomberg Default Risk (DRSK) Function for investment in debt securities measured at amortized cost. Net Rollforward Rate shows the percentage of borrowers who become increasingly delinquent on their accounts. For the Bank, net rollforward rate is computed based on the amount of outstanding balance which rolled from one age bracket to another. This procedure was elected to be used for purposes of PD computation for loans since it is more reflective of the behavior of the Bank's borrowers where some may actually default within the life of the loan but will still be paid sometime. This is attributable to the Bank's concentration to consumer loans. On the other hand, Bloomberg's DRSK Function provides transparent and timely quantitative estimates of an issuer's default probabilities and default risk. Estimating likelihood is based on globally calibrated model which also retains region-specific characteristics including the Philippine market. The DRSK framework incorporates fundamental factors with industry risk, market sentiment, and business cycle in a quantitative model to determine the default probability.

(a) Consumer Loans

For consumer loans, risk assessment is performed collectively. The basis of the staging of impairment and related PD, LGD, and ECL is its age brackets (0 or current to as much as more than 5 years), based on loan type.

The groupings of financial instruments into a pool of shared credit quality are subject to the regular review by in order to ensure that credit exposures within a particular group remain appropriately homogenous.

(b) Corporate Loans

The Bank's credit risk assessment for corporate loans are also assessed collectively; however, the Bank will be shifting to an individual assessment approach through Borrower's Risk Rating (BRR) once the Bank was able to collect sufficient data to arrive at a reasonable probability of default rates.

(c) Debt Securities at Amortized Cost and at FVOCI

For the Bank's debt securities, the issuer's specific PD using the Bloomberg DRSK Function is used. The PD associated with each rating is determined based on realized default rates over the previous 12 months, as published by Bloomberg.

4.3.1.2 Expected Credit Loss Measurement

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

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

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

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

(ii) Stage 2 – comprises of all financial instruments assessed to have SICR since initial recognition based on the Bank's quantitative and qualitative criteria, though not yet deemed to be credit-impaired. Stage 2 financial instruments may also include those financial instruments where the credit risk has improved and have been reclassified from Stage 3 subject to the Bank's observation period on the creditworthiness of the counterparty. A lifetime ECL is recognized for these financial instruments.

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

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

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

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's internal credit assessment, the borrower or counterparty is determined to have well-defined credit weaknesses. For exposures with no internal credit risk rating performed, if contractual payments are more than a specified days past due threshold, the credit risk is deemed to have increased significantly since initial recognition. Depending on the number of days past due which differ across the various retail products of the Bank, a credit exposure may be transferred to Stage 2 or Stage 3. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer an SICR since initial recognition, the Bank shall revert to recognizing a 12-month ECL. As a general rule, an upgrade or transfer of credit exposure from Stage 3 to Stage 1 is allowed when there is sufficient evidence to support that full collection of principal and interest is probable, consistent with the Bank's definition of curing period.

(b) Definition of Default

Loans and Receivables

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

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

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

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

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

Investments in Debt Securities

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

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

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

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

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

(c) Key Inputs, Assumptions, and Estimation Techniques Used in Measurement of ECL

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment.

- *Probability of Default*

  This represents an estimate of likelihood of a borrower defaulting on its financial obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation. PD is calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures, which consider both quantitative and qualitative factors. In determining PD, the Bank performs segmentation of its credit exposures based on homogenous characteristics and developed a systematic PD methodology for each portfolio. Generally, if a counterparty or exposure migrates between rating classes, this will lead to a change in the estimate of the associated PD.

- *Loss Given Default*

  This pertains to estimate of loss related to the amount that may not be recovered after the borrower defaults. The Bank estimates LGD parameters based on historical recovery rates of claims against defaulted counterparties, which takes into consideration the realization of any collateral that is integral to the financial asset. For secured credit exposure, the determination of LGD is dependent on the Bank's collateral data which are available at the origination of the instrument which takes into account the amount and timing of the cash inflows (actual recovery) and outflows (actual expenses) and on the time value of money. Recoveries are calculated on a discounted cash flows basis using the effective interest rate as the discounting factor.

- *Exposure at Default*
  This represents the gross carrying amount of the exposure in the event of default which include the amortized cost amount of an instrument and any accrued interest receivable.

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

  The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the life of the instrument. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. Such profile is supported by a historical analysis (i.e., an observation period of three years) which uses, among others the number of rated accounts and ratings of bad accounts at the time of default.

  For loans with periodic amortization and one-time full payment at end of the term, EAD is based on the contractual repayments owed by the borrower over a12-month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation.

  The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default, and may vary by loan type. For secured loans, this is primarily based on collateral type and projected collateral values, historical discounts to market or book values due to forced sales, time to repossession and recovery costs observed. For unsecured loans, LGD is typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. The LGD is influenced by collection strategies.

  The determination of the 12-month and lifetime PD, LGD, and EAD includes the overlay of forward-looking economic information [see Note 4.3.1.2(d)]. The assumptions underlying the calculation of the ECL – such as how the maturity profile of the PDs and how collateral values change – are monitored and reviewed by the Bank on a periodic basis.

(d) Overlay Forward-looking Information (FLI) in the Measurement of ECL

The Bank incorporates FLI in its assessment of SICR and calculation of ECL. The Bank has performed historical analysis and has identified the key macroeconomic variables (MEVs) affecting credit risk associated with its borrowers and/or counterparties and the ECL for each portfolio of debt instruments.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between MEVs, credit risk, and credit losses.

The significance of the selected MEVs as predictors of default may change over time as historical information is added. As such, the generated macro-economic models are updated at least on an annual basis.

The MEVs and their associated impact on the PD, EAD and LGD vary by financial instrument. To project the MEVs for the full remaining life of each financial instrument, a mean reversion approach has been used, which means that MEVs tend to either a long run average rate (e.g. lending interest rate) or a long run average growth rate (e.g. gross domestic product) over a period of two to five years. The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

The MEVs considered by the Bank includes economic data and forecasts published by government bodies (e.g., BSP and Philippine Statistics Authority), international organizations (e.g., International Monetary Fund), and certain reputable private and academic organizations involved in forecasting. Accordingly, the Bank has identified key drivers for credit risk for its corporate loans portfolio, which include, among others, gross domestic, unemployment rates, and interest rates. On the other hand, the key drivers for the Bank's retail loans portfolio include inflation rates and nominal wage rates.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore, the actual outcomes may be significantly different to those projections. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analyzed the non-linearities and asymmetries within the Bank's different product types to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Management has also considered other FLIs such as any regulatory, legislative, or political changes, but are not deemed to have a significant impact on the calculation of ECL. Management reviews and monitors the appropriateness of FLIs at least annually.

4.3.1.3 Credit Risk Exposures and the ECL Allowance

(a) Exposures to Credit Risk

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the statements of financial position, as summarized below.

	Notes	2018	2017
Cash	7	**P 79,075,209**	P 59,212,747
Due from BSP	7	**1,757,148,127**	2,116,067,079
Due from other banks	7	**356,261,356**	319,936,628
Investment securities:			
At amortized cost	8	**2,840,243,042**	-
At FVOCI	8	**57,977,022**	-
AFS securities	8	**-**	2,591,728,406
HTM investments	8	**-**	391,095,789
Loans and receivables – net	9	**26,238,102,650**	22,082,180,266
Rental and utilities deposits	14	**24,279,65s8**	25,604,845
Returned checks and other cash items	14	**-**	3,252
		P 31,353,087,064	P 27,585,829,012

The credit risk for cash and cash equivalents such as Due from BSP and Due from Other Banks are considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

The tables that follows show the credit exposures on the above financial assets (particularly loans receivables and investments in debt securities) by stages of impairment as of December 31, 2018, shown at their gross and net carrying amounts, with the corresponding allowance for ECL shown in Note 4.3.1.3(c). All instruments, which were not assessed by the Bank for ECL based on individual credit risk rating were evaluated on a collective basis, applying applicable PD and LGD based on the segment of instrument gross carrying amounts of financial instruments by stage as of December 31, 2018.

Loans and Receivables

	Stage 1	Stage 2	Stage 3	Total
Unclassified	P 20,306,874,258	P -	P -	P 20,306,874,258
Especially mentioned	-	2,755,542,086	-	2,755,542,086
Sub-standard	-	2,888,615,771	1,206,983,672	4,095,599,443
Doubtful	-	-	334,531,044	334,531,044
Loss	-	-	206,912,117	206,912,117
	20,306,874,258	5,644,157,857	1,748,426,833	27,699,458,948
Allowance for ECL	(44,039,123)	(418,886,009)	(998,622,574)	(1,461,547,706)
Carrying amount	**P20,262,835,135**	**P5,225,271,848**	**P 749,804,259**	**P26,237,911,242**

Investments in Debt Securities

	At Amortized Cost	At FVOCI	Total
Corporate bonds	P2,276,501,898	P -	P 2,276,501,898
Government bonds	564,058,474	57,977,022	622,035,496
	2,840,560,372	57,977,022	2,898,537,394
Allowance for ECL	(317,330)	-	(317,330)
Carrying amount	**P2,840,243,042**	**P 57,977,022**	**P 2,898,220,064**

Credit exposures for debt securities not held for trading are all classified as Stage 1.

The information on how the significant changes in the gross carrying amount of the financial instruments contributed to the changes in allowance for ECL are presented in Note 4.3.1.3(b).

(b) Significant Changes in Gross Carrying Amount Affecting Allowance for ECL

The table below provides information how the significant changes in the gross carrying amount of loans and receivables in 2018 contributed to the changes in the allowance for ECL (amounts in millions of Philippine pesos).

	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2018	P 18,350	P 4,085	P 977	P 23,412
Transfers:				
From Stage 1 to Stage 2	(2,090)	2,090	-	-
From Stage 2 to Stage 1	234	(234)	-	-
From Stage 2 to Stage 3	-	(671)	671	-
From Stage 3 to Stage 2	-	8	(8)	-
New financial assets originated:				
Remained in Stage 1	12,295	-	-	12,295
Moved to Stages 2 and 3	-	2,415	1,320	3,735
Financial assets derecognized or repaid during the year	(8,482)	(2,049)	(490)	(11,021)
Write-offs	-	-	(722)	(722)
	1,957	1,559	771	4,287
Balance at December 31, 2018	**P 20,307**	**P 5,644**	**P 1,748**	**P 27,699**

The gross carrying amounts of the Bank's investments in debt securities at amortized cost and at FVOCI are disclosed in Note 8.

(c) Allowance for Expected Credit Loss

The following table show the reconciliation of the loss allowance for ECL on loans and receivables at the beginning and end of 2018 (amounts in millions of Philippine pesos).

	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2018	P 240	P 361	P 782	P 1,383
Transfers:				
From Stage 1 to Stage 2	(31)	31	-	-
From Stage 2 to Stage 1	4	(4)	-	-
From Stage 2 to Stage 3	-	(309)	309	-
From Stage 3 to Stage 2	-	-	-	-
New financial assets originated:				
Remained in Stage 1	529	-	-	529
Moved to Stages 2 and 3	-	377	818	1,195
Financial assets derecognized or repaid during the year	(698)	(37)	(9)	(744)
Write-offs	-	-	(902)	(902)
	(196)	58	216	78
Balance at December 31, 2018	**P 44**	**P 419**	**P 998**	**P 1,461**

For the Bank's investments in debt securities at amortized cost, the Bank has recognized ECL of P0.3 million in 2018. These are all classified in Stage 1 due to low credit risk.

4.3.1.4 Impaired Financial Assets – Comparative Information under PAS 39

For comparative information, the table below provides the details of exposures to credit risk as of December 31, 2017, summarized based on the Bank's impairment assessment methodology under PAS 39.

	Cash, Due from BSP and Other Banks	Loans and Receivables	HTM Investments	AFS Financial Assets
Carrying Amount	P 2,495,216,454	P 22,082,180,266	P 391,095,789	P 2,591,728,406
Individually Impaired				
Grade C : LEM	P -	P 369,022,105	P -	P -
Grade D: Substandard	-	194,636,947	-	-
Grade E : Doubtful	-	362,354,354	-	-
Grade F : Loss	-	228,525,540	50,000,000	-
Gross amount	-	1,154,538,946	50,000,000	-
Allowance for impairment	-	(508,798,460)	(50,000,000)	-
Carrying amount	-	645,740,486	-	-
Collectively Impaired				
Gross amount	-	16,522,957,066	-	-
Allowance for impairment	-	(1,212,973,489)	-	-
Carrying amount	-	15,309,983,577	-	-
Neither Past Due Nor Impaired				
Unclassified	2,495,216,454	6,179,948,173	391,095,789	2,591,728,406
Allowance for impairment	-	(53,491,970)	-	-
Carrying amount	2,495,216,454	6,126,456,203	391,095,789	2,591,728,406
Net Carrying Amount	P 2,495,216,454	P 22,082,180,266	P 391,095,789	P 2,591,728,406

4.3.1.5 Collateral Held as Security and Other Credit Enhancements

The Bank holds collateral against loans and other receivables from customers in the form of mortgage interests over property, hold-out deposits, other registered securities over assets and guarantees (see Note 9). Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over due from other banks, interbank loans and investment securities, except when securities are held as part of reverse repurchase and securities borrowing activity.

4.3.2 Market Risk

The Bank is exposed to market risk through its use of financial instruments and specifically to interest rate risk which result from both its operating and investing activities.

(a) Interest Risk

The Bank's policy is to minimize interest rate cash flow risk exposures. As of December 31, 2018 and 2017, the Bank is exposed to changes in market interest rates through its short-term placements which form part of amounts due from other banks and debt securities, which are subject to variable interest. All other financial assets and financial liabilities either have fixed interest rates or are noninterest-bearing.

The following table illustrates the sensitivity of the Bank's profit before tax and equity to a reasonably possible change in interest rates of its short-term placements and debt securities, with all other variables held constant.

	2018		
	+/- %	**Profit Before Tax**	**Equity**
Due from other banks	2.28%	P 8,128,206	P 6,502,565
Investment securities:			
At FVOCI	3.04%	1,312,285	1,049,828
At amortized cost	3.04%	86,225,151	73,366,537
		P 95,665,642	**P 80,918,930**

	2017		
	+/- %	Profit Before Tax	Equity
Due from other banks	0.90%	P 2,895,382	P 2,318,306
AFS financial assets	0.74%	19,115,643	15,292,514
HTM investments	0.74%	2,884,580	2,307,664
		P 24,895,605	P 19,918,484

The changes in interest rates used in the analysis of short-term placements are based on the volatility of the BSP's compilation of domestic rates on short-term placements computed using standard deviation. The changes in interest rates used in the analysis of trading and investment securities have been determined based on the average volatility in interest rates of the said investments in the past 12 months.

(b) Other Price Risk

The Bank's market price risk arises from its investments carried at fair value (i.e., financial assets at FVOCI in 2018 and AFS financial assets in 2017). The Bank manages exposures to price risk by monitoring the changes in the market price of the investments and at some extent, diversifying the investment portfolio in accordance with the limit set by management.

For FVOCI and AFS equity securities held by the Bank in 2018 and 2017, respectively, an average volatility of 16.66% and 13.01%, has been observed during 2018 and 2017, respectively. If quoted price for these securities increased or decreased by that amount, equity would have changed by P19.3 million and P13.8 million in 2018 and 2017, respectively.

The investments in listed equity securities are considered long-term strategic investments. In accordance with the Bank's policies, no specific hedging activities are undertaken in relation to these investments. The investments are continuously monitored.

4.3.3 Liquidity Risk

Liquidity risk is the risk that funds available may not be adequate to meet the credit demands of the Bank's customers and repay deposits on maturity. The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a loan portfolio with evenly-spaced maturities and cash flows. In addition, the Bank seeks to maintain sufficient liquidity to take advantage of interest rate opportunities when they arise.

The analysis of the maturity groupings of the Bank's financial assets and financial liabilities (at gross amounts) as of December 31, 2018 and 2017 is presented below and in the succeeding page.

	2018			
	Due Within One Year	**Due Beyond One Year but Within Five Years**	**Due Beyond Five Years**	**Total**
Financial Resources:				
Cash	P 79,075,209	P -	P -	P 79,075,209
Due from BSP	1,757,148,127	-	-	1,757,148,127
Due from other banks	356,261,356	-	-	356,261,356
Investment securities:				
At FVOCI	-	164,179,299	9,792,723	173,972,022
At amortized cost	54,873,323	1,520,617,839	1,265,386,541	2,840,877,703
Loans and receivables	7,295,246,260	19,041,475,137	1,362,928,959	27,699,650,356
Rental and utilities deposits	-	-	24,279,658	24,279,658
Total	9,542,604,275	20,726,272,275	2,662,387,881	32,931,264,431
Financial Liabilities:				
Deposit liabilities	13,252,930,804	9,969,318,497	981,917	23,223,231,218
Bills payable	405,476,499	-	-	405,476,499
Accrued expenses and other liabilities	666,386,673	-	-	666,386,673
Total	14,324,793,976	9,969,318,497	981,917	24,295,094,390
Periodic Surplus (Gap)	(4,782,189,701)	10,756,953,778	2,661,405,964	8,636,170,041
Cumulative Total Surplus (Gap)	**(P 4,782,189,701)**	**P 5,974,764,077**	**P 8,636,170,041**	**P 8,636,170,041**

	2017			
	Due Within One Year	Due Beyond One Year but Within Five Years	Due Beyond Five Years	Total
Financial Resources:				
Cash	P 59,212,747	P -	P -	P 59,212,747
Due from BSP	2,116,067,079	-	-	2,116,067,079
Due from other banks	319,936,628	-	-	319,936,628
AFS financial assets	2,718,176,276	-	-	2,718,176,276
HTM investments	96,923,855	142,602,255	201,569,679	441,095,789
Loans and receivables	4,027,426,552	17,697,056,719	2,135,358,184	23,859,841,455
Rental and utilities deposits	-	-	25,604,845	25,604,845
Others	3,252	-		3,252
Total	9,337,746,389	17,839,658,974	2,362,532,708	29,539,938,071
Financial Liabilities:				
Deposit liabilities	12,715,068,547	9,288,860,327	2,000,000	22,005,928,874
Accrued expenses	907,870,484	-	-	907,870,484
Total	13,622,939,031	9,288,860,327	2,000,000	22,913,799,358
Periodic Surplus (Gap)	(4,285,192,642)	8,550,798,647	2,360,532,708	6,626,138,713
Cumulative Total Surplus (Gap)	(P 4,285,192,642)	P 4,265,606,005	P 6,626,138,713	P 6,626,138,713

The Bank expects that a substantial portion of the deposit liabilities with maturity of one year will be rolled over upon maturity.

4.3.4 Operations Risk

Operations risk is the risk of direct or indirect loss from inadequate or failed internal processes, people and systems or from external events.

Managing operations risk in the Bank is founded on a sound internal control environment. Among the key components of a sound internal environment are recruitment and placement policies in place that ensure the integrity, ethics and competence of personnel; a written Code of Conduct; written policies and procedures that clearly establish accountability and responsibility, segregation of functions, verification and reconciliation procedures; and, an effective assurance and internal audit function.

4.3.5 Anti-Money Laundering Controls

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

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

In an effort to further prevent money laundering activities, the Bank revised its KYC policies and guidelines in order to comply with the aforementioned Circular. Under the guidelines, each business unit is required to validate the true identity of a customer based on official or other reliable identifying documents or records before an account may be opened. Likewise, the Bank is required to risk profile its clients to Low, Normal or High with its corresponding due diligence of Reduced, Average or Enhanced, in compliance with the risk-based approach mandated by the Circular. The Bank's procedures for compliance with the AMLA are set out in its MLPP.

The AMLC requires all banking units to submit to the Compliance Office certificates of compliance with the Anti-Money Laundering Rules and Regulations on a quarterly basis.

The CGC leads the Bank in defining corporate governance policies and attaining best practices while overseeing the implementation of the Bank's compliance program, money laundering prevention program and ensuring that regulatory compliance issues are resolved expeditiously. At the forefront of the implementation of its mandates is the Compliance Department led by the Chief Compliance Officer (CCO).

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

5. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.1 Carrying Amounts and Fair Values by Category

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position are shown below and in the table that follows.

	Notes	**2018** Carrying Amounts	**2018** Fair Values	2017 Carrying Amounts	2017 Fair Values
Financial Assets:					
At amortized cost:					
Cash	7	**P 79,075,209**	**P 79,075,209**	P 59,212,747	P 59,212,747
Due from BSP	7	**1,757,148,127**	**1,757,148,127**	2,116,067,079	2,116,067,079
Due from other banks	7	**356,261,356**	**356,261,356**	319,936,628	319,936,628
Loans and receivables	9	**26,238,102,650**	**27,931,555,014**	22,082,180,266	24,005,294,439
Investment securities at amortized cost/HTM investments – net	8	**2,840,243,042**	**2,853,205,306**	391,095,789	392,888,850
Rental utilities and deposits	14	**24,279,658**	**24,279,658**	25,604,845	25,604,845
Returned checks and other cash items	14	**-**	**-**	3,252	3,252
		31,295,110,042	**33,001,526,670**	24,994,100,606	26,919,007,840
At fair value –					
Investment securities at FVOCI/ AFS financial assets	8	**173,972,022**	**173,972,022**	2,718,176,276	2,718,176,276
		P31,469,082,064	**P33,175,498,692**	P27,712,276,882	P 29,637,184,116

	Notes	2018 Carrying Amounts	2018 Fair Values	2017 Carrying Amounts	2017 Fair Values
Financial Liabilities:					
At amortized cost:					
Deposit liabilities	15	**P23,223,231,218**	**P 23,223,231,218**	P 22,005,928,874	P 22,005,928,874
Bills payable	16	**405,476,499**	**405,476,499**	-	-
Accrued expenses and other liabilities	16	**666,386,673**	**666,386,673**	907,870,484	907,870,484
		P24,295,094,390	**P24,295,094,390**	P 22,913,799,358	P 22,913,799,358

5.2 Offsetting of Financial Assets and Financial Liabilities

The following financial assets in the statements of financial position are subject to offsetting, enforceable master netting arrangements or similar agreements (amounts in thousands of Philippine pesos):

	Gross amounts recognized in the statement of of financial position – Financial instruments	Gross amounts recognized – Amount set-off	Net amount presented in statement of financial position	Related amounts not set-off in the statement of financial position – Financial instruments	Related amounts not set-off – Collateral received	Net amount
December 31, 2018						
Financial assets – Loans and receivables	**P 26,252,132**	**(P 14,029)**	**P 26,238,103**	**P 26,238,103**	**(P 357,631)**	**P 25,880,472**
Financial liabilities:						
Deposit liabilities	P 23,223,231	P -	P 23,223,231	P 23,223,231	(P 357,631)	P 22,865,600
Accrued expenses and other liabilities	680,416	(14,029)	666,387	666,387	-	666,387
Total	**P 23,903,647**	**(P 14,029)**	**P 23,889,618**	**P 23,889,618**	**(P 357,631)**	**P 23,531,987**
December 31, 2017						
Financial assets – Loans and receivables	P 22,093,255	(P 11,075)	P 22,082,180	P 22,082,180	(P 560,941)	P 21,521,239
Financial liabilities:						
Deposit liabilities	P 22,005,929	P -	P 22,005,929	P 22,005,929	(P 560,941)	P 21,444,988
Accrued expenses and other liabilities	981,945	(11,075)	970,870	970,870	-	970,870
Total	P 22,987,874	(P 11,075)	P 22,976,799	P 22,976,799	(P 560,941)	P 22,415,858

For purposes of presenting this information, the related amounts set-off in the statements of financial position pertains to the receivable of the Bank from its associate which is netted against its payable to the latter.

On the other hand, the related amounts not set-off in the statements of financial position pertains to hold-out deposits which serve as the Bank's collateral enhancement for certain loans and receivables.

For financial assets subject to enforceable master netting arrangements or similar arrangements between the Bank and counterparties allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such election, financial assets and financial liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

6. FAIR VALUE MEASUREMENT AND DISCLOSURE

6.1 Fair Value Hierarchy

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

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

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

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

6.2 Financial Instruments Measured at Fair Value

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

	December 31, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at FVOCI:				
Equity securities	P 115,995,000	P -	P -	P 115,995,000
Government debt securities	57,977,022	-	-	57,977,022
	P 173,972,022	**P -**	**P -**	**P 173,972,022**

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
AFS securities:				
Equity securities	P 126,447,870	P -	P -	P 126,447,870
Corporate debt Securities	2,531,755,819	-	-	2,531,755,819
Government debt securities	59,972,587	-	-	59,972,587
	P 2,718,176,276	P -	P -	P 2,718,176,276

Described below are the information about how the fair values of the Bank's classes of financial assets and financial liabilities were determined.

(a) *Government and Corporate Debt Securities*

Government securities and corporate papers with fair value categorized within Level 2 is determined based on the prices of benchmark government securities which are also quoted in an active market or bond exchange (i.e., BVAL in 2018 and PDEx in 2017).

(b) *Equity Securities*

The fair values of equity securities classified as financial assets at FVOCI and AFS financial assets as of December 31, 2018 and 2017, respectively, were valued based on their market prices quoted in the PSE at the end of each reporting period; hence, categorized within Level 1.

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

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

The tables below and in the succeeding page summarize the fair value hierarchy of the Bank's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed.

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Financial assets:				
Cash	P 79,075,209	P -	P -	P 79,075,209
Due from BSP	1,757,148,127	-	-	1,757,148,127
Due from other banks	356,261,356	-	-	356,261,356
Investment securities at amortized cost – net	2,607,661,737	-	245,543,569	2,853,205,306
Loans and receivables – net	-	-	27,931,555,014	27,931,555,014
Rental and utilities deposits	-	-	24,279,658	24,279,658
	P 4,800,146,429	**P -**	**P 28,201,378,241**	**P 33,001,524,670**
Financial liabilities:				
Deposit liabilities	P -	P -	P 23,223,231,218	P 23,223,231,218
Bills payable	-	-	405,476,499	405,476,499
Accrued interest and other expense	-	-	666,386,673	666,386,673
	P -	**P -**	**P 24,295,094,390**	**P 24,295,094,390**

		Level 1		Level 2		Level 3		Total
December 31, 2017								
Financial assets:								
Cash	P	59,212,747	P	-	P	-	P	59,212,747
Due from BSP		2,116,067,079		-		-		2,116,067,079
Due from other banks		319,936,628		-		-		319,936,628
HTM investments – net		59,363,186		-		333,525,664		392,888,850
Loans and receivables – net		-		-		24,005,294,439		24,005,294,439
Rental and utilities deposits		-		-		25,604,845		25,604,845
Returned checks and other cash items		-		-		3,252		3,252
	P	2,554,579,640	P	392,888,850	P	24,364,428,200	P	26,919,007,840
Financial liabilities:								
Deposit liabilities	P	-	P	-	P	22,005,928,874	P	22,005,928,874
Accrued interest and other expenses		-		-		907,870,484		907,870,484
	P	-	P	-	P	22,913,799,358	P	22,913,799,358

The fair values of financial assets and financial liabilities not presented at fair value in the statements of financial position are determined as follows:

(a) *Cash, Due from BSP and Other Banks*

Due from BSP pertains to deposits made by the Bank to BSP for clearing and reserve requirements. Due from other banks includes interbank deposits and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity, which for short-term deposits approximates the nominal value.

(b) *Loans and Receivables*

Loans and other receivables are net of impairment losses. The estimated fair value of loans and other receivables represents the discounted amount of estimated future cash flows expected to be received. Long term interest-bearing loans are periodically repriced at interest rates equivalent to the current market rates, to determine fair value.

(c) *Investments at Amortized Cost (2018) and HTM Investments (2017)*

Investment securities at amortized cost (HTM investments in 2017) consist of securities issued by the government-owned-and-controlled corporations (GOCC) with fair value included in Level 3, which fair values approximate the carrying amount, while corporate debt securities are included in Level 1, which was determined based on prices quoted in BVAL in 2018 (PDEx in 21017) representing prices of benchmark debt securities at the end of the reporting period.

(d) *Other Financial Assets*

Other financial assets pertain to foreign currency notes and coins, security deposits and petty cash fund which are included in the Other Resources account. Due to their short duration, the carrying amounts of these items in the statements of financial position are considered to be reasonable approximation of their fair values.

(e) *Deposits Liabilities and Bills Payable*

The estimated fair value of demand deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits and bills payable without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The carrying amount of short term bills payable approximate their fair values.

(f) *Accrued Expenses and Other Liabilities*

Accrued expenses and other liabilities classified as financial liabilities are recognized initially at their fair value and subsequently measured at amounts to which they are to be paid. Due to their short-duration, management ascertained that the fair values of these short-term liabilities approximate their carrying values.

6.4 Fair Value Measurement for Non-financial Assets

(a) *Determining Fair Value of Investment Properties*

The table below shows the levels within the hierarchy of investment properties measured at fair value on a recurring basis as of December 31, 2018 and 2017.

	2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Land	P -	P 133,729,707	P 69,626,908	P 203,356,615
Buildings and improvements	-	140,873,543	270,570,362	411,443,905
	P -	**P 274,603,250**	**P 340,197,270**	**P 614,800,520**

	2017			
	Level 1	Level 2	Level 3	Total
Land	P -	P 127,948,491	P 28,832,050	P 156,780,541
Buildings and improvements	-	66,616,895	124,077,895	190,694,790
	P -	P 194,565,386	P 152,909,945	P 347,475,331

The fair value of the Bank's investment properties is determined on the basis of the appraisals performed by various internal and external appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. To some extent, the valuation process was conducted by the appraiser in discussion with the Bank's management with respect to the determination of the inputs such as the size, age, and condition of the land and buildings, and the comparable prices in the corresponding property location.

In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Bank's non-financial assets indicated above is their current use.

The fair value of these non-financial assets were determined based on the following approaches:

(i) Fair Value Measurement for Land

The Level 2 fair value of land was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property with no adjustment on the price, fair value is included in Level 2. On the other hand, if the observable recent prices of the reference properties were adjusted for differences in key attributes such as property size, zoning, and accessibility, the fair value is included in Level 3. The most significant input into this valuation approach is the price per square foot, hence, the higher the price per square foot, the higher the fair value.

(ii) Fair Value Measurement for Buildings and Improvements

The Level 2 fair value of the buildings under the Investment Properties account was determined under the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations.

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

(b) Determining Fair Value of Assets Held for Sale

The fair value of the Bank's assets held for sale amounting to P595.2 million and P499.1 million in 2018 and 2017, respectively, are determined based on the recent experience in the valuation of similar properties. The fair value, determined under Level 3 measurement, was derived using the market data approach that reflects the recent transaction prices for similar properties, adjusted for differences in property age and condition.

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

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of December 31:

	Note	2018	2017 [As Restated (see Note 2.1(b)]
Cash		**P 79,075,209**	P 59,212,747
Due from BSP		**1,757,148,127**	2,116,067,079
Due from other banks		**356,261,356**	319,936,628
Receivables arising from reverse repurchase agreement	9	**1,640,000,000**	1,016,069,140
		P 3,832,484,692	P 3,511,285,594

Cash accounts with other banks generally earn interest based on daily bank deposit rates. Short-term placements, which are included as part of Due from Other Banks, are made for varying periods between seven and 30 days and earn annual effective interest at rates ranging from 0.50% to 1.75% in 2018 and 0.25% to 1.50% in 2017.

The Bank maintains account with the BSP for regular reserve requirement and a special depository account. Due from BSP, excluding mandatory reserves, which has no interest, bears annual interest rate of 3.50% to 4.50% in 2018 and 2.50% to 3.50% in 2017.

Interest income from Due from Other Banks amounted to P1.0 million and P1.8 million in 2018 and 2017, respectively; while interest income from Due from BSP amounted to P34.8 million in 2018 and 2017. Both are presented as Interest Income from Due from BSP and Other Banks in the statements of profit or loss.

In accordance with BSP regulations, the Bank is required to maintain regular reserves against savings, time deposits and demand deposits at 8.00% of the outstanding balance thereof in both 2018 and 2017. The Bank has satisfactorily complied with the reserve requirements of the BSP as of December 31, 2018 and 2017 (see Note 15).

Receivables arising from reverse purchase agreement arise from BSP's purchases of government securities from the Bank with a commitment to sell it back at a specified future date. In the case of the Bank, the receivables arising from reverse purchase agreement mature within one week, hence, classified as cash equivalents with interest rates ranging from 4.25% to 5.20% both in 2018 and 2017. Since the BSP's purchase will be reversed subsequently, the government securities sold amounting to P1.6 billion and P1.0 billion in 2018 and 2017, respectively, are considered collateralized securities.

8. TRADING AND INVESTMENT SECURITIES

This account is comprised of:

	2018	2017
Investment securities at amortized cost – net	**P 2,840,243,042**	P -
Financial assets at FVOCI	**173,972,022**	-
Available-for-sale investment securities	**-**	2,718,176,276
Held-to-maturity investments – net	**-**	391,095,789
	P 3,014,215,064	P 3,109,272,065

8.1 Investment Securities at Amortized Cost

Investment securities at amortized cost as of December 31, 2018 consist of:

Corporate debt securities:	
Quoted	P 2,276,184,568
Unquoted	245,543,569
Government securities (quoted)	318,514,905
	P 2,840,243,042

In 2018, interest rates per annum on government securities and corporate debt securities range from 1.30% to 6.13% and 4.52% to 6.60%, respectively. The total interest earned amounted P150.0 million and is presented as part of Interest Income on Trading and Investment Securities in the 2018 statement of profit or loss.

As of December 31, 2018, the maturity profile of the amortized cost securities is as follows:

Within one year	P 54,839,698
Beyond one year but within five years	1,520,348,478
Beyond five years	1,265,054,866
	P 2,840,243,042

The reconciliation of the carrying amounts of investment securities at amortized cost in 2018 is presented below.

Balance at beginning of year	
As previously stated	P -
Effect of adoption of PFRS 9	
[(see Note 2.2(a)(ii)e]	
Reclassification from:	
AFS securities	2,251,489,259
HTM investments	391,095,789
As restated	2,642,585,048
Additions	376,958,592
Disposals	(28,000,000)
Redemptions	(79,060,921)
Write-off	(50,000,000)
Amortization of premium	(21,922,347)
Impairment loss	(317,330)
Balance at end of year	**P 2,840,243,042**

The total realized gain recognized by the Bank from the disposal of amortized cost securities in 2018 amounted to P0.1 million and is presented as part of Realized gain on trading and investment securities under Other Operating Income in the statement of profit or loss (see Note 18.1).

8.2 Financial Assets at FVOCI

At January 1, 2018, the Bank classified certain investments as equity securities as at FVOCI. In 2017, these investments were classified as AFS financial assets and measured at cost. In 2018, the Bank acquired government securities amounting to P60.5 million, which were classified as at FVOCI. The FVOCI classification was made because the investments are expected to be held for the long term for strategic purposes.

The composition of these financial assets as of December 31, 2018 as to type of investment is shown below.

Equity securities (quoted)	P	115,995,000
Government debt securities (quoted)		57,977,022
	P	**173,972,022**

Changes in the financial assets at FVOCI in 2018 are summarized below.

Balance at January 1, 2018		
As previously stated	P	-
Effect of adoption of PFRS 9 [see Note 2.2(a)(ii)] – reclassifications from AFS securities]		418,816,000
As restated		418,816,000
Additions		60,500,000
Disposals		(298,821,000)
Fair value losses		(6,637,804)
Amortization of discount		114,826
Balance at end of year	**P**	**173,972,022**

In 2018, the fair value changes in the Bank's financial assets at FVOCI amounted to P4.0 million and P2.6 million for equity securities and government debt securities, respectively, which are recognized as an adjustment in other comprehensive income and presented in the 2018 statement of comprehensive income under items that will not be reclassified subsequently (debt securities) and will be reclassified subsequently (equity securities) to profit or loss, respectively.

The total interest earned from financial assets at FVOCI in 2018 amounted to P8.4 million and is presented as part of Interest Income on Trading and Investment Securities in the 2018 statement of profit or loss. In 2018, the total realized gain recognized by the Bank from the disposal of financial assets at FVOCI amounted to P2.3 million and is presented as part of Realized gain on trading and investment securities under Other Operating Income in the 2018 statement of profit or loss (see Note 18.1).

Dividends earned from financial assets at FVOCI amounting to P6.6 million in 2018 is presented as Dividend income under Other Operating income in the 2018 statement of profit or loss (see Note 18.1).

8.3 AFS Securities

The composition of these financial assets as of December 31, 2017 as to type of investment is shown below.

Debt securities (quoted):		
Corporate debt securities	P	2,531,755,819
Government securities		59,972,587
Equity securities (quoted)		126,447,870
	P	2,718,176,276

The equity securities refer to perpetual preferred shares acquired by the Bank, and redeemable at the option of the issuer.

In 2017, debt securities earn coupon interest at rates ranging from 4.75% to 5.88% for government debt securities and 4.38% to 6.60% for corporate debt securities.

A reconciliation of the carrying amounts of AFS securities at the beginning and end of 2017 is shown below.

Balance at beginning of year	P	3,330,318,906
Additions		833,000,000
Disposals	(	1,379,848,000)
Fair value losses	(	51,275,787)
Amortization of discount or premium	(	14,018,843)
Balance at end of year	P	2,718,176,276

The total interest earned from AFS financial assets in 2017 to P149.4 million and is presented as part of Interest Income on Trading and Investment Securities in the 2017 statement of profit or loss. In 2017, the total realized gain recognized by the Bank from the disposal of AFS financial assets amounted to P12.7 million and is presented as Realized gain on trading and investment securities under Other Operating Income in the 2017 statement of profit or loss (see Note 18.1).

Dividends earned from AFS financial assets amounted to P6.6 million in and is presented as Dividend income under Other Operating income in the 2017 statement of profit or loss (see Note 18.1).

In accordance with PFRS 9 and the Bank's business model in managing financial assets, these equity and debt securities outstanding as of December 31, 2017 were reclassified to financial assets at FVOCI and investment securities at amortized cost categories on January 1, 2018 [see Note 2.2(a)(ii)].

8.4 HTM Investments

This account is composed of government and GOCC securities as of December 31, 2017 with carrying amount as shown below.

Cost:	
Unquoted	P 333,525,664
Quoted	107,570,125
Allowance for impairment	(50,000,000)
	P 391,095,789

The investments earn coupon interest at rates ranging from 1.30% in 2017. The total interest earned amounted to P16.2 million in 2017 and is presented as part of Interest Income on Trading and Investment Securities in the 2017 statement of profit or loss.

As of December 31, 2017, the maturity profile of the Bank's HTM investments is as follows:

Within one year	P 46,923,855
Beyond one year but within five years	142,602,255
Beyond five years	201,569,679
	P 391,095,789

Changes in HTM investments are summarized below.

Balance at beginning of year	P 490,051,356
Redemptions	(98,955,567)
Balance at end of year	P 391,095,789

In accordance with PFRS 9 and the Bank's business model in managing financial assets, these debt securities outstanding as of December 31, 2017 were reclassified to investment securities at amortized cost category on January 1, 2018 [see Note 2.2(a)(ii)].

9. LOANS AND RECEIVABLES

This account consists of the following:

	2018	2017
Receivables from customers:		
Motorcycle loans	**P 19,312,411,393**	P15,664,088,467
Commercial loans	**4,494,604,552**	5,457,449,954
Consumption loans	**1,406,536,014**	1,119,692,964
Microfinance loans	**65,114,050**	122,204,836
	25,278,666,009	22,363,436,221

Forward

	Note	2018	2017
Other receivables:			
Receivables arising from reverse repurchase agreement	7	**1,640,000,000**	1,016,069,140
Accrued interest receivable		**613,505,546**	447,438,392
Accounts receivable		**152,140,250**	18,609,028
Sales contracts receivable		**15,147,143**	14,288,674
		2,420,792,939	1,496,405,234
Allowance for impairment		**1,461,356,298**	(1,775,263,919)
Unearned interest		**-**	(2,397,270)
		P 26,238,102,650	P22,082,180,266

The annual effective interest rates on these loans range from 1.00% to 61.0% and 1.25% to 61.0% in 2018 and 2017, respectively. Total interest earned amounted to P7.2 billion and P5.3 billion in 2018 and 2017, respectively, and are presented as Interest Income on Loans and Receivables in the statements of profit or loss.

The maturity profile of the Bank's loan portfolio is as follows:

	2018	2017
Within one year	**P 5,125,765,435**	P 2,531,021,318
Beyond one year but within five years	**18,790,163,025**	17,697,056,719
Beyond five years	**1,362,737,549**	2,135,358,184
	P 25,278,666,009	P22,363,436,221

Under the BSP guidelines, the Bank is required to disclose concentration of credit as to industry or economic sector where concentration is said to exist. The Bank's concentration of credit as to economic activity is as follows:

	2018	2017
Consumption	**P 17,198,379,226**	P14,228,159,403
Wholesale and retail trade	**1,897,696,067**	1,649,864,676
Real estate, renting and other related activities	**1,602,313,808**	1,657,519,934
Agriculture, hunting and forestry	**1,323,176,584**	957,870,782
Other community, social and personal services	**798,123,964**	1,355,206,085
Transportation, storage and communication	**653,476,313**	381,089,510
Manufacturing	**514,905,696**	583,188,289
Human health and social work	**378,621,049**	199,437,822
Construction	**332,203,742**	335,337,916
Accommodation and food services	**288,561,586**	249,505,308
Education	**143,053,064**	97,795,548
Private household	**108,727,070**	118,672,596
Financial and insurance activities	**26,382,315**	360,746,408
Electricity, gas and water	**11,409,878**	181,316,617
Mining and quarrying	**1,635,647**	7,725,327
	P 25,278,666,009	P22,363,436,221

As to security, loans are classified into:

	2018	2017
Secured:		
Real estate mortgage	**P 931,212,787**	P 853,851,077
Hold out deposits	**357,630,832**	560,940,831
Others	**204,946,858**	56,060,105
	1,493,790,477	1,407,852,013
Unsecured	**23,784,875,532**	20,892,584,208
	P 25,278,666,009	P 22,363,436,221

Details of nonperforming loans (NPLs) are as follow:

	2018	2017
Unsecured	**P 1,948,134,398**	P 1,968,213,813
Secured	**109,861,347**	144,752,254
	P 2,057,995,745	P 2,112,966,067

Generally, NPLs refer to loans and receivables whose principal and/or interest is unpaid for 30 days or more after due date if payable in lump sum or after they have become past due in accordance with the following schedule, in which case, the total outstanding balance thereof shall be considered nonperforming:

Mode of Payment	Number of Installments in Arrears
Monthly	Three
Quarterly	One
Semestral	One
Annual	Three

Provided, however, that when the total amount of arrearages reaches 20.00% of the total outstanding balance of the loans and receivables, the total outstanding balance of the loans and receivables shall be considered as past due, regardless of the number of installments in arrears.

In the case of loans and receivables that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered nonperforming at the same time that they become past due, i.e., when the total amount of arrearages reaches 10.00% of the total receivable balance, in which case, the entire outstanding balance of the receivable shall be considered as past due.

The changes in the allowance for impairment losses are summarized below.

	2018	2017
Balance at beginning of year		
As previously reported	**P 1,775,263,919**	P 1,702,980,553
Effect of PFRS 9 adoption [see Note 2.2(a)(ii)]	**(392,532,444)**	-
As restated	**1,382,731,475**	1,702,980,553
Impairment losses during the year	**1,191,715,854**	1,004,966,665
Write-off	**(901,792,264)**	(830,081,465)
Derecognition due to foreclosure:		
Motorcycle and consumer loans	**(209,874,574)**	(79,872,057)
Business loan	**(1,424,193)**	(22,729,777)
Balance at end of year	**P 1,461,356,298**	P 1,775,263,919

10. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

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

	Building and Improvements	Furniture, Fixtures and Equipment	Land	Computer Software	Total
December 31, 2018					
Cost	P 239,211,044	P 307,990,547	P 63,005,278	P 206,631,143	P 816,838,012
Accumulated depreciation and amortization	(162,109,937)	(283,446,928)	-	(78,756,613)	(524,313,478)
Net carrying amount	**P 77,101,107**	**P 24,543,619**	**P 63,005,278**	**P 127,874,530**	**P 292,524,534**
December 31, 2017					
Cost	P 221,495,312	P 286,823,620	P 32,294,285	P 163,332,644	P 703,945,861
Accumulated depreciation and amortization	(138,132,513)	(263,241,850)	-	(34,689,067)	(436,063,430)
Net carrying amount	P 83,362,799	P 23,581,770	P 32,294,285	P 128,643,577	P 267,882,431
January 1, 2017					
Cost	P 198,474,173	P 269,426,023	P 32,294,285	P 57,638,473	P 557,832,954
Accumulated depreciation and amortization	(115,248,279)	(225,446,053)	-	(12,076,988)	(352,771,320)
Net carrying amount	P 83,225,894	P 43,979,970	P 32,294,285	P 45,561,485	P 205,061,634

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

	Building and Improvements	Furniture, Fixtures and Equipment	Land	Computer Software	Total
Balance at January 1, 2018, net of accumulated depreciation and amortization	P 83,362,799	P 23,581,770	P 32,294,285	P 128,643,577	P 267,882,431
Additions	17,715,732	21,166,927	30,710,993	44,438,857	114,032,509
Depreciation and amortization charges for the year	(23,977,424)	(20,205,078)	-	(45,207,904)	(89,390,406)
Balance at December 31, 2018, net of accumulated depreciation and amortization	**P 77,101,107**	**P 24,543,619**	**P 63,005,278**	**P 127,874,530**	**P 292,524,534**
Balance at January 1, 2017, net of accumulated depreciation and amortization	P 83,225,894	P 43,979,970	P 32,294,285	P 45,561,485	P 205,061,634
Additions	23,021,140	18,902,570	-	127,315,118	169,238,828
Disposal	-	(1,039,500)	-	-	(1,039,500)
Depreciation and amortization charges for the year	(22,884,235)	(38,261,270)	-	(44,233,026)	(105,378,531)
Balance at December 31, 2017, net of accumulated depreciation and amortization	P 83,362,799	P 23,581,770	P 32,294,285	P 128,643,577	P 267,882,431

Under BSP rules, investments in bank premises, furniture, fixtures and other equipment should not exceed 50% of a bank's unimpaired capital. As of December 31, 2018 and 2017, the Bank has satisfactorily complied with this BSP requirement.

As of December 31, 2018 and 2017, the total cost of fully depreciated bank premises, furniture, fixtures and equipment that is still currently being used by the Bank in operations amounts to P381.10 million and P275.7 million, respectively.

In 2017, the Bank sold certain bank premises, furniture, fixtures and equipment at its carrying amount; hence, no gain or loss on sale of bank premises, furniture, fixtures and equipment was recognized. There is no similar transaction in 2018.

11. ASSETS HELD FOR SALE

Assets held for sale include repossessed motor vehicles that the Bank intends to sell within one year from the date these were classified as held for sale and is committed to immediately dispose the assets through an active marketing program. The breakdown of assets held for sale is shown below.

	2018	2017
Cost	P 547,565,921	P 445,125,203
Allowance for impairment	(138,251,888)	(131,937,516)
	P 409,314,033	P 313,187,687

The Bank recognized gain of P3.3 million and P33.3 million in 2018 and 2017, respectively, from the sale of assets held for sale and is presented as part of Gain on sale of properties under the Other Operating Income in the statements of profit or loss (see Note 18.1).

The reconciliation of allowance for impairment losses is summarized as follows.

	2018	2017
Balance at beginning of year	P 131,937,516	P 210,280,587
Impairment losses	322,315,416	228,597,884
Derecognition due to disposal	(316,001,044)	(306,940,955)
Balance at end of year	P 138,251,888	P 131,937,516

12. INVESTMENT PROPERTIES

Investment properties include land and buildings and improvements acquired by the Bank through foreclosure or dacion of outstanding loans by the borrowers held for capital appreciation.

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

	Buildings and Improvements	Land	Total
December 31, 2018			
Cost	P 188,800,627	P 92,858,984	P 281,659,611
Accumulated depreciation	(46,521,348)	-	(46,521,348)
Allowance for impairment	(560,867)	(2,751,598)	(3,312,465)
Net carrying amount	P 141,718,412	P 90,107,386	P 231,825,798

	Buildings and Improvements	Land	Total
December 31, 2017			
Cost	P 117,127,911	P 100,914,019	P 218,041,930
Accumulated depreciation	(33,218,625)	-	(33,218,625)
Allowance for impairment	(318,009)	(4,589,222)	(4,907,231)
Net carrying amount	P 83,591,277	P 96,324,797	P 179,916,074
January 1, 2017			
Cost	P 94,835,298	P 93,098,671	P 187,933,969
Accumulated depreciation	(24,988,457)	-	(24,988,457)
Allowance for impairment	(2,858,699)	(2,640,151)	(5,498,850)
Net carrying amount	P 66,988,142	P 90,458,520	P 157,446,662

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

	Buildings and Improvements	**Land**	**Total**
Balance at January 1, 2018, net of accumulated depreciation and impairment	P 83,591,277	P 96,324,797	P 179,916,074
Additions	71,753,354	2,393,042	74,146,396
Disposal	(1,347,585)	(8,367,838)	(9,715,423)
Reversal of impairment	1,837,624	-	1,837,624
Impairment loss	-	(242,615)	(242,615)
Depreciation charges for the year	(14,116,258)	-	(14,116,258)
Balance at December 31, 2018, net of accumulated depreciation and impairment	**P 141,718,412**	**P 90,107,386**	**P 231,825,798**
Balance at January 1, 2017, net of accumulated depreciation and impairment	P 66,988,142	P 90,458,520	P 157,446,662
Additions	26,197,357	7,815,348	34,012,705
Disposal	(2,435,848)	-	(2,435,848)
Reversal of impairment	2,540,690	-	2,540,690
Impairment loss	-	(1,949,071)	(1,949,071)
Depreciation charges for the year	(9,699,064)	-	(9,699,064)
Balance at December 31, 2017, net of accumulated depreciation and impairment	P 83,591,277	P 96,324,797	P 179,916,074

The Bank recognized impairment loss amounting to P0.2 million and P1.9 million in 2018 and 2017, respectively, and is presented as part of Impairment Losses in the statements of profit or loss based on management's latest evaluation of recoverable amount computed based on appraised value of the properties (see Note 6.4).

The Bank sold certain investment properties which resulted in a gain of P20.8 million and P3.3 million in 2018 and 2017, respectively, and is presented as part of Gain on sale of properties under the Other Operating Income in the statements of profit or loss (see Note 18.1). Other information about the fair value measurement and disclosures related to investment properties are presented in Note 6.4.

13. INVESTMENT IN AN ASSOCIATE

On September 15, 2015, the BSP approved the proposed P800.0 million equity investment of the Bank in BMI Finance Corporation (BFC) representing 40% of the latter's common stock. The approved amount represents that maximum amount that can be invested by the Bank in compliance with 40% limit set by the BSP for thrift bank's equity investment in allied undertaking. Also, the approved investment is consistent with the Manual of Regulations for Banks (MORB) prescribed equity investments not exceeding 15% of the Bank's net worth.

BFC is incorporated on March 28, 2016 and is engaged in general financing business by extending credit facilities to consumer and to industrial, commercial, or agricultural enterprises. Its place of incorporation which is similar with the place of operation is at Rm. 808, Tower 2 Cityland, No. 10 Valero St., H.V. Dela Costa, Brgy. Bel-Air, Makati City, Metro Manila.

The carrying amount of the equity investment, which is accounted for under equity method is shown below.

	2018	2017
Acquisition cost	**P 800,000,000**	P 800,000,000
Accumulated share in undistributed profit	**418,414,112**	332,475,940
	P 1,218,414,112	P1,132,475,940

The movement in the carrying amount of investment in an associate is summarized below.

	2018	2017
Balance at beginning of year	**P1,132,475,940**	P 887,336,802
Share in profit of associate for the year	**245,938,172**	245,139,138
Dividend received	**(160,000,000)**	-
Balance at end of year	**P 1,218,414,112**	P 1,132,475,940

The financial information of BFC as of and for the year ended December 31, 2018 and 2017 are shown below.

	2018	2017
Financial information:		
Assets	**P4,632,661,442**	P 5,216,232,096
Liabilities	**1,598,881,510**	2,397,297,594
Revenues	**2,222,706,321**	2,238,969,010
Operating expenses	**1,314,741,002**	1,363,472,845
Net profit	**614,845,430**	600,592,496
Reconciliation:		
Net asset of BFC	**P3,033,779,932**	P 2,818,934,502
Proportion	**40%**	40%
Carrying amount of investment	**1,213,511,973**	1,127,573,801

The carrying amount of investment approximates the share in net assets of BFC.

14. OTHER RESOURCES

This account consists of:

	Notes	2018	2017
Prepayments		**P 34,562,204**	P 52,086,960
Rental and utilities deposits	23.1	**24,279,658**	25,604,845
Documentary stamps on hand	25(b)	**18,335,014**	5,968,078
Intangible assets – net		**14,343,263**	12,967,937
Advances to suppliers		**8,702,277**	7,394,089
Others		**9,376,149**	6,627,381
		P 109,598,565	P 110,649,290

Prepayments include prepaid rent and prepaid taxes.

In 2018, the Bank purchased additional computer software during the year, hence, intangible assets – net increased during the year.

Amortization of the Bank's licenses classified as intangible assets amounted to P0.5 million both in 2018 and 2017 and is presented as part of Depreciation and amortization under Other Operating Expenses account in the statements of profit or loss (see Note 18.2).

15. DEPOSIT LIABILITIES

This account consists of:

	2018	2017
Time	**P 20,835,705,048**	P 19,335,933,378
Savings	**1,235,868,340**	1,694,357,265
Demand	**1,151,657,830**	975,638,231
	P 23,223,231,218	P 22,005,928,874

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

	2018	2017
Within one year	**P 12,815,535,659**	P 12,715,068,547
Beyond one year but within five years	**10,394,504,997**	9,288,860,327
Beyond five years	**13,190,562**	2,000,000
	P 23,223,231,218	P 22,005,928,874

Interest rates on deposit liabilities range between 0.75% and 3.50% per annum both in 2018 and 2017. The deposit liabilities are inclusive of accrued interest payable amounting to P1.7 billion and P1.6 billion as of December 31, 2018 and 2017, respectively.

Interest expense on deposit liabilities amounted to P1.0 billion and P0.9 billion in 2018 and 2017, respectively and is presented as Interest Expense on Deposit Liabilities in the statements of profit or loss.

Per BSP's MORB, the Bank is required to maintain reserve requirements (both for regular and liquidity reserves) with the BSP. The required reserves per deposit are as follows:

	2018	2017
Time	**P 1,666,856,404**	P 1,546,874,670
Savings	**98,869,467**	135,548,581
Demand	**92,132,626**	78,051,058
	P 1,857,858,497	P 1,760,474,309

The BSP's reserve requirement is composed of regular reserve and liquidity reserve requirement equivalent to 8.00% in 2018 and 2017 (see Note 7).

Currently, the Bank's reserves are maintained in the form of amounts due from BSP. As of December 31, 2018 and 2017, the Bank's deposit liabilities are adequately covered by reserves as required by the BSP (see Note 7).

16. BILLS PAYABLE AND ACCRUED EXPENSES AND OTHER LIABILITIES

16.1 Bills Payable

In 2018, the Bank renewed its credit lines with local banks and availed of unsecured borrowings with 30 days to 60 days maturity and with annual interest rate ranging from 5.30% to 5.45%. The outstanding balance as of December 31, 2018 amounting to P405.5 million is presented as Bills Payable in the 2018 statement of financial position. Total interest expense amounted to P23.6 million presented as Interest Expense on Bills Payable in the 2018 statement of profit or loss.

16.2 Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consist of:

	Notes	2018	2017
Accounts payable	20.2, 20.3, 20.4, 20.5, 20.7, 20.8	**P 591,825,955**	P 773,985,921
Income tax payable		**244,304,076**	169,953,187
Retirement benefit obligation	19.2	**44,236,000**	49,853,700
Withholding tax payable		**31,832,856**	19,543,073
Manager's checks		**25,706,941**	61,335,529
Gross receipts tax payable	25(a)	**23,681,661**	29,310,878
Due to Philippine Deposit Insurance		**23,303,429**	21,398,628
Collection fees payable		**7,622,270**	11,255,732
Others		**20,842,513**	39,894,674
		P 1,013,355,701	P 1,176,531,322

Accounts payable mainly pertains to advance payments from borrowers and amounts due to the Bank's accredited dealers arising from the sale of motorcycles through financing loans granted to the buyers.

Others include payables to Philippine Deposit Insurance Corporation and Social Security System, among others.

17. EQUITY

17.1 Capital Stock

The details of the Banks's capital stock as of December 31, 2018 and 2017 are as follows:

	Shares		Amount	
	2018	2017	**2018**	2017
Authorized	**600,000,000**	50,000,000	**P 6,000,000,000**	P 5,000,000,000
Issued and outstanding:				
Balance at beginning of year	**47,500,000**	30,000,000	**P 4,750,000,000**	P 3,000,000,000
Issuance of shares	**2,500,000**	17,500,000	**250,000,000**	1,750,000,000
Effect of stock split	**450,000,000**	-	**-**	-
Balance at end of year	**500,000,000**	47,500,000	**P 5,000,000,000**	P 4,750,000,000

On December 13, 2016 and January 10, 2017, respectively, the Bank's BOD and stockholders approved the amendment to the Bank's Articles of Incorporation to increase the authorized capital stock of the Bank from P5.0 billion to P6.0 billion. In relation to this increase, the Bank also effected a 10:1 stock split thereby decreasing the par value of the Bank's common shares from P100.00 per share to P10.00 per share.

The increase in authorized capital stock was approved by the BSP on July 28, 2017 and by the SEC on January 8, 2018. Following the increase in authorized capital stock of the Bank in 2018, the Bank proportionately issued the previously declared stock dividends to its stockholders for a total consideration of P250.0 million.

The Bank has 55 stockholders and 22 stockholders as of December 31, 2018 and 2017, respectively, owning 100 or more shares each of the Bank's capital stock.

17.2 Dividends Declared

In 2017, the Bank declared stock and cash dividends (nil in 2018). The details of the dividends declared with corresponding dates of declaration, payments and issuances are as follow:

Cash Dividend			
Amount	Declaration Date	Payment Date	Dividend per Share
P 558,125,000	Nov. 21, 2017	Dec. 11, 2017	P 11.75

Stock Dividends			
Amount	Declaration Date	Issuance Date	Dividend per Share
P1,750,000,000	Jan. 10, 2017	May 19, 2017	58.33 %
250,000,000	Jan. 10, 2017	Jan. 5, 2018	5.26%

The outstanding stock dividends in 2017 presented as Stock Dividends Distributable in the 2017 statement of changes in equity was distributed in January 2018 through issuance of stocks.

17.3 Capital Management and Regulatory Capital

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

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

(a) unbooked valuation reserves and other capital adjustments as may be required by the BSP;
(b) total outstanding unsecured credit accommodations to DOSRI;
(c) investment in associate;
(d) deferred tax asset;
(e) goodwill, if any;
(f) sinking fund for redemption of redeemable preferred shares; and,
(g) other regulatory deductions.

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

Under the relevant BSP regulations, the regulatory capital is analyzed into two tiers which are Tier 1 Capital plus Tier 2 Capital less allowable deductions from the total of Tier 1 and Tier 2 capital.

Tier 1 Capital and Tier 2 Capital are defined as follows:

a. Tier 1 Capital includes the following:

   i. paid-up common stock,
   ii. surplus,
   iii. surplus reserves, and,
   iv. undivided profits (for domestic banks only),

   Subject to deductions for:

   i. outstanding unsecured credit accommodations, both direct and indirect, to DOSRI, and,
   ii. deferred income tax.

b. Tier 2 Capital includes:

   i. perpetual and cumulative preferred stock,
   ii. net unrealized gains on underwritten listed equity securities purchased, and,
   iii. general loan loss provision.

The Bank's regulatory capital position as of December 31 is presented as follows (in thousand Philippine pesos):

	2018	2017
Tier 1 Capital	**P 7,860,111**	P 5,455,828
Tier 2 Capital	**-**	-
Total Regulatory Qualifying Capital	**P 7,860,111**	P 5,455,828
Total Risk Weighted Assets	**P 35,567,487**	P 31,544,508
Capital Ratios:		
Total regulatory capital expressed as percentage of total risk weighted assets	**22.10%**	17.30%
Total Tier 1 expressed as percentage of total risk weighted assets	**22.10%**	17.30%

As of December 31, 2018 and 2017, the Bank's capital adequacy ratios are 22.10% and 17.30%, respectively, which are higher than the BSP minimum requirement of 10.00% on the ratio of capital accounts against the risk weighted assets (see Note 22).

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

17.4 Minimum Capital Requirement

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's "unimpaired capital" (regulatory net worth) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRS in some aspects (mainly in the recognition of deferred tax assets).

As of December 31, 2018 and 2017, the Bank's unimpaired capital, after considering the adjustments mentioned, is in compliance with the minimum capital requirement of the BSP of P2.0 billion.

18. OTHER OPERATING INCOME AND EXPENSES

18.1 Other Operating Income

This account is composed of the following:

	Notes	2018	2017
Other interest charges		**P 471,959,942**	P 405,251,110
Processing fees		**103,052,566**	85,252,615
Recovery of written off accounts		**72,162,743**	66,809,118
Gain on sale of properties – net	11, 12	**24,057,513**	36,635,480
Dividend income	8.2, 8.3	**6,565,480**	6,561,700
Realized gain on trading and investment securities	8	**2,406,483**	12,761,798
Miscellaneous		**20,540,579**	24,132,845
		P 700,745,306	P 637,404,666

Late payment fees (presented as other interest charges) are charged by the Bank to borrowers upon default. These charges are integral part of the Bank's core lending activities.

Miscellaneous income includes foreign currency gains and service charges on ATMs, among others.

18.2 Other Operating Expenses

This account is composed of the following:

	Notes	2018	2017
Outside services	20.3, 20.4	**P 754,658,367**	P 610,774,008
Employee benefits	19.1, 20.10	**671,279,761**	629,601,789
Taxes and licenses	25(d)	**473,686,965**	350,048,075
Fees and commissions	20.2, 20.5	**269,135,640**	228,291,788
Advertising and publicity		**133,521,591**	113,676,167
Rent	23.1	**112,614,237**	88,980,766
Depreciation and amortization	10, 12, 14	**103,988,646**	115,559,576
Communication		**49,039,272**	45,065,952
Insurance		**47,778,986**	44,283,588
Security services		**35,752,807**	36,478,832
Power, light and water		**23,296,244**	20,560,714
Information technology		**21,528,039**	14,776,760
Management and other professional fees		**20,925,719**	8,773,063
Transportation and travel		**20,851,627**	18,022,706
Janitorial and messengerial services		**20,014,692**	15,779,383
Supplies		**18,654,878**	17,611,222
Seminars and trainings		**16,407,617**	9,276,802
Supervision fees		**9,240,440**	8,907,993
Repairs and maintenance		**6,802,388**	7,653,423
Litigation/assets acquired expenses		**6,621,367**	4,984,270
Fuel		**6,193,847**	4,904,837
Representation and entertainment		**4,801,056**	4,179,296
Directors' fees		**4,230,000**	1,895,000
Freight		**3,964,780**	3,140,345
Donations and charitable contributions		**-**	10,000,000
Miscellaneous		**21,956,332**	18,778,706
		P 2,856,945,298	P 2,432,005,061

Miscellaneous expense includes outsourcing fees on ATM, guarantee fees, recruitment fees, and bank service charges, among others.

19. EMPLOYEE BENEFITS

19.1 Employee Benefits Expense

Expenses recognized for employee benefits are presented below (see Note 18.2).

	2018	2017
Short-term employee benefits	**P 654,426,161**	P 610,699,589
Post-employment defined benefit	**16,853,600**	18,902,200
	P 671,279,761	P 629,601,789

19.2 Post-employment Benefits

(a) *Characteristics of the Post-employment Defined Benefit Plan*

The Bank maintains a noncontributory post-employment defined benefit plan that is being administered by the Bank's Treasury Department and a third party fund manager. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60 for employees hired before January 4, 2011; while, the normal retirement age is 55 with a minimum of ten years of credited service for employees hired on or after January 14, 2011. The plan also provides for an early retirement at age 50 with a minimum of five years of credited service and late retirement after age 65, both subject to the approval of the Bank's BOD. Normal retirement benefit is an amount equivalent to 100% of the final monthly salary for every year of credited service.

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

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

The amounts of retirement benefit obligation recognized in the statements of financial position are determined as follows (see Note 16.2):

	2018	2017
Present value of the obligation	**P 102,940,300**	P 95,079,300
Fair value of plan assets	**(58,704,300)**	(45,225,600)
	P 44,236,000	P 49,853,700

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

	2018	2017
Balance at beginning of year	**P 95,079,300**	P 89,477,200
Current service costs	**16,853,800**	18,902,200
Benefits paid	**(5,304,800)**	(13,388,200)
Interest expense	**4,001,500**	3,830,500
Remeasurements –		
Actuarial losses (gains) arising from:		
Changes in financial assumptions	**(16,727,700)**	(8,480,400)
Experience adjustments	**9,038,200**	4,738,000
Balance at end of year	**P 102,940,300**	P 95,079,300

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

	2018	2017
Balance at beginning of year	**P 45,225,600**	P 42,442,200
Contributions to the plan	**17,317,900**	15,528,200
Benefits paid	**(5,304,800)**	(13,388,200)
Interest income	**2,945,800**	2,175,600
Actuarial losses on plan asset	**(1,480,200)**	(1,532,200)
Balance at end of year	**P 58,704,300**	P 45,225,600

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

	2018	2017
Time deposit accounts	**P 52,044,515**	P 39,127,856
Mutual fund investments	**5,485,310**	5,669,900
Savings accounts	**1,174,475**	427,844
	P 58,704,300	P 45,225,600

The fair values of the mutual fund investments are determined based on quoted market prices of the underlying assets in active markets (classified as Level 2 of the fair value hierarchy).

Actual return on plan assets was P1.4 million in 2018 and P0.6 million in 2017.

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

	2018	2017
Reported in profit or loss		
Current service cost	**P 16,853,600**	P 18,902,200
Net interest expense	**1,055,700**	1,654,900
	P 17,909,300	P 20,557,100
Reported in other comprehensive income (loss)		
Actuarial gains (losses) arising from changes in:		
Financial assumptions	**P 16,727,700**	P 8,480,400
Experience adjustments	**(9,038,200)**	(4,738,000)
Return on plan assets (excluding amounts included in net interest expense)	**(1,480,200)**	(1,532,200)
	P 6,209,300	P 2,210,200

The net interest expense is presented as Others under the Interest Expense account in the statements of profit or loss.

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

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

	2018	2017
Discount rates	**7.25%**	5.75%
Expected rate of salary increases	**3.00%**	3.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 55 is 10 years. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Plan

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

(i) Investment and Interest Risks

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan is composed of investment in time deposit accounts and mutual fund investments. Due to the long-term nature of the plan obligation, a combination of time deposit accounts and mutual fund investments is an appropriate element of the Bank's long-term strategy to manage the plan efficiently.

(ii) Longevity and Salary Risks

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

(d) Other Information

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

(i) Sensitivity Analysis

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

	Impact on Post-employment Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
December 31, 2018			
Discount rate	**+/- 1.00%**	**(P 113,572,000)**	**P 94,044,800**
Salary growth rate	**+/- 1.00%**	**113,572,000**	**(94,044,800)**
December 31, 2017			
Discount rate	+/- 1.00%	(P 106,677,400)	P 85,520,300
Salary growth rate	+/- 1.00%	106,895,100	(85,200,600)

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

(ii) Asset-liability Matching Strategies

The Bank and trustee bank have no specific matching strategy between the plan assets and the plan obligation.

(iii) Funding Arrangements and Expected Contributions

The plan is currently underfunded by P44.2 million based on the latest actuarial valuation. While there are no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about five to ten years' time when the current fair value of plan assets is not enough to cover the expected retirement benefit payments.

The Bank expects to make contribution of P20.0 million to the plan during the next reporting period.

The maturity profile of undiscounted expected benefit payments for the next ten years from the plan follows:

	2018	2017
Within one year	**P 13,296,037**	P 10,557,044
More than one year to five years	**14,687,929**	13,203,977
More than five years to ten years	**22,114,977**	23,202,008
	P 50,098,943	P 46,963,029

The weighted average duration of the defined benefit obligation at the end of the reporting period is 13 years.

20. RELATED PARTY TRANSACTIONS

The Bank's related parties include its associate, entities under common ownership, key management personnel and others as described in Note 2.19.

A summary of the Bank's transactions and outstanding balances with its related parties is presented below.

		2018		2017	
Related Party Category	Notes	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance
Associate					
Collection fees	20.4	**P 413,013,637**	**P 1,360,415**	P 335,660,283	P 5,627,090
Share in net profit	13	**245,938,172**	**418,414,112**	245,139,138	332,475,940
Dividend received	13	**160,000,000**	**-**	-	-
Deposit liabilities	20.9	**95,905,530**	**95,905,530**	226,872,879	226,872,879
Accounts payable	20.8	**133,891,449**	**133,891,449**	108,073,069	108,073,069
Credit investigation support services	20.5	**117,284,500**	**10,069,325**	93,667,000	9,568,491
Accounts receivable	20.7	**11,074,611**	**23,567,568**	11,074,611	11,074,611
Investment	13	**-**	**800,000,000**	-	800,000,000
Related Parties Under Common Ownership					
DOSRI loans	20.1	**608,504,562**	**232,205,341**	736,593,670	454,478,129
Referral commission	20.2	**257,615,823**	**87,394,698**	216,220,379	73,351,530
Collection fees	20.4	**101,258,096**	**7,622,270**	75,375,551	11,255,732
Selling commission	20.3	**65,212,560**	**1,730,745**	48,058,080	8,275,770
Leases	23.1	**39,111,619**	**-**	37,294,044	-
Interest income	20.1	**10,609,385**	**-**	24,645,272	-
Key Management Personnel					
Compensation	20.10	**54,247,918**	**-**	56,594,501	-
DOSRI loans	20.1	**8,854,913**	**6,313,553**	16,343,338	11,652,308
Interest income	20.1	**687,087**	**-**	660,892	-

Following are the details of the foregoing transactions:

20.1 DOSRI Loans

The Bank grants loans to DOSRI. The General Banking Act and BSP regulations limit the amount of the loans granted by the Bank to a single borrower to 25.00% of equity. The amount of individual loans to DOSRI, of which 70.00% must be secured, should not exceed the amount of their deposits and the book value of their investments in the Bank. In aggregate, loans to DOSRI generally should not exceed the total capital funds or 15.00% of the total loan portfolio of the Bank, whichever is lower. The Bank complied with the restrictions on DOSRI loans as of December 31, 2018 and 2017.

The total DOSRI loans amounted to P238.5 million and P466.1 million as of December 31, 2018 and 2017, respectively and presented as part of the Loans and Receivables account in the statements of financial position. These loans bear annual interest ranging from 2.37% to 10.0% for 2018 and 2017, are fully secured, and have terms ranging from one month to five years. The percentage of DOSRI to total loans in 2018 and 2017 is 1.10% and 1.99%, respectively. There were no past due and nonperforming DOSRI loans in 2018 and 2017; hence, no impairment loss on them have been recognized in both years.

20.2 Referral Commission

The Bank entered into financing agreements with certain accredited dealers that are related parties under common ownership whereby the Bank shall provide qualified motorcycle buyers of the accredited dealers with necessary funds for the purchase of motorcycle units. In consideration for the referrals made by the related parties, the Bank pays a commission for each approved motorcycle loan application based on certain percentage of amount financed and achievement of predetermined sales volume.

The total fees are shown as part of Fees and commissions under the Other Operating Expenses in the statements of profit or loss (see Note 18.2). The outstanding payable on referral commission is presented as part of Accounts payable under the Accrued Expenses and Other Liabilities account in the statements of financial position, and is noninterest-bearing, unsecured payable in cash and due to be settled within 30 days from the end of the reporting period (see Note 16.2).

20.3 Selling Commission

The Bank entered into agreements with certain accredited dealers that are considered as related parties under common ownership whereby the accredited dealers shall provide assistance in the selling of the Bank's repossessed motorcycles. In consideration for the services performed, the Bank pays a fixed fee for each repossessed motorcycle sold. The total fees recognized related to these agreements are shown as part of Outside services under the Other Operating Expenses in the statements of profit or loss (see Note 18.2). The outstanding payable on selling commission as of December 31, 2018 and 2017 is presented as part of Accounts payable under Accrued Expenses and Other Liabilities account in the statements of financial position, and is noninterest-bearing, unsecured payable in cash and due to be settled within 30 days from the end of the reporting period (see Note 18.2).

20.4 Collection Fees

The Bank entered into service agreement with a related party under common ownership and its associate whereby the latter shall accept loan payments from the Bank's borrowers. In consideration for the services performed by such related party, the Bank pays a service fee equivalent to a certain percentage on all monies collected.

The total fees arising from these service agreements are shown as part of Outside services under the Other Operating Expenses account in the statements of profit or loss (see Note 18.2). The outstanding liability arising from this transaction is presented as part of Accounts payable under the Accrued Expenses and Other Liabilities account in the statements of financial position, and is noninterest-bearing, unsecured payable in cash and due to be settled within 30 days from the end of the reporting period (see Note 16.2).

20.5 Credit Investigation Support Services

The Bank entered into an agreement with its associate where the latter shall provide credit investigation services using its manpower complement and necessary equipment for all loan application endorsed by the Bank. The credit investigation includes identity and character validation, residency verification, and employment and source of income validation. The total fees arising from these service agreements are shown as part of Fees and commissions under the Other Operating Expenses in the statements of profit or loss (see Note 18.2).

The outstanding liability arising from this transaction is presented as part of Accounts payable under the Accrued Expenses and Other Liabilities in the statements of financial position, and is noninterest-bearing, unsecured payable in cash and due to be settled within 30 days from the end of the reporting period (see Note 16.2).

20.6 Retirement Fund

Time deposit accounts amounting to P52.0 million and P39.6 million as of December 31, 2018, and 2017, respectively, were established by the Bank as plan assets for the retirement plan. Interest income earned by these time deposits amounted to P2.9 million, and P2.2 million in 2018 and 2017, respectively. These bank accounts are included as part of the Bank's deposit liabilities and are accounted for separately from the cash accounts of the Bank. The retirement fund is managed by the Bank's Treasury Department. The composition of the plan assets is presented under Note 19.2.

The retirement fund neither provides any guarantee or surety for any obligation of the Bank nor its investments covered by any restrictions or liens.

20.7 Accounts Receivable

This mainly pertains to assets held for sale of the Bank which were subsequently sold and refinanced by its associate. This is presented and netted against Accounts payable presented under the Accrued Expenses and Other Liabilities account and non-interest bearing, due and demandable in cash upon demand (see Note 16.2).

20.8 Accounts Payable

This pertains to collections of the Bank's associate deposited to the account of the Bank. These have the same terms as that of third parties. This is presented as part of Accounts payable presented under the Accrued Expenses and Other Liabilities account (see Note 16.2).

20.9 Deposit Liabilities

The Bank has deposit liabilities to its associate amounting to P95.9 million and P226.9 million as of December 31, 2018 and 2017, respectively, and is presented as part of Deposit Liabilities in the statements of financial position (see Note 15).

Deposit liabilities transactions with its associate have similar terms with other counterparties (see Note 15). Annual interest rates range from 0.75% to 3.50% both in 2018 and 2017.

Moreover, in the ordinary course of business, the Bank has deposit transactions with certain DOSRI and with outstanding deposit balance as of December 31, 2018 and 2017.

20.10 Key Management Personnel Compensation

The key management personnel compensation amounted to P54.2 million, and P56.6 million for the years ended December 31, 2018 and 2017, respectively, and are shown as part of Employee benefits under Other Operating Expenses account in the statements of profit or loss (see Note 18.2).

21. TAXES

21.1 Current and Deferred Taxes

The components of tax expense as reported in profit or loss and other comprehensive income are as follow:

	2018	2017
Profit or loss		
Current tax expense:		
Regular corporate income tax (RCIT) at 30%	**P 775,754,414**	P 439,314,743
Final taxes	**44,082,582**	43,809,290
	819,836,996	483,124,033
Deferred tax expense (income) relating to origination and reversal of temporary differences	**(8,581,205)**	5,371,441
	P 811,255,791	P 488,495,474
Other comprehensive income		
Deferred tax expense relating to origination and reversal of temporary differences	**P 1,862,790**	P 663,060

A reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in profit or loss is presented below.

	2018	2017
Tax on pre-tax profit at 30%	**P 883,481,333**	P 567,478,335
Adjustments for income subjected to final tax	**(10,252,949)**	(16,198,425)
Tax effects of:		
Non-taxable income	**(80,562,817)**	(82,818,564)
Non-deductible expenses	**18,590,224**	20,021,355
Tax expense	**P 811,255,791**	P 488,495,474

The deferred tax assets as of December 31 relates to the following:

	2018	2017
Allowance for impairment losses	**P 480,845,513**	P 588,632,600
Unrealized loss on repossession	**20,990,399**	24,594,064
Depreciation of investment properties	**13,956,404**	9,965,588
Retirement benefit obligation	**13,270,740**	14,293,050
Unamortized past service cost	**(24,316)**	68,606
	P 529,038,740	P 637,553,908

The effect of the movements in deferred tax assets in profit and loss and other comprehensive income for the years ended December 31 is as follows:

	2018	2017
Profit or loss:		
Allowance for impairment losses	**(P 72,623,563)**	P 1,995,397
Depreciation of investment properties	**58,660,400**	(2,469,050)
Unrealized loss on repossession	**3,603,666**	6,573,466
Retirement benefit obligation	**1,685,370**	(845,610)
Unamortized past service cost	**92,922**	117,238
Deferred tax expense (income)	**(8,581,205)**	P 5,371,441
Other comprehensive income:		
Retirement benefit obligation	**P 1,862,790**	P 663,060

The Bank is subject to the minimum corporate income tax (MCIT) which is computed at 2% of gross income, as defined under the tax regulations, or RCIT, whichever is higher. No MCIT was reported in 2018 and 2017 as the RCIT was higher than MCIT in both years.

The Bank opted to claim itemized deductions in 2018 and 2017 in the computation of its income tax due.

21.2 Gross Receipts Tax (GRT)

On January 29, 2004, RA No. 9238 reverted the imposition of GRT on banks and financial institutions. This law is retroactive from January 1, 2004. Further, on May 24, 2005, the amendments on RA No. 9337 was approved imposing the following rates to be collected on gross receipts derived from sources in the Philippines by all banks and non-bank financial intermediaries:

(a) On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

With maturity period of five years or less	5%
With maturity period of more than five years	1%

(b)	On dividends and equity shares in the net income of subsidiaries	0%
(c)	On royalties, rentals of property, real or personal, profits from exchange and all other items treated as gross income under Section 32 of the National Internal Revenue Code	7%
(d)	On net trading within the taxable year on foreign currency, debt securities, derivatives, and other similar financial instruments	7%

Provided, however, that in case the maturity period referred to in paragraph (a) is shortened thru pretermination, then the maturity period shall be reckoned to end as of the date of pretermination for purposes of classifying the transaction and the correct rate of tax shall be applied accordingly.

21.3 Documentary Stamp Tax

Documentary stamp tax (DST) at rates ranging from P0.30 to P2 on each P200 of the face value of the certificate or document are imposed on the following (amounts herein are expressed in absolute value):

(a) Bank checks, drafts, or certificate of deposit not bearing interest, and other instruments;

(b) Bonds, loan agreements, promissory notes, bills of exchange, drafts, instruments and securities issued by the Government or any of its instrumentalities, deposit substitute debt instruments, certificates of deposits bearing interest and other not payable on sight or demand;

(c) Acceptance of bills of exchange and letters of credit; and,

(d) Bills of lading or receipt.

On February 7, 2004, RA No. 9243 was passed amending the rates of DST, the significant provisions of which are summarized below.

(a) On every issue of debt instruments, there shall be collected a DST of P1 on each P200 or fractional part of the issue price of any such debt instrument;

(b) On all sales or transfer of shares or certificates of stock in any corporation, there shall be collected a DST of P0.75 on each P200, or fractional part, of the par value of such stock;

(c) On all bills of exchange or drafts, there shall be collected DST of P0.30 on each P200, or fractional part, of the face value of any such bill of exchange or draft; and,

(d) The following instruments, documents and papers shall be exempt from DST:

- Borrowings and lending of securities executed under the Securities Borrowing and Lending Program of a registered exchange, or in accordance with regulations prescribed by the appropriate regulatory authority;
- Loan agreements or promissory notes, the aggregate of which do not exceed P250 thousand or any such amount as may be determined by the Secretary of Finance, executed by an individual for his purchase on instalment for his personal use;
- Sale, barter or exchange of shares of stock listed and traded through the local stock exchange for a period of five years from the effectivity of RA No. 9243;
- Fixed income and other securities traded in the secondary market or through an exchange;
- Derivatives including repurchase agreements and reverse repurchase agreements;
- Bank deposit accounts without a fixed term or maturity; and,
- Interbank call loans with maturity of not more than seven days to cover deficiency in reserve against deposit liabilities.

22. SELECTED FINANCIAL PERFORMANCE INDICATORS

The following are some of the financial performance indicators of the Bank:

	2018	2017
Return on average equity	**25.49%**	20.79%
Return on average resources	**6.61%**	4.80%
Net interest margin	**21.59%**	18.18%
Qualifying capital to risk assets ratio	**22.10%**	17.30%

23. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Bank:

23.1 Operating Lease Commitments – Bank as Lessee

The Bank entered into several lease agreements under operating leases covering the office spaces of its branches. The leases have terms ranging from one to five years, with renewal options, and include escalation rates ranging from 5.00% to 10.00%. The future minimum rentals payable under these operating leases as of December 31, 2018 and 2017 are shown below.

	2018	2017
Within one year	**P 83,389,436**	P 90,153,402
After one year but not more than five years	**176,117,335**	205,675,789
More than five years	**6,735,852**	3,038,766
	P 266,242,623	P 298,867,957

The total rentals from these operating leases amounted to P112.6 million and P89.0 million in 2018 and 2017, respectively, and are presented as Rent under Other Operating Expenses in the statements of profit or loss (see Note 18.2). Rental deposits amounting to P24.3 million and P25.6 million as of December 31, 2018 and 2017, respectively, are shown as part of Rental and utilities deposits under the Other Resources account in the statements of financial position (see Note 14).

23.2 Others

There are commitments and contingencies that arise in the normal course of the Bank's operations that are not reflected in the financial statements. As of December 31, 2018 and 2017, management is of the opinion that losses from these commitments and contingencies will not have a material effect on the Bank's financial statements.

24. OTHER REQUIRED DISCLOSURES

24.1 Current and Non-current Classification of Assets and Liabilities

	Current	Non-current	Total
December 31, 2018			
Cash	P 79,075,209	P -	P 79,075,209
Due from BSP	1,757,148,127	-	1,757,148,127
Due from other banks	356,261,356	-	356,261,356
Trading and investment securities - net	54,839,698	2,959,375,366	3,014,215,064
Loans and other receivables - net	7,546,558,374	18,691,544,276	26,238,102,650
Bank premises, furniture, fixtures and equipment - net	-	292,524,534	292,524,534
Assets held-for-sale - net	409,314,033	-	409,314,033
Investment properties - net	-	231,825,798	231,825,798
Investment in an associate	-	1,218,414,112	1,218,414,112
Deferred tax assets - net	-	529,038,740	529,038,740
Other resources - net	70,975,644	38,622,921	109,598,565
Total Assets	**P 10,274,172,441**	**P 23,961,345,747**	**P 34,235,518,188**
Deposit liabilities	P 12,815,535,659	P 10,407,695,559	P 23,223,231,218
Accrued expenses and other liabilities	969,119,701	44,236,000	1,013,355,701
Bills payable	405,476,499	-	405,476,499
Total Liabilities	**P 14,190,131,859**	**P 10,451,931,559**	**P 24,642,063,418**
December 31, 2017			
Cash	P 59,212,747	P -	P 59,212,747
Due from BSP	2,116,067,079	-	2,116,067,079
Due from other banks	319,936,628	-	319,936,628
Trading and investment securities - net	220,961,228	2,888,310,837	3,109,272,065
Loans and other receivables - net	5,223,771,114	16,858,409,152	22,082,180,266
Bank premises, furniture, fixtures and equipment - net	-	267,882,431	267,882,431
Assets held-for-sale - net	313,187,687	-	313,187,687
Investment properties - net	-	179,916,074	179,916,074
Investment in an associate	-	1,132,475,940	1,132,475,940
Deferred tax assets - net	-	637,553,908	637,553,908
Other resources - net	72,076,508	38,572,782	110,649,290
Total Assets	P 8,325,212,991	P 22,003,121,124	P 30,328,334,115
Deposit liabilities	P 12,715,068,547	P 9,290,860,327	P 22,005,928,874
Accrued expenses and other liabilities	1,126,677,622	49,853,700	1,176,531,322
Total Liabilities	P 13,841,746,169	P 9,340,714,027	P 23,182,460,196

24.2 Events After Reporting Period

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

- the Revised Corporation Code removed the 50-year maximum corporate term. Hence, stock corporation may have unlimited life unless otherwise provided in the articles of incorporation; and,

- the Revised Corporation Code removed the subscription requirement of 25% of authorized capital stock and paid-up capital requirement of 25% of subscribed capital stock.

The management deemed that other amendments and new provisions contained in the Revised Corporation Code is not material to the Bank's financial statements.

25. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Following is the supplementary information on taxes, duties and license fees paid or accrued during the taxable year, which is required by the BIR under Revenue Regulation No. 15-2010 to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

(a) *GRT*

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

In 2018, the Bank reported total gross receipts tax amounting to P367,286,147 as shown under Taxes and Licenses [see Note 25(d)], in which P343,604,486 was paid during the year.

The breakdown of the GRT is shown below.

	Gross Receipts	GRT
Income derived from lending activities	P 7,389,331,467	P 363,989,062
Other income	47,101,218	3,297,085
	P 7,436,432,685	**P 367,286,147**

(b) *DST*

The movements in unused documentary stamp tax are summarized below.

Balance at beginning of year	P 5,968,078
Purchased	115,000,000
Affixed	(102,633,064)
Balance at end of year	**P 18,335,014**

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

Of the total documentary stamp affixed, P22,126,312 was charged to clients, while P80,506,752 was for the account of the Bank and accordingly charged to profit or loss [see Note 25(d)].

(c) *Withholding Taxes*

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

Expanded	P 79,577,058
Final	46,848,411
Compensation and benefits	40,063,717
	P 166,489,186

(d) *Taxes and Licenses*

The details of taxes and licenses in 2018 are as follows (see Note 18.2):

	Notes	
GRT	25(a)	P 367,286,147
DST	25(b)	80,506,752
Local taxes and business permits		20,724,525
Fringe benefits tax		3,974,050
Miscellaneous		1,195,491
		P 473,686,965

(e) *Excise Taxes*

The Bank did not have any transactions in 2018 subject to excise tax.

(f) *Taxes on Importation*

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

(g) *Deficiency Tax Assessment and Tax Cases*

As of December 31, 2018, the Bank does not have any final deficiency tax assessments with the BIR or tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open taxable years.

OUR NETWORK

METRO MANILA

MAKATI CITY (Main Branch)
Ayala Avenue near corner
Metropolitan Avenue, Makati City
02) 8816-138 / (0920) 971.1069

BACLARAN (Microfinance)
397 Quirino Avenue
Baclaran, Parañaque City
(0920) 971.1053

BLUMENTRITT (Microfinance)
One Albert Place
2557 P. Guevarra Street, corner
Tecson Street, Sta. Cruz, Manila
(02) 3493-5949 / (0920) 971.1056

BUENDIA (Microfinance)
44 Sentor Gil Puyat Avenue
Barangay San Isidro, Makati City
(02) 8886-3696 / (0920) 971.1057

CALOOCAN
Aurelio Bldg. III, 11th Avenue corner
Rizal Avenue Extension
Grace Park, Caloocan City
((02) 8364-9039 / (0949) 883.2180

CAMARIN (Microfinance)
Blk. 2 Lot 20 Almar Subdivision
Caloocan City
(02) 8294-1768 / (0949) 883.1497

COMMONWEALTH (Microfinance)
Unit 3 & 4 Mount Sinai Heights Building
71-B Commonwealth Avenue
East Fairview, Quezon City
(0920) 971.1059

CUBAO - P. TUAZON (Microfinance)
Metrolane Complex
P. Tuazon Boulevard corner 20th Avenue
Cubao, Quezon City
(02) 3438-3303 / (0920) 971.1060

GRACE PARK
VSP Condominium
1607-C Rizal Avenue Extension
Grace Park, Caloocan City
(02) 8288-3206 / (0949) 883.1496

GREENHILLS (Microfinance)
Medecor Bldg. 222 Ortigas Avenue
Greenhills, San Juan City
8997-3944 / (0917) 834.7225

GUADALUPE (Microfinance)
Unit MFA 8, G/F, Guadalupe
Commercial Center, Guadalupe
Makati City
(02) 8478-3403 / (0949) 883.1503

KALENTONG (Microfinance)
576 New Panaderos Street
Barangay Pag-asa, Mandaluyong City
((02) 8477-2568 / (0949) 883.1435

LAS PIÑAS
Unit 3, Star Arcade, CV Starr Avenue
Philamlife Village, Pamplona 2
Las Piñas City
(02) 8877-8129 / (0920) 971.1067

MAKATI - EVANGELISTA (Microfinance)
NSR Building, 1837 Evangelista Street
corner Dallas Street, Barangay Pio del Pilar
Makati City
(02) 8845-1201 / (0920) 971.1064

MUNTINLUPA
Presnedi Building
305 National Road,Putatan
Muntinlupa
(02) 8777-3098 / (0920) 971.1072

PASAY - LIBERTAD (Microfinance)
Liberty Commercial Complex
Libertad Street corner F.B. Harrison Street
Pasay City
(02) 8804-2696/ (0917) 835.1988

PASIG - RAYMUNDO (Microfinance)
G/F JG Building
C. Raymundo Avenue, Barangay Rosario
Pasig City
(02) 8650-2970/ (0920) 971.1076

RETIRO (Microfinance)
270 Unit-C, N.S. Amoranto Street
Quezon City
(02) 3411-3512/ (0949) 883.1502

ROOSEVELT (Microfinance)
336 Roosevelt Avenue
Quezon City
(02) 3415 1732 / (0920) 971.1078

VALENZUELA
238 McArthur Highway
Karuhatan, Valenzuela City
(02) 285-0670 / 283.7175

LUZON

ANTIPOLO
4 Senator Lorenzo Sumulong
Memorial Circle
Barangay San Roque, Antipolo City
Rizal
(02) 8696-5585 / (0920) 971.1052

BALIUAG
Benigno S. Aquino Avenue
Poblacion, Baliuag, Bulacan
(044) 798-8281 / (0920) 971.1054

BATAAN
G/F L&R Building
Don Manuel Banzon Avenue
Balanga City, Bataan
(047) 237-6625 / (0949) 883.1433

BATANGAS
Unit 4, Mayvel Center
Pallocan Avenue, Pallocan West
Batangas City
(043) 702-2384 / (0920) 971.1055

BIÑAN
A. Bonifacio Street
Biñan, Laguna
(049) 511.9299 / (0949) 883.1495

CABANATUAN
333 B-3 Burgos Street
Sangitan, Cabanatuan City
Nueva Ecija
(044) 463.3967 / (0949) 883.1500

CALAPAN
Unit 1 Roxas Drive, Lumangbayan
Calapan City, Oriental Mindoro
(043) 288.2228 / (0949) 883.1508

DAET
TPI Building, Vinzons Avenue
Barangay IV, Mantagbac
Daet, Camarines Sur
(054) 887.9997 / (0920) 971.1061

DAGUPAN
One Grande Building, Arellano Street
Dagupan City
(075) 522.5072 / (0920) 971.1062

DASMARIÑAS
B55 L7 Golden Miles Molino
Paliparan Road, Barangay Salawag
Dasmariñas City, Cavite
(046) 438 1863 / (0949) 883.1507

LAOAG
Enrico's Building
General Luna Avenue corner General Siazon Road
Laoag City, Ilocos Norte
(077) 771.5385 / (0949) 883.1438

LA UNION
Nera Building, Quezon Avenue
San Fernando, La Union
(072) 687.1519 / (0949) 883.1436

LEGAZPI
Imperial Shopping Plaza
Los Baños Avenue, Capantawan
Legazpi City, Albay
(0949) 883.1439

LIPA
C.M. Recto Avenue (in front of Cathedral)
Barangay 9, Lipa City
Batangas
(043) 756.3481 / (0949) 883.2181

LUCENA
G/F Emperor Building
Merchan Street corner Evangelista Street
Lucena City
(042) 710.9168 / (0920) 971.1068

MALOLOS
Lot 698-A. Paseo Del Congreso Road
Malolos City, Bulacan
(044) 791.7513 / (0920) 971.1070

MARCOS HIGHWAY
Units 3 & 4 Park Place Building
Marcos Highway corner Vermont Park Main Gate
Barangay Mayamot, Antipolo City
(02) 212.2521 / (0920) 971.1071

MARIKINA
19 Bayan-Bayanan Avenue
Concepcion I, Marikina City
(02) 721.8238 / (0949) 883.1505

MEYCAUAYAN
G/F Mancon Building
MacArthur Highway Barangay Calvario
Meycauyan City, Bulacan
(044) 769.6064 / (0917) 834.8281

NAGA
89 Elias Angeles Street
Naga City, Camarines Sur
(054) 473.9898 / (0917) 835.0123

PAMPANGA
Diamond Building
MacArthur Highway
Dolores San Fernando, Pampanga
(045) 961.1354 / (0920) 971.1075

PUERTO PRINCESA
Prime One Properties Building
Km.1 National Highway Barangay
San Miguel Puerto Prinsesa City, Palawan
(048) 434.2052 / (0949) 883.1442

RODRIGUEZ
137 Rodriguez Highway
Manggahan, Rodriguez Rizal
(02) 8470.3581 / (0920) 9711077

SAN PABLO
52 Colago Avenue, Barangay VI-E
San Pablo City, Laguna
(049) 562.0646 / (0933) 828.5136

SANTIAGO
Villarica Building
Purok 4 City Road corner Quezon Street
Centro West, Santiago City
(078) 305.2082 / (0917) 835.3237

TARLAC
1048 F. Tañedo Street
San Nicolas,Tarlac City
Tarlac
(045) 982.1404 / (0920) 971.1079

TUGUEGARAO
Rizal corner Gomez Street
Tuguegarao City, Cagayan
(078) 844.8577 / (0949) 883.1506

URDANETA
National Highway, Nancayasan
Urdaneta City, Pangasinan
(075) 653.0847 / (0949) 883.1443

VIGAN
VQR Building
Quezon Avenue corner Mabini Street
Vigan, Ilocos Sur
(077) 632.0911 / (0922) 876.6018

ZAPOTE
Addio Building
Aguinaldo Highway
Talaba Bacoor, Cavite
(046) 417.7527 / (0920) 971.1080

VISAYAS

BACOLOD
Sun-in Building
Lacson Street
Bacolod City, Negros Occidental
(034) 434.9411 / (0949) 883.1431

CEBU
S & L Tanchan Building
51 Colon Street
Parian, Cebu City
(032) 255.6982 / (0949) 883.1434

ILOILO
John Tan Building
Iznart Street, Iloilo City
Iloilo
(033) 335.8853 / (0920) 971.1066

TACLOBAN
Oscar Dy Building
Real Street, Sagkahan District
Tacloban City, Leyte
(053) 832.3064 / (0945) 536.3556

PAGADIAN
ZMS Building, Rizal Avenue
Pagadian City, Zamboanga Del Sur
(062) 925.2879 / (0920) 971.1073

TAGUM
Cacayorin Building
Circumferential Road New Public Market
Tagum City, Davao
(084) 216.3219 / (0917) 836.0676

VALENCIA
Larstel Building 2
1924 Fortich Street, Lavina Avenue
Barangay Poblacion, Valencia City, Bukidnon
(088) 828.5294 / (0917) 836.3996

ZAMBOANGA
G/F RHW Building
Mayor Jaldon Street, Barangay Cañelar
Zamboanga City, Zamboanga Del Sur
(062) 955.0655 / (0917) 836.3340

MINDANAO

BUTUAN
Lucibenino Building, JC Aquino Avenue
Butuan City, Agusan Del Norte
(085) 225.0406 / (0920) 971.1058

CAGAYAN DE ORO
J.V. Serena Street corner Vamenta Boulevard
Carmen, Cagayan De Oro City
Misamis Oriental
(088) 233.2159 / (0949) 883.1498

DAVAO
CV REALTY Building, Quimpo Boulevard,
Ecoland, Matina, Davao City
(082) 285.2608 / (0920) 971.1063

GENERAL SANTOS
RD Building, Santiago Boulevard
General Santos City, South Cotabato
(083) 552.0876 / (0920) 971.1065

Our Products and Services

Deposit Products

- Regular Savings Account
- BMI Checking Account
- BMI Checking Account Plus
- Current Account Premium
- Young Savers Account
- Power Cash ATM
  - Regular ATM
  - Passbook with ATM
  - Current Account with ATM
- Maaasahan (Microfinance) Savings Account
- Power ATM Debit Card
- Power Build-up Savings Account
- CTD Peso Time Deposit

Loan Products

Motorcycle Loan
Malalapitan (Microfinance) Loans
Consumer Loans

- Power Payday Loan
- Housing Loan
- Auto Loan
- Rx Loan
- Seafarer's Salary Loan
- Luxury Bike
- Personal Loan

Real Estate Loans

- Bridge Financing Line
- CTS Financing Facility
- Purchase of CTS
- Real Estate Term Loan

Business Loans

- Loan Line
- Term Loan
- Back -to-Back Loan (Term or Line)
- Power Insta - Credit
- Power Negosyo ™300 & 500

Cash Management Services

- ATM Payroll
- Deposit Pick-up
- Bills Payment
- HMO Collection

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