CAMALIG BANK 50

Let's Redefine Banking

2018 Annual Report

Company Profile

We are a financial institution committed to support our clients' well-being. We share our clients' aspiration that they are given financial assistance through competitive rates and competent service while ensuring that fiscal discipline is realized.

We give reasonable rates of return for the public's hard earned money as reflected in our savings rates. Special accounts give better proceeds.

We also offer money remittance services to cater to the needs of our Overseas Filipino Workers. We improve our services to go in stride with technological advances.

We consciously practice prudent decision making in all transactions. Corporate good governance is upheld as a way of life.

Vision

We will be the leading financial institution in the Bicol Region by focusing on the following:

- Serving the underserved markets
- Building a robust and dynamic organization
- Building efficient and reliable processes
- Creating a wider reach
- Achieving superior financial performance
- Becoming a trusted rural banking partner

Mission

To be the trusted partner in providing innovative, accessible and wide reaching financial products and services in the countryside.

Core Values

Relationship. Connect positively.

We value healthy and positive relationships in all our connections and dealings. We listen and communicate openly. We respect diversity, ideas and beliefs among ourselves. We offer personalized service and sincere partnerships to our clients and our community. We value effective teamwork and deep commitment to group decisions and actions. We believe that banking is all about relationship and the greatest reward we can have is when the people we wish to serve choose to bank with us.

Integrity. Be worthy of trust and respect.

We demonstrate Integrity by remaining transparent in our dealings, being consistent, sincere and honest in all the things that we do. We match what we say with our actions. We see the connection of credibility, public trust and long-term success. We formulate sound policies to heighten understanding and professionalism to avoid situations where personal interests may conflict or appear to conflict. Whatever we have to offer, we assure that it is fired with a moral obligation to do business.

Service. Go the extra mile.

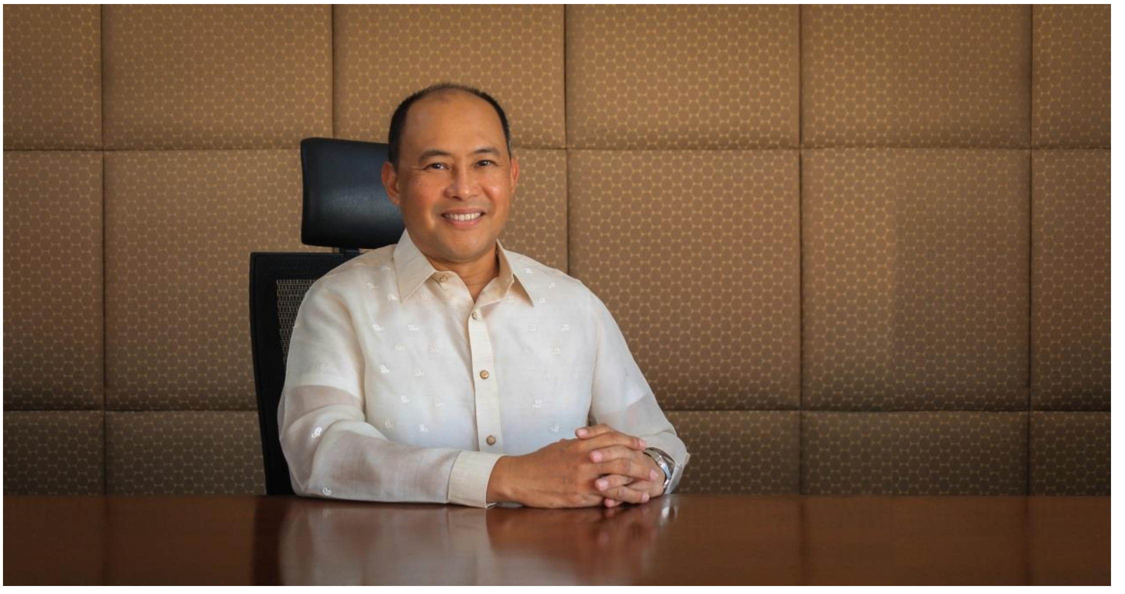
Our clients are the reason for our business. We affirm this through personalized service that always looks for appropriate yet convenient ways of doing business with us. We are responsive, attentive, accessible and reliable when it comes to their financial needs. Most importantly, we value their feedbacks so we can improve our brand of service, elevate it above the competition and satisfy their financial needs.

Excellence. Become better.

We believe that in order to be effective, the Bank must be run efficiently with the highest and superior standards in the industry. Therefore, we go beyond mere compliance and continually challenge ourselves to improve, overcome barriers and remain passionate in what we do. We achieve excellence by seeking the best talent through promotion of personal and professional development and instilling a high level of dedication and professionalism based on shared values.

Stewardship. Create value and do our part.

We put significance in our stewardship role by being passionate and accountable in all our actions and decision. We are committed to create value not only to our business but also to our clients, partners and shareholders. We preserve institutional memory and honor the heritage of our past leaders by building on the foundation that is laid for us. We strive for unity and continuity. We do our part and remain prepared to successfully pass the baton at the right time to the capable hands of the next generation.



The President's Message

The past decades have greatly impacted the ways we bank, through the influence of innovative minds all over the world, technology that empowers and equalizes, and regulations that ensure our protection.

Most notably, the convergence of technology and the foundations of the financial system have given rural banks the necessary tools to be better advocates of inclusion. We at Camalig Bank focus our best efforts on being true to our mission of being a trusted partner in providing innovative, accessible and wide-reaching financial services in the countryside. This mission compels us to overcome constraints and limitations while being guided by our core values and commitment to adhere to good corporate governance. Part of the Bank's strategic initiatives for 2018, is the strengthening of the remedial asset management, growing of loan portfolio and enhancement of the Bank's loan loss methodology.

As we celebrate our golden anniversary with you, we affirm the same commitment we started 50 years ago in our sincere aspiration to constantly embrace and adapt to the ever changing financial landscape so that we can prudently evolve and redefine banking.

JOSE MISAEL B. MORALEDA
President/Chief Executive Officer

Financial and Operating Highlights

(in million pesos)

	2018	2017	Change
Resources	1,392.30	1,138.36	22%
Liquid Assets	315.21	311.95	1%
Gross Loans	877.82	644.19	36%
Deposit Liabilities	894.50	833.71	7%
Equity	291.02	278.07	5%
Net Interest Income	130.57	110.95	18%
Non-Interest Income	31.98	35.61	-10%
Non-Interest Expense	137.20	127.06	8%
Gross Operating Income	180.55	158.07	14%
Pre-provision Profit	25.35	19.50 [1]	30%
Allowance for Credit Losses	34.12	22.22	54%
Net Profit	12.95	12.77	1%

Key Ratios

	2018	2017
Return on Average Equity	4.55%	4.70%
Return on Average Assets	0.99%	1.11%
Net Interest Margin	15.34%	11.63%
Liquidity Ratio	35.24%	37.41%
Risk-based Capital Adequacy Ratio	18.52%	22.55%
Past Due Ratio	5.66%	7.61%

[1] corrected audited figure (from 110.95)

Financial Condition and Results of Operations

The 22% growth in Resources is driven by our organization's collective effort to grow the loan portfolio and strictly manage loan performances. The significant growth of 36% in loan portfolio and the maintenance of past due amount within almost the same level further brought down our past due ratio from 7.61% to 5.66%, a superior performance compared to the average industry ratio of RBs and Coops, i.e. 14.70% as of December 31, 2018.

In addition to the 7% growth in Deposits, we made best use of low-priced funds from our available credit lines with Land Bank and BSP in order to support the anticipated growth in lending operation.

The sustained growth of the loan portfolio paved the way to marked increases in monthly interest income by the start of the third quarter. This translated to 18% increase in our net interest income. On the other hand, the 10% drop of our non-interest income is basically the result of the booked actuarial gain from retirement fund of P4.82 million in 2017.

We have booked a total of P12.4 million in provisions in line with loan loss methodology and BSP Circular 855. The coverage is regularly monitored and evaluated to ensure adequate provision and to stand strong on the commitment of protecting equity and operation from the possible effects of non-performing assets.

Our CAR of 18.52% remains strong and well above the minimum regulatory requirement of 10%.

Breakdown of the Components of the Tier 1 and Tier 2 Capital
(Including Deductions)

Tier 1	
Paid up common stock	172,552
Additional Paid-in Capital	91
Retained Earnings	59,081
Undivided Profits	12,959
Other Comprehensive Income	1,340
TOTAL TIER 1	246,023
LESS Deductions from Tier 1 Capital:	
Deferred Tax Asset, net of deferred tax liability	9,809
Net TIER 1	236,214
Tier 2	
Preferred Shares	45,000
General Loan Loss Provision	8,512
TOTAL TIER 2	53,512
LESS Deductions from Tier 2 Capital:	
Sinking fund [redeemable preferred stock with the replacement requirement upon redemption]	37,060
Net TIER 2	16,452
NET TIER 1 and TIER 2 (Total Qualifying Capital)	252,666

Deductions from TIER 1 fifty percent (50%) and TIER 2 fifty percent (50%) capital:

- The bank has no eligible deductions to the above.

Capital Requirements

Credit Risks	1,203.33
Market Risks	-
Operational Risks	161.33
Total Risks Weighted Assets	1,364.66

TIER 1 Capital Adequacy Ratio and Total Capital Adequacy Ratio

TIER 1 Capital Adequacy	
Net TIER 1	236.21
Divided by	
Total Risks Weighted Assets	1,364.66
CAR TIER 1	17.31%

Total Capital Adequacy Ratio	
NET TIER 1 and TIER 2	252.67
Divided by	
Total Risks Weighted Assets	1,364.65
Total CAR	18.52%

Risk Management

Risk appetite and strategy

Camalig Bank has taken an active approach to risk management, ensuring that risks are mitigated and well understood in all cases.

The Board has established minimum and maximum thresholds that serve as guide for measuring different risks, tolerance levels, reviewing other key financial information and developing strategies to manage the Bank's Assets and Liabilities. These are contained in the Board-approved Camalig Bank Asset Liability Management (CALM) program.

Risk exposure

The Bank's CAR and Liquidity position remained strong for 2018. This existing ratio is superior compared to Industry. Liquidity forecasting and controls have regularly been monitored by the ALCO and have continued to improve taking into consideration the regulatory and operational environments.

The Bank's PD ratio is within its set maximum limit and is superior compared to Industry. Collection and recoveries were made from clients that are unable to meet their loan obligation to reach a satisfactory conclusion while adhering to policy on treating clients fairly. Some accounts are offered with restructuring to adjust the repayments with their cash cycle and waiver of bank charges. As a kick-off activity for the Bank's celebration of its 50th Jubilee year, the Bank offered an amnesty program to eligible borrowers.

Loans to deposit is slightly below the minimum threshold but still manageable. It has been an ongoing challenge for the Bank to fully automate its systems and processes as these increases the exposure to operational risks. In 2018, decisions were made to enhance the core banking system by shifting to a new provider which is targeted to enable continued improvements in quality and efficiency of reports and transactions.

The Bank focuses on compliance with all relevant regulations, including any changes thereto.
There is no over concentration of credit risk to a single borrower. The Bank is well-positioned with regards to its credit concentration levels.

Risk structure

Camalig Bank's risk management structure is designed where roles and responsibilities are defined based on key function areas on the oversight of risk. It is comprised of the Board of Directors, key management positions and committees created and categorized into areas of operation/responsibilities.

The Bank's structure is constantly designed/redesigned not only to be responsive to the needs of the time but also to support the Bank's size with due consideration of its strategic direction while upholding its principles of good corporate governance.

The BOARD has overall responsibility for ensuring effective risk management within the Bank. The Board reviews report and procedures to ensure adherence with the CALM (Camalig Bank Asset and Liability Management) policy.

There are 3 BOD Committees: Audit Committee that monitors the regulatory risks; Corporate Governance and Compensation Committee that evaluates and recommends compensation and other benefits of the Bank's personnel (including officers and directors), as well as corporate governance matters; Risk Management Committee that is responsible for the development and oversight of the Bank's Risk Management Program.

Management Committees have been established to ensure detailed governance of different risk type.

Corporate Governance

The guiding principles of Camalig Bank's Corporate Governance are summarized into 3S – which also serves as the heart of the Bank's corporate governance framework.

Stewardship

Stewardship spells the principle of "accountability" as one of the primary goals of the Bank when developing policies and procedures and in the conduct of operation. It is the view of the Bank that accountability is not only a proper function in itself but it also plays a critical role in achieving prevention.

Through "accountability" and sense of stewardship, the Bank and its people shall focus to achieve improvements based on self-awareness and empowerment. Taking "accountability" allows the Bank more opportunity to prudently utilize all of its resources for continuing progress and development.

Straightforwardness

Straightforwardness in all Bank dealings promotes transparency. The Bank views this as a gateway to earning credibility and public trust. Without credibility and trust, the Bank cannot survive.

Through transparency the Bank aims to build trust within its operational environment and ecosystem for its long-term success.

Sustainability

Camalig Bank recognizes that thinking in terms of sustainability hand in hand with social responsibility makes good business sense and strategy. It helps the Bank in coming up with decisions where all sides, economically, socially and environmentally, are considered.

By embracing and being open to new ideas, technologies and methods where the needs of the present and future generations are properly considered if not fulfilled, the Bank's business operation shall be driven towards continuous improvement and excellence.

Board of Directors

- The Bank's Board of Directors is comprised of nine (9) members who are elected by the Bank's stockholders entitled to vote at its annual stockholders' meeting.
- The Board is responsible for ratifying decisions, monitoring and overseeing management action and performance.
- The Board has the duty to act for the Bank and in accordance with their best judgment.
- The Board is responsible for approving and overseeing the Bank's strategic objectives, risk strategy, corporate governance, and corporate values.
- The Board shall foster the long-term success of the Bank, and to sustain its competitiveness and profitability.

Chairman of the Board

The Chairman of the Board presides at all board meetings and ensures that meetings are held in accordance with the Bank's by-laws. He provides leadership in the board, and assists in ensuring compliance with the Bank's corporate governance guidelines. He maintains qualitative and timely communication lines between the board and the management. He also ensures that the board maintains a sound decision-making process.

Board Composition and Other Details

Name	Type of Directorship	No. of years served as Director	Number of Direct Shares Held*	Number of Indirect Shares Held	Percentage of Shares against Outstanding Shares of the Bank
Jose Misael B. Moraleda	Executive	3.5	307,952	1	14%
Geraldine P. Moraleda	Executive	3.5	217,508		10%
Martin Faustino B. Moraleda, M.D.	Non-executive	3.5	305,332		14%
Josefina B. Valer, M.D.	Non-executive	3.5	5,332		0%
Ana Maria B. Moraleda	Non-executive	3.5	305,324		14%
Atty. Ferdinand M. Casis	Independent	3.5	1		0%
Atty. Andres David M. Bolinas	Non-executive	3.5	1		0%
Rogelio A. Encinas, CPA	Independent	2.25	1		0%
Fr. Jose Victor E. Lobrigo	Independent	0.67	1		0%

(From left to right)

Fr. Jose Victor E. Lobrigo

Filipino, 54 years old
Previous affiliation: Social Action Center – Archdiocese of Legazpi; SEDP-Simbag sa Pag-Asenso; National Electrification Administration;
Concurrent directorship/officership: Evangelion Foundation; Bicol Consortium for Development Initiatives; Microfinance Council of the Philippines; National Microfinance Regulatory Council; SEDP Multipurpose Cooperative; SEDP- Simbag sa Pag-Asenso

Atty. Andres David M. Bolinas

Filipino, 45 years old
Previous affiliation: Air Philippines Corp.; Lafarge Iligan, Inc.; Lafarge Mindanao, Inc.
Concurrent directorship/officership: Republic Cement Land & Resources, Inc.; Republic Cement Mindanao, Inc.; Republic Cement Iligan, Inc.; PVLB, Inc.

Ana Maria B. Moraleda

Filipino, 51 years old
Previous affiliation: Fort Bonifacio Development Corp.; The Manor, Camp John Hay; Fil-Estate Group of Companies; Mareco Broadcasting Network
Concurrent directorship/officership: Ammin Holdings, Inc.; PVLB, Inc.; Philippine Transmarine Carriers, Inc.

Martin Faustino B. Moraleda, MD

Filipino, 55 years old
Previous affiliation: Lourdes Hospital
Concurrent directorship/officership: FC Moraleda, Inc.; Sacred Heart Clinic Legazpi City, Inc.; Estevez Memorial Hospital; Bicol Regional Training and Teaching Hospital

Geraldine P. Moraleda

Filipino, 49 years old
Previous affiliation: Ateneo Center for Social Policy & Public Affairs; Philippine Business for Social Progress; Urban Bank
Concurrent directorship/officership: Ayuda de Manos, Inc.

Jose Misael B. Moraleda

Filipino, 53 years old
Previous affiliation: Social Action Center – Archdiocese of Legazpi; Albay Chamber of Commerce and Industry
Concurrent directorship/officership: Ammin Holdings, Inc.; FC Moraleda, Inc.; Ayuda de Manos, Inc.; Sacred Heart Clinic Legazpi City, Inc.; Rural Bankers Research & Development Foundation, Inc.

Josefina B. Valer, MD

Filipino, 59 years old
Previous affiliation: JP Rizal Hospital
Concurrent directorship/officership: Lagonoy High School

Atty. Ferdinand M. Casis

Filipino, 59 years old
Previous affiliation: NEC Multipurpose Cooperative; Department of Agrarian Reform
Concurrent directorship/officership: Sentro ng Alternatibong Lingap Panlegal; National Confederation of Cooperatives; K-Cooperative

Rogelio A. Encinas, CPA

Filipino, 69 years old
Previous affiliation: Bangko Sentral ng Pilipinas

Board Administration

The Board implements and accomplishes an annual self-rating system that measures the performance of the board and the senior management.

Each new member of the board is required to undergo an orientation and a corporate governance seminar within three (3) months from date of election/ appointment. To maintain a current and effective board, all members are encouraged to attend at least one (1) training or seminar relevant to the banking operation per year.

The Bank's Corporate Governance Manual provides the succession procedures in cases of planned and unplanned separation of a BOD member. The policy and procedures are subject for review annually.

The regular term of a director shall be for one (1) year from the date of his/her election to the succeeding regular annual meeting of the stockholders of the Bank or until his/her successor shall have been elected and qualified to take his/her place at said annual meeting.

The average age of the current Board of Directors is only 55. While there is a required policy on retirement age of directors, the Board feels that it would be unfair to limit or disqualify a member over qualification, fit and proper rule and most of all, the value he/she will bring to the organization. To ensure that this is properly deliberated and the future of the organization is duly considered, the Board has decided to bring the matter to the Bank's next strategic planning scheduled in the second half of 2019.

Compensation, which may be in various forms, is fixed by a Board resolution, pursuant to the Bank's By-Laws. The CEO/Executive Director receives remunerations as officer and not as director. Remuneration of officers follows the Bank's pay structure as approved by the Board.

The Bank chooses individuals with sufficient banking knowledge to serve as members of the Board and senior management through a critical nomination process, following a set of criteria and qualifications, to ensure that they are fit and proper for the position.

	Name of Directors	Board No. of Meetings		Audit Committee No. of Meetings	
		Attended	%	Attended	%
1	Jose Misael B. Moraleda	13	100%	n/a	
2	Geraldine P. Moraleda	13	100%	n/a	
3	Martin Faustino B. Moraleda, M.D.	13	100%	n/a	
4	Josefina B. Valer, M.D.	13	100%	n/a	
5	Ana Maria B. Moraleda	13	100%	n/a	
6	Atty. Ferdinand M. Casis	12	92%	9	82%
7	Atty. Andres David M. Bolinas	13	100%	11	100%
8	Rogelio A. Encinas, CPA	13	100%	11	100%
9	Fr. Jose Victor E. Lobrigo*	9	90%	n/a	
Total Number of Meetings Held During the Year		13		11	

*Elected as Independent Director on 21 April 2018

Performance Assessment

The Bank aims to recruit, maintain, and motivate a group of highly productive individuals. It also aims to keep and nurture energized leaders and the right people who are passionate, professional and share the same values with the Bank. On this ground, the Bank is committed to extend salaries that are equitable, commensurate and competitive. Performance, of both the individual and the Bank, is the foundation for all the Bank's compensation policies. Essentially, the compensation mechanism of the Bank involves the following objectives:

To reward performance according to merit. This involves recognizing and rewarding personal achievement of institutional and individual goals.

To establish and maintain internal consistency and equity within each business unit/office/department. The position evaluation and salary administration policies ensure that the Camalig Bankers who perform their functions exceptionally (i.e. substantially equal in responsibility, personal demands and expertise) are given commensurate pay levels.

To maintain a competitive position within the marketplace. This is accomplished through participation in market surveys and other sampling techniques reflecting compensation practices among leading banks, comparable companies, and other similar organizations.

To control costs according to the Bank's budget.
The Bank recognizes the vital role of a well-structured salary program. Individual excellence and innovation is highly encouraged. As such, basic compensation policies and procedures are implemented to ensure that Camalig Bankers are fairly and consistently rewarded according to individual performance.

All Camalig Bankers are required to submit their Performance Appraisal Report every September of each year including its senior officers. This is one of the basis for promotion and merit increase. For Senior Officers and highly compensated management officers, the promotion and remuneration is duly approved by the Bank's Board of Directors based on the Bank's payscale.

Every year, the Training Officer conducts a training needs analysis both for the Bank and its employees. After which, a training plan for the following fiscal year will be prepared together with the corresponding budget. All personnel including the senior management are highly encouraged to undergo further education or attend to at least one training every year.

Independent Function

Independent Directors

The Bank has three (3) independent directors. They are selected based on their ability to exercise impartiality and sound judgment which are independent from the views of senior management.

Internal Audit

The Internal Audit Department implements the Bank's Audit Program. It reports directly to the Audit Committee. The adequacy and effectiveness of the Bank's internal control system is periodically reviewed and changes are recommended, if any, by the Department Head.

Compliance Department

The Bank's Compliance Department designs and implements the Bank's Compliance System. It reports directly to the Corporate Governance and Compensation Committee and whenever necessary, to Audit Committee and Risk Management Committee.

Related Party Transactions

The Bank recognizes the need to strengthen its policy on related party transactions to avoid or mitigate risks of conflict of interest and abuse that are disadvantageous to the Bank and its depositors, creditors and other stakeholders.

The policy on Related Party Transactions is in conjunction with the following existing policies:

- Code of Conduct and Ethical Policy
- Conflict of Interest Policy
- Policy on Lending to DOSRI
- Whistleblowing Policy

For the year 2018, a material related party transaction was submitted to the BSP, in particular, the sale and eventual lease of a Bank property located at Virac, Catanduanes. The said transaction was conducted at arms length terms.

Dividend Policy

The Bank is compelled to declare dividends when its retained earnings shall be in excess of 100% of its paid-in capital, except when the Bank is prohibited by the BSP or any FI / creditor to do so without consent; or when such retention is necessary for special circumstances, such as the need for special reserves; or when justified by definite and approved corporate expansion projects or programs. In 2018, no dividends were declared.

Anti-money Laundering Governance

The Bank has established an AML Program with a duly approved written Manual of Operation containing among others the following salient provisions: defined duties and responsibilities, customer identification process (Cash Operations Manual), reporting system, record-keeping guidelines and disposal procedures and training program.

In 2018, the Bank has been working on the full compliance to the regulatory requirements on beneficial ownership and digitization of records as can be gleaned from the upgrading of its core banking systems.

Independent review and testing on the Bank's AML compliance is regularly and prudently implemented.

AML trainings were conducted three times in the Orientation Seminar on Banking, separate training for Alternate Users in reporting was held and included in the modules of the Supervisory Training Program (STP) of the Bank.

Data Privacy

The Bank has a Data Privacy Officer / Information Security Officer to effectively oversee and manage the implementation of policies and processes on privacy and security of information handled by the Bank in compliance with the requirements of Republic Act No. 10173, also known as the Data Privacy Act (DPA).

Consumer Protection

The Board is responsible for ensuring that the Bank has an updated consumer protection compliance program which is embedded in the Bank's business operations. It shall demand to be apprised of consumer protection current trends, regulatory updates, exceptions to related Bank policies and amendments thereto.

A Consumer Support Unit is placed in the Bank's organizational structure and positioned under the Corporate Affairs Department (CAD) to centrally address and manage the Bank's consumer protection compliance. The primary objective of the Bank's consumer protection program is to reduce regulatory violations and protect consumers from non-compliance and associated harms or loss.

The risk management structure of the Bank on financial consumer protection is designed where roles and responsibilities are defined based on key function areas on the oversight of risks. A risk process map is in place to guide the organization.

Camalig Bank recognizes the significance of an effective risk management program for financial consumer protection that would identify risks at the onset before they become full blown problems. Likewise, the program is analyzed so as to determine eventual impact, probability, and time frame and to classify and prioritize risks according to desired action. Risks are reported and handled based on the risk rating. A risk grid with reporting party and business unit concerned is in place to guide the organization.

To ensure at the minimum that the Bank complies with regulatory standards and requirements, the overall assessment of the Consumer Protection Compliance Program is primarily based on the regulatory risk grid and corresponding assessment base.

In 2018, 61 simple complaints were received. 59 of which were ATM complaints from third party provider. All were resolved. There were no major complaints received for the year.

Corporate Social Responsibility

The Bank through and with the Camalig Bank Foundation, Inc. is active on the following undertakings or programs:

- Scholarship Program (13 existing scholars)
- Financial Literacy Program (1, 143 participants in 19 seminars conducted)
- Disaster Preparedness and Risk Program (801 participants in 26 sessions conducted)
- Soup Kitchen Activity as Disaster Preparedness Response (3, 800 participants in 5 schools covered)
- Soup Kitchen Activity with Financial Literacy Lecture (765 individuals in 4 sessions)
- Fire and Earthquake Drill (49 participants in 2 sessions conducted)
- Community Outreach Program (180 beneficiaries in 3 sessions conducted)

Company Information

Organizational Structure

The Bank management believes that its organizational structure should enhance rightsizing, promote decentralization of duties, streamline cross-functional teams, improve career-pathing and reinforce internal housekeeping programs.

The Bank's present organizational structure shall remain flexible to accommodate any adjustments to enhance the Bank's chances of achieving its established goals and objectives.

Corporate Office

The Corporate Office acts as the headquarters of the Bank where important functions are coordinated for the overall success of the organization. It plays a major role in the following areas of Bank management and/or operation: (1)Promoting good corporate governance across the organization; (2) Harnessing economy of scale through the balance of efficiency and effectiveness; (3) Driving of the Bank's competitive advantage towards the achievement of business goals; and (4) Delivering shared services for support and back-office functions.

Functional Groups

- Independent Group
- Relationship Management Group
- Product and Services Management Group
- Support and Delivery Management Group

Branch Banking Group

This group is composed of the Bank's branches which is divided into two (2) geographical groups each headed by a Group Head.

The Bank has 17 branches across Bicol Region, and as of 31 December 2018, the BSP has approved the Bank's application for authority to open 5 branch-lite units. (Please visit our official website, www.camaligbank.com.ph for the complete list of Camalig Bank branches.)

Officers and officers-in-charge

Name	Position
Jose Misael B. Moraleda	Chief Executive Officer / President
Geraldine P. Moraleda	Chief Operations Officer
Johanna B. Monis	Corporate Secretary / Head – Corporate Affairs Department
Jo-Ann T. Pontanes	Head – Compliance Department
Josephine V. Dino	Head – Risk Management Department
Clarice M. Aragon	Head – Internal Audit Department
Ninette B. Banzuela	Head – Personnel Administration Unit
Agnes Chona Magno-de la Cruz	Head – Training, Development, and Recruitment Unit
Michael T. Fernandez	Head – Finance Department
Ma. Celeste B. Moraleda	Head – Information Technology Department
Rosemarie O. Dado	Head – Remedial and Assets Management Department
Dominic A. Adra	Head – Cash Operations Unit / Funding and Investment Unit
Francis Y. Egar	Head- Credit Department
Kristian R. Belaguin	Head – Central Clearing and Settlements Unit
Christopher A. Manalo	Head- Credit Monitoring Unit
Arnold L. Ajero	Head – General Services Department
Lhea R. Adra	Head – Branch Banking Group 1
Jonalyn L. Mirafuentes	Head – Branch Banking Group 2
Jeffrey F. Zamora	Special Project Officer for LLM/Data Privacy Officer
Alexis M. Torremaña	OIC Head- Credit Investigation and Appraisal Unit
Leizel M. Patacsil	OIC Head- Consumer Support Unit/ Executive Assistant
Shiela M. Senso	OIC Head- Central Accounting Unit/Financial Planning and Control Unit
Jose M. Amaranto	Security Officer

Officers and officers-in-charge

Name	Position
Mario B. Faura, Jr.	Branch Manager – Sorsogon City Office/Castilla Branchlite
Annelyn S. Amor	Branch Manager – Bulan Office
Sheryl E. Macasinag	OIC Branch Manager – Irosin Office
Joanne Beda A. Rosacay	Branch Manager – Iriga City Office
Djohanna T. Alcaide	Branch Manager – Ocampo Office
Mary Ann A. Pante	OIC Branch Manager – Milaor Office
Marco Antonio C. Rivera	OIC Branch Manager – Daet Office
Ma. Vithany T. Molet	Branch Manager – San Andres Office
Kathleen T. Muñoz	Branch Manager – Virac Office
Sheryll L. Navarro	Branch Manager – Masbate City Office/Cataingan Branchlite
Remedios D. Domo	Branch Manager – Head Office
Michelle G. Alvarez	Branch Manager – Camalig Office
Maria Rosewin N. Napay	Branch Manager – Tabaco City Office
Anilou Azores	OIC Branch Manager – Legazpi City Office
Jonel R. Ocay	Branch Manager – Daraga Office

Major Stockholders

Name	Nationality	Percentage of Stockholdings	Voting Status
Jose Misael B. Moraleda	Filipino	14%	Current
Martin Faustino B. Moraleda	Filipino	14%	Current
Ma. Celeste B. Moraleda	Filipino	14%	Current
Ana Maria B. Moraleda	Filipino	14%	Current
Geraldine P. Moraleda	Filipino	10%	Current

Deposit Products

Deposit Accounts

Savings
- Blue Account
- Yellow Account
- Rainbow Account
- Green Account
- BB Account
- Orange Account
- Orange Account with Term

Time Deposits
- Gold Account
- Gold Five Account

Checking Account
- UV Account

Loan Products

Group Accounts
- DepEd Elementary/HS
- Autonomous Schools
- LGUs
- Barangays
- Other Government Offices
- Private School
- Other Private Offices

LENDR Mobile Salary Loan

Individual Loans
- Gintong Puhunan
- Angat Negosyo
- Bayanihang Bayanihan
- Loanadan Program

- Agricultural Loan
- Personal Consumption Loans

- Microfinance Loans
- mSME Loans
- OFW Loan
- Car Loan/Chattel
- Mortgage

Other Products and Services

Micro Insurance (CB Kalinga)

ATM powered by DBP

Bills Payment via 3rd party (RuralNet)

Remittance Facilities (Western Union)

Airtime Loading via third party (Ayannah-Sendah)

SSS & Philhealth Accredited Collecting Agent

SSS Pension Payment Program

Point-of-Sale Terminal (BDO)

Conduit Partner of LBP re: CCT payouts

Audited Financial Statements

Statement of Management's Responsibility for Financial Statements

CAMALIG BANK 1969
A RURAL BANK

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR ANNUAL INCOME TAX RETURN

The Management of **CAMALIG BANK, INC. (A RURAL BANK)** (the "Bank") is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2018. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited to, the value added tax and/ or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the years ended December 31, 2018 and 2017, and the accompanying Annual Income Tax Return are in accordance with the books and records of **CAMALIG BANK, INC. (A RURAL BANK)** complete and correct in all material respects. Management likewise affirms that:

(a) the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;

(b) any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the Bank's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances; and

(c) **CAMALIG BANK, INC. (A RURAL BANK)** has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

MARTIN FAUSTINO B. MORALEDA
Chairman of the Board

JOSE MISAEL B. MORALEDA
President CEO

MICHAEL T. FERNANDEZ
Head of Finance Department / Treasurer

APR 22 2019

Signed this 11th day of April, 2019.

CORPORATE OFFICE: Rizal Street, Ilawod East, Legazpi City 4500
Telefax (052) 480 0801 • Tel: (052) 480 0810 • Cel. No. (63) 917 595 6045
www.camaligbank.com.ph

Independent Auditor's Report

Alas Oplas & Co., CPAs

Alas Oplas & Co., CPAs
23/F Philippine AXA Life Centre
1286 Sen. Gil Puyat Avenue
Makati City, Philippines 1200
Phone: (632) 759-5090 | Fax: (632) 887-6180
Email: aocheadoffice@alasoplascpas.com
www.alasoplascpas.com

Independent Member of
BKR International

INDEPENDENT AUDITORS' REPORT
TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING WITH THE
BUREAU OF INTERNAL REVENUE

To the Stockholders and the Board of Directors
CAMALIG BANK, INC. (A RURAL BANK)
Rizal Street, Ilawod East
Legazpi City, Albay

We have examined the financial statements of **CAMALIG BANK, INC. (A RURAL BANK)** for the year ended December 31, 2018 on which we have rendered the attached report dated Apri 11, 2019.

In compliance with Revenue Regulation V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the president, manager or principal stockholders of Bank.

ALAS, OPLAS & CO., CPAs
BOA Registration No. 0190, valid from January 1, 2017 to December 31, 2019
SEC A.N. (Firm) 0321-FR-1, issued on February 7, 2019; effective until February 6, 2022
TIN 002-013-406-000
BIR A.N. 08-001026-000-2018, issued on January 25, 2018; effective until January 24, 2021

By:

Ma. Criselda S. Oplas

MA. CRISELDA S. OPLAS
Partner
CPA License No. 0063314
SEC A.N. (Individual) 1565-A, issued on June 8, 2016; effective until June 8, 2019
TIN 132-466-039-000
BIR A.N. 08-001026-002-2018, issued on January 25, 2018; effective until January 24, 2021
PTR No. 7333596, issued on January 3, 2019, Makati City

APR 22 2019

April 11, 2019
Makati City, Philippines

CAMALIG BANK 1969
A RURAL BANK

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of **CAMALIG BANK, INC. (A RURAL BANK)** (the "Bank") is responsible for the preparation and fair presentation of financial statements including the schedules attached therein, for the years ended December 31, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and 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.

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

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

Alas, Oplas & Co., CPAs, the independent auditor appointed by the stockholders for the years ended December 31, 2018 and 2017, has audited the financial statements of the Bank in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit

MARTIN FAUSTINO B. MORALEDA
Chairman of the Board

JOSE MISAEL B. MORALEDA
President CEO

MICHAEL T. FERNANDEZ
Head of Finance Department / Treasurer

APR 22 2019

Signed this 11th day of April, 2019.

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BKR International

INDEPENDENT AUDITORS' REPORT

To the Stockholders and the Board of Directors
CAMALIG BANK, INC. (A RURAL BANK)
Rizal Street, Ilawod East
Legazpi City, Albay, Philippines

Qualified Opinion

We have audited the financial statements of **CAMALIG BANK, INC. (A RURAL BANK)** (the "Bank") which comprise the statements of financial position as of December 31, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, except for the effect on the financial statements of the matters described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Basis for Qualified Opinion

As disclosed in Note 3 to the financial statements, the Bank did not adopt PFRS 9, *Financial Instruments*, which provides new guidelines in the classification and measurement of financial instruments and introduces a forward-looking expected credit loss (ECL) model on impairment of debt financial assets not classified as at fair value through profit or loss and loan commitments and financial guarantee contracts. However, the Bank engaged the services of an expert to help them comply with the requirements of PFRS 9. For 2018, the Bank retained the requirements based on PAS 39, *Financial Instruments: Recognition and Measurement* and as a result, any adjustments related to deferred taxes and allowance for credit losses as at January 1 and December 31, 2018 and surplus free as at January 1, 2018 cannot be quantified.

Moreover, as disclosed in Note 10 to the financial statements, the Bank has unbooked allowance for credit losses amounting to ₱8,936,604 and ₱8,424,384, after considering the allowance for credit losses covered by staggered booking amounting to ₱11,091,000 and ₱16,621,000, as of December 31, 2018 and 2017, respectively, based on the provisions of Appendix 15 of the BSP Manual of Regulations for Banks. Should the Bank recognize the said amount, the Bank's profit and equity for the years ended December 31, 2018 and 2017 will be reduced by ₱6,255,622 and ₱5,897,069, respectively, and capital adequacy ratio (CAR) as of December 31, 2018 will be reduced to 18.04% and 20.64%, respectively.

We conducted our audit in accordance with Philippine Standards on Auditing (PSAs). 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 ethical requirements that are relevant to our audit of the financial statements in the Philippines, the *Code of Ethics for Professional Accountants in the Philippines*, and we have fulfilled our other responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Alas Oplas & Co., CPAs

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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Alas Oplas & Co., CPAs

The Supplementary Information Required under Revenue Regulations Nos. 15-2010 and 19-2011

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Information Required under Revenue Regulations Nos. 15-2010 and 19-2011 on taxes, duties and license fees paid or accrued during the taxable year, taxable income, and deductions in Notes 33 and 34 to the financial statements are presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of **CAMALIG BANK, INC. (A RURAL BANK).** The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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By:

MA. CRISELDA S. OPLAS
Partner
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April 11, 2019
Makati City, Philippines

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Statements of Financial Position

Camalig Bank, Inc. (A Rural Bank)
For the years ended December 31, 2018 & 2017
In Philippine Peso

	Notes	2018	2017
ASSETS			
Cash and other cash items	8	**9,119,612**	9,111,624
Due from Bangko Sentral ng Pilipinas	8	**30,658,844**	27,451,716
Due from other banks	8	**260,199,309**	260,337,845
Held-to-maturity investments	9	**15,225,283**	15,052,537
Loans and receivables – net	10	**843,700,586**	621,973,008
Bank premises, furniture, fixtures and equipment – net	11	**129,610,373**	134,692,500
Intangible assets – net	12	**5,784,962**	4,906,612
Assets held for sale	13	**939,669**	939,669
Deferred tax assets	28	**10,638,424**	6,919,624
Other assets	14	**86,424,199**	56,973,495
TOTAL ASSETS		**1,392,301,261**	1,138,358,630
LIABILITIES AND EQUITY			
LIABILITIES			
Deposit liabilities	15	**894,499,875**	833,704,825
Due to the Treasurer of the Philippines	16	**99,081**	99,081
Bills payable	17	**130,390,520**	–
Accrued taxes, interest and other expenses	18	**12,492,395**	6,938,061
Income tax payable		**2,247,325**	305,191
Deferred tax liability	28	**829,682**	829,682
Other liabilities	19	**60,717,859**	18,416,523
Total Liabilities		**1,101,276,737**	860,293,363
EQUITY			
Capital stock	21	**217,552,200**	217,552,200
Additional paid-in capital	21	**90,914**	90,914
Surplus free	22	**32,922,303**	37,963,046
Surplus reserve	22	**39,119,439**	21,119,439
Actuarial gain on defined benefit obligation – net	25	**1,339,668**	1,339,668
Total Equity		**291,024,524**	278,065,267
TOTAL LIABILITIES AND EQUITY		**1,392,301,261**	1,138,358,630

See Notes to Financial Statements.

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Statements of Comprehensive Income

Camalig Bank, Inc. (A Rural Bank)
For the years ended December 31, 2018 & 2017
In Philippine Peso

	Notes	2018	2017
INTEREST INCOME			
Deposits with banks	8	**473,223**	529,911
Investment	9	**1,148,593**	805,143
Loans and receivables	10	**146,945,245**	125,948,325
		148,567,061	127,283,379
INTEREST EXPENSE			
Deposits	15	**(14,637,477)**	(13,765,099)
Bills payable	17	**(3,362,308)**	(2,566,250)
		(17,999,785)	(16,331,349)
NET INTEREST INCOME		**130,567,276**	110,952,030
PROVISION FOR CREDIT LOSSES	10,14	**(12,396,000)**	(6,738,055)
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES		**118,171,276**	104,213,975
OTHER OPERATING INCOME	23	**31,978,427**	30,789,803
OTHER OPERATING EXPENSES	24	**(132,044,828)**	(122,170,139)
PROFIT BEFORE TAX		**18,104,875**	12,833,639
INCOME TAX EXPENSE	27	**(5,145,618)**	(3,440,327)
PROFIT		**12,959,257**	9,393,312
OTHER COMPREHENSIVE INCOME			
Item that will not be reclassified to profit or loss:			
Actuarial gain on defined benefit obligation – net of tax	25	**–**	3,373,294
TOTAL COMPREHENSIVE INCOME		**12,959,257**	12,766,606

See Notes to Financial Statements.

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Statements of Changes in Equity

Camalig Bank, Inc. (A Rural Bank)
For the years ended December 31, 2018 & 2017
In Philippine Peso

	Common stock (Note 21)	Preferred stock (Note 21)	Additional paid – up capital (Note 21)	Surplus Free (Note 22)	Surplus Reserve (Note 22)	Other comprehensive income (Note 25)	Total
Balance at December 31, 2016	**172,400,200**	**45,000,000**	**90,914**	**28,569,734**	**21,119,439**	**(2,033,626)**	**265,146,661**
Comprehensive income							
Profit	–	–	–	9,393,312	–	–	9,393,312
Actuarial gain on defined benefit obligation – net	–	–	–	–	–	3,373,294	3,373,294
Total comprehensive income	–	–	–	9,393,312	–	3,373,294	12,766,606
Transactions with owners							
Issuance of common stock (Note 21)	152,000	–	–	–	–	–	152,000
Balance at December 31, 2017	**172,552,200**	**45,000,000**	**90,914**	**37,963,046**	**21,119,439**	**1,339,668**	**278,065,267**
Comprehensive income							
Profit	–	–	–	12,959,257	–	–	12,959,257
Actuarial gain on defined benefit obligation – net	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	12,959,257	–	–	12,959,257
Transactions with owners							
Transfer to surplus reserves	–	–	–	(18,000,000)	18,000,000	–	–
Balance at December 31, 2018	**172,552,200**	**45,000,000**	**90,914**	**32,922,303**	**39,119,439**	**1,339,668**	**291,024,524**

See Notes to Financial Statements.

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Statements of Cash Flows

Camalig Bank, Inc. (A Rural Bank)
For the years ended December 31, 2018 & 2017
In Philippine Peso

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**18,104,875**	12,833,639
Adjustments for:			
Depreciation	11,24	**11,229,599**	12,616,614
Provision for probable losses	10,14	**12,396,000**	6,738,055
Interest expense	17	**3,362,308**	2,566,250
Interest income	8,9	**(1,621,816)**	(1,335,054)
Amortization	12,24	**978,633**	642,926
Gain on sale of non-financial assets	11,23	**(394,944)**	(1,176)
Retirement benefit expense	25	**-**	2,053,387
Stock awards	21	**-**	1,000
Operating cash flows before working capital changes		**44,054,655**	36,115,641
Decrease (Increase) in operating assets:			
Loans and receivables		**(233,623,578)**	11,662,031
Other assets		**(29,684,052)**	(8,012,676)
Increase (Decrease) in operating liabilities:			
Deposit liabilities		**60,795,050**	42,399,003
Accrued interest, taxes and other liabilities		**4,815,306**	(597,614)
Other liabilities		**42,301,336**	5,820,850
Cash generated from (used in) operations		**(110,341,283)**	87,387,235
Income tax paid		**(6,826,813)**	(1,476,735)
Interest paid		**(2,623,280)**	(2,566,250)
Interest received		**1,259,693**	799,743
Net cash generated from (used in) operating activities		**(119,531,683)**	84,143,993
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of held to maturity investments	9	**(15,225,283)**	(15,052,537)
Proceeds from redemption of held-to-maturity investments	9	**15,052,537**	14,906,106
Acquisitions of bank premises, furniture and fixtures, and equipment	11	**(9,277,093)**	(7,124,776)
Acquisitions of intangible assets	12	**(1,857,816)**	(4,291,423)
Proceeds from disposal of bank premises, furniture, fixtures and equipment	11	**3,525,398**	1,176
Net cash used in investing activities		**(7,782,257)**	(11,561,454)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of bills payable	17	**139,105,790**	-
Payment of bills payable	17	**(8,715,270)**	(95,000,000)
Net cash generated from (used in) financing activities		**130,390,520**	(95,000,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**3,076,580**	(22,417,461)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items		**9,111,624**	7,734,648
Due from Bangko Sentral ng Pilipinas		**27,451,716**	25,976,757
Due from other banks		**260,337,845**	285,607,241
		296,901,185	319,318,646
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items	8	**9,119,612**	9,111,624
Due from Bangko Sentral ng Pilipinas	8	**30,658,844**	27,451,716
Due from other banks	8	**260,199,309**	260,337,845
		299,977,765	296,901,185

See Notes to Financial Statements.

Notes to Financial Statements

Camalig Bank, Inc. (A Rural Bank)
For the years ended December 31, 2018 & 2017
In Philippine Peso

1. CORPORATE INFORMATION

1.01 Company Profile

CAMALIG BANK, INC. (A RURAL BANK), ("the Bank"), the product of a consolidation effective July 1, 2015, between Rural Bank of Camalig Bank (Albay), Inc. and Rural Bank of Ocampo (Camarines Sur), Inc., was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on May 5, 2015 under Registration No. CS201508627 to carry and engage in the business of extending rural credit to small farmers and tenants and to deserving rural industries or enterprises; to do and perform all acts and to transact and conduct all business which may legally be had or done by rural Banks under and in accordance with the Rural Bank's Act, as it exists or may be amended; and to all other things incident thereto and necessary and proper in connection with said purpose within such territory, as may be determined by the Monetary Board of the Bangko Sentral ng Pilipinas.

Pursuant to Republic Act No. 7353 and the Monetary Board Resolution No. 1260 dated August 14, 2014, certificate of authority was granted on June 2, 2015 by the Bangko Sentral ng Pilipinas to Camalig Bank, Inc. (A Rural Bank) to operate as rural bank subject to the provisions and law and Bangko Sentral ng Pilipinas (BSP) rules and regulations.

The Bank operates as a rural bank and provides services such as deposit-taking, loans and trade finance, and microfinance services through sixteen (16) banking units including corporate and head office. Offices are enumerated as follow:

Branches	Address
Albay	
Camalig Branch	National Highway, Centro, Camalig, Albay
Daraga Office	Royal Park Square Building, F. Lotivio Street, Daraga, Albay
Legazpi Port Office	114 Peñaranda St., Legazpi City
Tabaco City Office	Ziga Avenue, Basud, Tabaco City
Camarines Norte	
Daet Office	Vinzon's Ave., Brgy. Gahonon, Daet, Camarines Norte
Camarines Sur	
Iriga City Office	Guevara Street, San Roque, Iriga City
Milaor Office	National Highway, Milaor, Camarines Sur
Ocampo Office	Poblacion West, Ocampo, Camarines Sur
Catanduanes	
San Andres Office	Brgy. Divino Rostro, San Andres, Catanduanes
Virac Office	S. Surtida Cor., Quezon Street, Virac, Catanduanes
Masbate	
Masbate City Office	Zurbito Cor., Domingo Streets, Brgy. Pating, Masbate City
Cataingan Office	Crossing, Cataingan
Sorsogon	
Bulan Office	Cor. Immaculada Concepcion St. & G. Girado St., Zone 4, Bulan, Sorsogon
Irosin Office	Brgy Bacolod, Irosin, Sorsogon
Sorsogon City Office	Rizal St., Brgy. Piot, Sorsogon City
Castilla Office	Brgy. Cumadcad, Castilla, Sorsogon

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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 banking practices as promulgated by the BSP.

The Bank's registered address, which is also its principal place of business, is at Rizal Street, Ilawod East, Legazpi City, Philippines. The Bank is domiciled in the Philippines.

2. BASIS FOR THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

2.01 Statement of Compliance

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs), except when otherwise indicated.

PFRSs include all applicable PFRSs, Philippine Accounting Standards (PASs), and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

2.02 Basis of Preparation

The financial statements are prepared on a going concern basis under the historical cost convention, except where a Financial Reporting Standard requires an alternative treatment (such as fair values) as disclosed where appropriate in these financial statements.

2.03 Presentation and Functional Currency

Items included in the financial statements of the Bank are measured using Philippine Peso, the currency of the primary economic environment in which the Bank operates (the "functional currency"). All information presented in Philippine Peso has been rounded to the nearest Peso, except when otherwise specified.

2.04 Use of Judgments and Estimates

The preparation of the Bank's financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the Bank's financial statements and accompanying notes.

Judgments are made by management in the development, selection and disclosure of the Bank's significant accounting policies and estimates and the application of these policies and estimates.

The estimates and assumptions are reviewed on an ongoing basis. These are based on management's evaluation of relevant facts and circumstances as of the reporting date. Actual results could differ from such estimates.

Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

2.05 Going Concern Assumption

The Bank is not aware of any significant uncertainties that may cast doubts upon the Bank's ability to continue as a going concern.

3. ADOPTION OF NEW AND AMENDED ACCOUNTING STANDARDS

3.01 New and Amended Standards, and Philippine Interpretation Adopted

The Bank applied, for the first time, the following applicable new and amended accounting standards.

Unless otherwise indicated, these new and amended accounting standards have no impact to the Bank. Except for these new and amended standards which were adopted as of January 1, 2018, the accounting policies adopted are consistent with those of previous financial year.

New Standard Adopted by the Bank

PFRS 15, Revenue from Contract with Customers

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

Based on the Bank's assessment, all of the Bank's contracts with customers generally undertake to provide single performance obligation at a fixed price which is mainly the delivery of goods or services to customers. Revenue is recognized at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for transferring goods or services to a customer.

Accordingly, the adoption of PFRS 15 has no significant impact in the Bank's revenue recognition.

Amendments Adopted by the Bank

Amendments to PAS 40, Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

Amendments to Philippine Interpretation IFRIC 22, Foreign Currency Transaction and Advance Consideration

This clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency and covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. It does not apply when an entity measures the related asset, expense or income on initial recognition at fair value or at the fair value of the consideration received or paid at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability. Also, the Interpretation need not be applied to income taxes, insurance contracts or reinsurance contracts.

All the amendments above have no significant impact on the Bank's financial statements.

3.02 New Standards already Effective but not yet Adopted

The Bank has not yet adopted the following new accounting standard. The Bank is still in process of transitioning to the new standard; thus, the accounting policies adopted in the current year are consistent with those of previous financial year.

PFRS 9, Financial Instruments

PFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

<u>Classification and measurement of financial assets and financial liabilities</u>
Financial assets are measured at fair value through profit or loss (FVTPL) unless these are measured at fair value through OCI (FVTOCI) or at amortized cost. The classification and measurement provisions of PFRS 9 require that all debt financial assets that do not meet the "solely payment of principal and interest" (SPPI) test, including those that contain embedded derivatives, be classified at initial recognition as financial assets at FVTPL. The intent of the SPPI test is to ensure that debt instruments that contain non-basic lending features, such as conversion options and equity linked pay-outs, are measured as financial assets at FVTPL. Subsequent measurement of instruments classified as financial assets at FVTPL under PFRS 9 operates in a similar manner to financial instruments held for trading under PAS 39.

For debt financial assets that meet the SPPI test, classification at initial recognition will be determined based on the business model under which these instruments are managed. Debt instruments that are managed on a "hold to collect and for sale" basis will be classified as financial assets at FVOCI for debt. Debt instruments that are managed on a "hold to collect" basis will be classified as financial assets at amortized cost. Subsequent measurement of instruments classified as financial assets at FVOCI and at amortized cost classifications under PFRS 9 operate in a similar manner to AFS financial assets for debt financial assets and loans and receivables, respectively, under existing PAS 39, except for the impairment provisions which are discussed below.

For those debt financial assets that would otherwise be classified as financial assets at FVOCI or at amortized cost, an irrevocable designation can be made at initial recognition to instead measure the debt instrument as financial asset at FVTPL under the fair value option (FVO) if doing so eliminates or significantly reduces an accounting mismatch.

All equity investments are required to be measured in the statement of financial position at fair value through profit or loss, except that if an equity investment is not held for trading, an irrevocable election can be made at initial recognition to measure the investment at FVTOCI. Unlike AFS for equity securities under PAS 39, the FVTOCI for equities category results in all realized and unrealized gains and losses being recognized in OCI with no recycling to profit and loss. Only dividends will continue to be recognized in profit and loss.

The classification and measurement of financial liabilities remain essentially unchanged from the current PAS 39 requirements, except that changes in fair value of FVO liabilities attributable to changes in own credit risk are to be presented in OCI, rather than profit and loss.

As of December 31, 2018, the Bank continued to classify its financial assets based on the classification and measurement requirements per PAS 39. All financial assets that were classified as loans and receivables and measured as amortized cost under PAS 39 continue to be carried at amortized cost.

The Bank is still assessing the impact of adopting PFRS 9.

<u>Impairment methodology</u>
The impairment model under this standard reflects expected credit losses, as opposed to incurred credit losses under PAS 39. Under the impairment approach of this standard, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

As of December 31, 2018, the Bank continued to apply the requirements on impairment methodology based on Appendix 15 of the MORB, which provides arbitrary rates based on days past due, collaterals, and type of loan.

The Bank is still assessing the impact of adopting PFRS 9 on its debt investment securities.

Hedge accounting

The general hedge accounting requirements for this standard retain the three types of hedge accounting mechanism in PAS 39. However, greater flexibility has been introduce to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of economic relationships. Retrospective assessment of hedge effectiveness is no longer required. Far more disclosure requirements about an entity's risk management activities have been introduced.

The Bank has assessed that the requirements of PFRS 9 do not have any impact in its 2018 financial statements as the Bank does not apply hedge accounting.

3.03 New Standards and Amendments Issued but not yet Effective

The list below consists of standards and interpretations issued, which the Bank reasonably expects to be applicable at a future date. The Bank intends to adopt these standards when they become effective. Except as otherwise indicated, the Bank does not expect the adoption of these new and amended standards and interpretations to have significant impact on its financial statements.

New Standard Effective beginning on or after January 1, 2019

PFRS 16, Leases

Lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements. The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Association is currently assessing the impact of adopting PFRS 16.

Amendments Effective beginning on or after January 1, 2019

Amendments to PFRS 9, Financial Instruments – Prepayment Features with Negative Compensation

The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or FVOCI. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

Amendments to PAS 28, Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures

The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

Subject to Board of Accountancy's Approval

Amendments to PAS 19, Employee Benefits – Plan Amendment, Curtailment or Settlement

The measurement requires the current service cost and the net interest for the period after the remeasurement be determined using the assumptions used for the remeasurement if a plan amendment, curtailment or settlement occurs.

Annual Improvements to PFRS 2015 to 2017 Cycle

PFRS 3, Business Combinations and PFRS 11, Joint Arrangements – Previously Held Interest in a Joint Operation

The amendments clarify when an entity remeasures previously held interests in a business that is classified as a joint operation. If the entity obtains control, it remeasures previously held interests in that business. If the entity only obtains joint control, it does not remeasure previously held interests in that business.

PAS 12, Income Taxes – Income Tax Consequence of Payments on Financial Instruments classified as Equity

The amendments clarify that the requirements to recognize the income tax consequence of dividends where the transactions or events that generate distributable profits are recognized apply to all income tax consequences of dividends.

PAS 23, Borrowing Costs – Borrowing Costs Eligible for Capitalization

The amendments clarify that a specific borrowing that remains outstanding after the related asset is ready for its intended use becomes part of the general borrowings when calculating the capitalization rate on general borrowings.

Philippine Interpretation IFRIC 23 – Uncertainty over Income Tax Treatments

This addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The Bank is currently assessing the impact of adopting this interpretation.

Amendments Effective beginning on or after January 1, 2020 (subject to Board of Accountancy's Approval)

Amendments to PAS 1, Presentation of Financial Statements, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*

The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements. An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

PFRS 17, Insurance Contracts

PFRS 17 provides updated information about the obligation, risks and performance of insurance contracts, increases transparency in financial information reported by insurance companies, and introduces consistent accounting for all insurance contracts based on a current measurement model. The standard is effective for annual periods beginning on or after January 1, 2021. Early application is permitted but only if the entity also applies PFRS 9 and PFRS 15.

Deferred Effectivity

Amendments to PFRS 10, Consolidated Financial Statements and PAS 28, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

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

4. SIGNIFICANT ACCOUNTING POLICIES

Principal accounting and financial reporting policies applied by the Bank in the preparation of its financial statements are enumerated below and are consistently applied to all the years presented, unless otherwise stated.

4.01 Financial Assets

4.01.01 Initial Recognition of Financial Assets
Financial assets are recognized in the Bank's financial statements when the Bank becomes a party to the contractual provisions of the instrument. Financial assets are recognized initially at fair value. Transaction costs are included in the initial measurement of the Bank's financial assets, except for investments classified at fair value through profit or loss (FVTPL).

4.01.02 Classification of Financial Assets

The Bank classifies its financial assets, other than hedging instruments, in the following categories: fair value through profit or loss (FVTPL), loans and receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

The Bank has no financial assets at FVTPL and AFS financial assets as of December 31, 2018 and 2017.

Held-to-Maturity Investments (HTM)

HTM investments are quoted non-derivative financial asset with fixed and determinable payment and fixed maturities for which Bank's management has the positive intention and ability to hold maturity.

A financial asset shall be measured at amortized cost if both of the following conditions are met:

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

Realized gain and loss is recognized in the statement of income when the financial assets are derecognized or impaired and through the amortization process.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments (a) that are not quoted in an active market, (b) with no intention of trading, and (c) that are not designated as available for sale. They arise when the Bank provides money or services directly to a debtor/customer with no intention of trading the receivables. Loans and receivable are initially recorded at fair value and subsequently measured at amortized cost using the effective interest method, less impairment losses (allowance for allowance for probable losses). Allowance for impairment is made when there is objective evidence that the Bank will not be able to collect the amounts due to it in accordance with the original terms of the receivables.

The amount of impairment loss is determined as the difference between the assets carrying amount and the present value of estimated cash flows. Allowance for impairment is determined based on the Manual of Regulations for Banks (MORB). Bad debts are written off when identified and upon approval of the BSP. Since these loans and receivable are interest-bearing and reduced for any impairment, its carrying amount corresponds to its fair value.

The Bank's financial assets categorized as loans and receivables are presented as cash and cash equivalents, loans and receivables, and other assets.

a) *Cash and Cash Equivalents*

In the statement of cash flows, cash and cash equivalents includes cash and other cash items, amounts due from BSP and due from other banks with original maturities of three months or less from dates of placement and that are subject to insignificant risk of changes in value.

Cash and cash equivalents are valued at face value. If a bank holding the funds of the Bank is in bankruptcy or financial difficulty, cash and cash equivalents should be written down to estimated realizable value if the amount recoverable is estimated to be lower than the face amount.

The Bank recognizes each item of cash and cash equivalents as a current asset when the cash is not restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

b) Loans and Receivables

Loans and receivables include non-derivative financial assets with fixed and determinable payments that are not quoted in an active market and for which the Bank has no intention of trading. Loans and receivables are carried at amortized cost using the effective interest method less allowance for credit losses. Gains and losses are recognized in the statement of income when the loans and receivables are derecognized or impaired through the amortization process.

Loans and receivables are stated at the outstanding principal balance, reduced by unearned interest and discount and allowances for credit losses.

The allowance for credit losses, which includes both specific and general loan loss reserves, represents management's estimate of credit losses inherent in the portfolio, after consideration of prevailing and anticipated economic conditions, prior loss experience, estimated recoverable value based on fair market values of underlying collaterals and prospects of support from guarantors, subsequent collections and evaluation made by the Bangko Sentral ng Pilipinas (BSP).

Loans to members of the Bank's management, governing body, or parties related to them should be fully disclosed, including outstanding amount, interest rates, collateral and repayment status. Small loans generally available to all employees can be reported showing only the total amount, number, interest rate, and degree of late payment on such outstanding loans. Policies on both types of insider loans should be described precisely.

The allowance for credit losses is established through the provision for credit losses charge to current operation. Loans are written-off against the allowance for credit losses when management believes that the collection of the principal is unlikely.

The BSP approved the staggered booking of unbooked specific allowance for credit losses on loans and other risk assets, if any, over a period of five years based on the first general examination of the BSP from date of consolidation.

c) Other Assets

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

4.01.03 Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, when appropriate, a shorter period.

4.01.04 Offsetting Financial Instruments

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

4.01.05 Impairment of Financial Assets

Financial assets, other than those measured at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

The financial assets, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Bank's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans, where the carrying amount is reduced through the use of an allowance account. When a loan is considered uncollectible, it is written off against the allowance account. Such loans are written off after all the necessary procedures have been completed and the amount of loss has been determined.

Subsequent recoveries of amounts previously written off are recognized in the profit or loss as well the changes in the carrying amount of the allowance.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been, had the impairment not been recognized.

4.01.06 Derecognition

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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

4.02 Bank Premises, Furniture, Fixtures and Equipment (BPFFE)

Items of bank premises, furniture, fixtures and equipment are measured at cost less accumulated depreciation and impairment losses. The initial cost of bank premises, furniture, fixture and equipment comprises its purchased price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. The cost of self-constructed assets (normally leasehold improvement) includes the cost of material and direct labor, any other cost directly attributable to bringing the asset to a working condition for its intended use, and the cost of dismantling and removing the item and restoring the site which they are located.

Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and amortization and impairment losses are removed from the accounts and any resulting gain or loss is reflected in income for the period.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives of Bank premises, furniture, fixtures and equipment are:

Buildings	–	Up to 20 years
Furniture, Fixtures and Equipment	–	2 – 5 years

Leasehold improvements are depreciated over the shorter between the improvements' useful life of 10 years or the lease term.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. 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. When re-valued assets are sold, the amounts included in other reserves are transferred to retained earnings.

4.03 Intangible Assets

An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired is its fair value as of the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the statement of income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

4.04 Assets Held for Sale

Assets held for sale or the foreclosed assets, in the statement of financial position are accounted for at the lower of cost and fair value less cost to sell in accordance with PFRS 5 when the asset meets the criteria. The cost of assets held for sale includes the carrying amount of the loan less allowance for impairment at the time of foreclosure. Impairment loss is recognized for any subsequent write-down of the asset to fair value less cost to sell.

Foreclosed assets not classified as held for sale are accounted for in any of the following classification using the measurement basis appropriate to the asset as follows:
- Investment property is accounted for using the cost model under PAS 40;
- Bank-occupied property is accounted for using the cost model under PAS 16; and
- Financial assets are classified as available-for-sale.

4.05 Impairment of Non-financial Assets

At the end of each reporting period, the Bank assesses whether there is any indication that any of its tangible and intangible assets may have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. A reasonable and consistent basis of allocation can be identified, assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit (CGU) is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized as an expense. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed, if any. In respect of other assets, impairment losses recognized in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized as income.

4.06 Financial Liabilities and Equity Instruments

4.06.01 Classification as Financial Liability or Equity Instrument
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements.

4.06.02 Financial Liabilities
Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial Liabilities at FVTPL
Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:
- it has been acquired principally for the purpose of repurchasing it in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and PAS 39, Financial Instruments: Recognition and Measurement permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the statement of comprehensive income.

As of December 31, 2018 and 2017, the Bank has no financial liabilities at FVTPL.

Other Financial Liabilities
Other financial liabilities, including bills payable, deposit liabilities, accrued interest and other liabilities are initially measured at fair value inclusive of directly attributable transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

4.06.03 Equity Instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognized at the proceeds received, net of direct issue costs.

Capital stock
Common and preferred stock are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

Additional paid-in capital
Additional paid-in capital includes any premiums received on the initial issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of tax. The additional paid-in capital account is recorded on the Bank's statements of financial position as part of equity and cannot be returned to shareholders as dividends.

Surplus free
Surplus free represents all current and prior period results of operations as reported in the profit or loss section of the statement of comprehensive income, reduced by the amounts of dividend declared, if any.

Surplus reserve
Surplus reserve comprises reserve for expansion, sinking fund, allowance for credit losses and for redemption of preferred shares.

Other comprehensive income
Other comprehensive income comprises actuarial gains and losses, remeasurement losses and asset ceiling.

4.06.04 Derecognition of Financial Liabilities
The Bank derecognizes financial liabilities when and only when the Bank's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liabilities derecognized and the consideration paid is recognized in profit or loss.

4.07 Revenue and Expense Recognition

4.07.01 Revenue Recognition for Revenues within the scope of PFRS 15
Prior to January 1, 2018, under PAS 18, *Revenue*, revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is recognized to the extent that it is probable that the economic benefit will flow to the Bank and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable by the Bank for services provided in the normal course of business. In addition, the following specific recognition criteria must also be met before revenue is recognized.

Upon adoption of PFRS 15 beginning January 1, 2018, revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those services.

The Bank assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Bank has assessed that it is acting as principal in all arrangements.

The following specific recognition criteria must also be met before revenue is recognized:

Income from Assets Sold or Exchange
Income from assets sold or exchanged is recognized when the title to the assets is transferred to the buyer or when the collectability of the entire sales price is reasonably assured. This is included as part of "other operating income" account in the statement of profit or loss.

Fees, Commissions, and Other Income
Fees, commissions and other income are generally recognized on an accrual basis when the service has been provided. Penalties are recognized only upon collection or where there is a reasonable degree of certainty as to their collectibility.

4.07.02 Revenue Recognition for Revenues outside the scope of PFRS 15
For revenues outside the scope of PFRS 15, the following specific recognition criteria must also be met before revenue is recognized:

Interest Income
Interest income are recognized in the statements of comprehensive income for all interest-bearing financial instruments using the effective interest rate method, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, the net carrying amount of the financial asset or liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are integral part of the effective interest rate. The change in carrying amounts is recorded as "interest income".

In the case of past due accounts, interest income is recognized only upon the actual collection, as provided under existing BSP regulations.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Unearned discount is recognized as income over the terms of the receivables using the effective interest rate method and shown as deduction from loans.

4.07.03 Expense Recognition
Expenses are recognized in profit or loss when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in profit or loss:

- on the basis of a direct association between the costs incurred and the earning of specific items of income;
- on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or
- immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statements of financial position as an asset.

Interest expense are expenses incurred that are associated with the Bank's deposit liabilities and bills payable. Non-interest expenses are costs attributable to administrative, marketing, collection and other business activities of the Bank.

4.08 Borrowing Costs

Borrowing cost are generally expensed when incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset.

Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred, and ceases when the assets are ready for their intended use.

The Bank has no qualifying assets as of the reporting period.

4.09 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

4.09.01 The Bank as Lessee
Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except when another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except when another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

4.09.02 The Bank as Lessor
Property leased out under operating lease is included in investment property in the statement of financial position. Rental income under operating lease is recognized in profit or loss on a straight-line basis over the period of the lease.

4.10 Related Party Relationships and Transactions

Parties are considered related if one party has control, joint control, or significant influence over the other party in making financial and operating decisions. The key management personnel of the Bank, post-employment benefit plans for the benefit of Bank's employees, and close members of the family of any individuals owning directly or indirectly a significant voting power of the Bank, that gives them significant influence in the financial and operating policy decisions of the Bank, are also considered to be related parties.

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

4.11 Employee Benefits

Employee benefits are all forms of consideration given by the Bank in exchange for services rendered by employees, including directors and management.

4.11.01 Short Term Employee Benefits
The Bank recognizes a liability, net of amounts already paid, and an expense for services rendered by employees during the accounting period. Short-term benefits given by the Bank to its employees include salaries and wages, social security contributions, short-term compensated absences, bonuses, non-monetary benefits, and other short-term benefits.

4.11.02 Retirement Benefit Obligation
The determination of the Bank's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among other, discount rates, and expected salary rate increase. In accordance with PFRS, actual results that differ from assumptions are accumulated and amortized over the future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The retirement costs are determined on the basis of the Projected Unit Credit (PUC) actuarial cost method. This method reflects services rendered by employee to the date of valuation and incorporates assumptions concerning employees" projected salaries. Retirement costs include current service cost plus amortization of past service cost, experience adjustments, and changes in actuarial assumptions.

The revised PAS 19 renames actuarial gains and losses as 'remeasurements' and they will be recognized immediately in 'other comprehensive income'. Actuarial gains and losses can no longer be deferred using the corridor approach or recognized in profit or loss. As a result, this may cause volatility in the statement of financial position and other comprehensive income (OCI).

4.11.03 Termination Benefits
Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whether an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits when it is demonstrably committed to either: (a) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (b) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the reporting date are discounted to present value.

4.12 Income Tax

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

Deferred tax is accounted for using the liability method, on temporary differences at the end of 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 carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the 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 liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

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

4.13 Provisions

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and these 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 commitment that has resulted from past events, for example, legal disputes or onerous contracts.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset, not exceeding the amount of the related provision.

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.
In addition, long-term provisions are discounted to their present values, where time value of the money is material.

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

In those cases where the possible outflow of an 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.

Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements

4.14 Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

4.15 Events After the End of the Reporting Period

The Bank identifies events after the reporting date as events that occurred after the reporting date but before the date the financial statements were authorized for issue. Any event that provides additional information about the Bank's financial position at the reporting date is reflected in the financial statements. Non-adjusting events are disclosed in the notes to the financial statements when material.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Bank's financial statements prepared in accordance with Financial Reporting Standards in the Philippines requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates used are based upon management's evaluation of relevant facts and circumstances that are believed to be reasonable. Actual results could differ from such estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

5.01 Critical Judgments in Applying Accounting Policies

The following are the critical judgments, apart from those involving estimations, that management have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognized in financial statements.

5.01.01 Revenue and Expense Recognition
The Bank's revenue and expense recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenue and expense. The Bank's revenue and expense are recognized when earned or incurred, except interest on loans receivables on past due account which are recognized when collection is actually made as provided under existing BSP MORB.

5.01.02 Classifying Between Operating and Finance Lease
The Bank has entered into lease agreements as a lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements.

Rent expense of the Bank for the years ended December 31, 2018 and 2017 amounted to ₱5,311,787 and ₱4,864,405, respectively, as disclosed in Notes 24 and 26.

5.01.03 Determining Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 30.

5.01.04 Classification of Financial Assets Not Quoted in an Active Market

The Bank classifies financial assets by evaluating, among others, whether the assets is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

5.01.05 Recognition of Deferred Tax Assets

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

5.02 Key Sources of Estimation Uncertainty

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

5.02.01 Assessing Impairment on Loans and Receivables

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 customers, the customers' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience.

The carrying value of loans and other receivables and the analysis of allowance for credit losses on such financial assets are disclosed in Note 10.

5.02.02 Estimating Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, and Intangible Assets

The Bank estimates the useful lives of bank premises, furniture, fixture and equipment and intangible assets based on the period over which the assets are expected to be available for use. The estimate useful lives of of bank premises, furniture, fixtures and equipment and intangible 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. In addition, estimation of the useful lives of of bank premises, furniture, fixtures and equipment and investment properties are based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results operations could be materially affected by changes in estimates brought about by changes in factors and circumstances. A reduction in the estimated useful lives of of bank premises, furniture, fixtures and equipment and intangible assets would increase recorded operating expenses and decrease non-current assets.

5.02.03 Assessing Impairment on Non-financial Assets

Except for intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indicators are present. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are approximate and reasonable, significant changes in these assumptions may materially affect assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

The carrying amount of bank premises, furniture, fixtures and equipment amounted to ₱129,610,373 and ₱134,692,500 as of December 31, 2018 and 2017, respectively, as disclosed in Note 11. The carrying amount of assets held for sale amounted to ₱939,669 as of December 31, 2018 and 2017, as disclosed in Note 13.

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

The Bank recognized deferred tax assets amounting to ₱10,638,424 and ₱6,919,624 as of December 31, 2018 and 2017, respectively, as disclosed in Note 28.

6. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank is exposed to the following risks from its use of financial instruments:
- Credit risk
- Liquidity risk
- Interest/Market risks
- Operational risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Banks management of capital.

6.01 General Risk Management Principle

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The board has established the Bank's assets, liability, credit and operational risk committees, which are responsible for developing and monitoring Bank's risk management policies in their specific areas.

All board committees have executive and non-executive members and report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and control, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes to market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Bank's risk management committee is responsible for monitoring compliance with Bank's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risk faced by the Bank. The Bank's audit committee is assisted in these functions by the Internal Audit Department. The Compliance and Risk Management Departments also undertake both regular and ad-hoc reviews of risk management controls and procedures, the result of which are reported to the Audit Committee and/or the board.

In Philippine Peso

Generally, the maximum 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
Financial Assets			
Cash and other cash items	8	₱ **9,119,612**	₱ 9,111,624
Due from BSP	8	**30,658,844**	27,451,716
Due from other banks	8	**260,199,309**	260,337,845
Held-to-maturity investments	9	**15,225,283**	15,052,537
Loans and receivables – net	10	**843,700,586**	621,973,008
Other assets*	14	**37,745,908**	20,931,125
		₱ **1,196,649,542**	₱ 954,857,855

*except non-financial assets amounting to ₱48,678,291 and ₱36,042,370 as of December 31, 2018 and 2017, respectively

	Notes	2018	2017
Financial Liabilities			
Deposit liabilities	15	₱ **894,499,875**	₱ 833,704,825
Bills payable	17	**130,390,520**	–
Accrued interest expense	18	**5,360,550**	4,838,028
Other liabilities**	19	**59,492,065**	14,635,927
		₱ **1,089,743,010**	₱ 853,178,780

**excluding government-related payables and non-financial liabilities amounting to ₱1,225,794 and ₱3,780,596 as of December 31, 2018 and 2017, respectively

6.02 Credit Risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Bank. The Bank has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Bank defines counterparties as having similar characteristics if they are entities.

On-going credit evaluation is performed on the financial condition of loans and other receivable and, where appropriate, obtaining additional collateral is requested to cover the loans.

Also, the Bank manages its credit risk by depositing its cash with high credit quality banking institutions.

The carrying amount of financial assets recognized in the financial statements represents the Bank's maximum exposure to credit risk.

6.02.01 Credit Risk Exposure

The table below shows the gross maximum exposure to credit risk of the Bank as of the year ended December 31, 2018 and 2017, without considering the effects of credit risk mitigation techniques.

	Notes	2018	2017
Financial Assets			
Checks and other cash items	8	₱ **10,081**	₱ 1,491,054
Due from Bangko Sentral ng Pilipinas	8	**30,658,844**	27,451,716
Due from other banks	8	**260,199,309**	260,337,845
Held-to-maturity investments	9	**15,225,283**	15,052,537
Loans and receivables*	10	**877,817,141**	644,193,563
Other assets**	14	**37,745,908**	20,931,125
		₱ **1,221,656,566**	₱ 969,457,840

*gross of allowance amounting to ₱34,116,555 and ₱22,220,555 for the year ended December 31, 2018 and 2017, respectively
**except non-financial assets amounting to ₱48,678,291 and ₱36,042,370 as of December 31, 2018 and 2017, respectively

The Bank holds collateral against loans receivables in the form of real estate and chattel mortgages, and deposit hold outs over assets. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally updated every two years except when a loan is assessed to be impaired. Generally, collateral is held over loans and advances to the Bank. Collateral is not usually held against investment securities.

6.02.02 Management of Credit Risk

The Board of Directors has delegated primary responsibility for the management of credit risk to the Credit Department and supported by an independent unit, the Credit Risk Unit under the Risk Management Department. The overall credit risk management structure of the Bank takes into consideration the following controls, among others:

- Formulating credit policies in consultation with the business units, covering collateral requirements, credit assessment, risk scoring and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirement.
- Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to business unit Branch Managers and Area Heads. Larger facilities require approval by Credit Committee and/or the Board of Directors as appropriate.
- Reviewing and assessing credit risk. Bank credit committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentration of exposures to counterparties, geographies and industries (loans and advances), and by issuer, credit rating band, market liquidity.
- Developing and maintaining the Bank's credit risk scoring in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk scoring system is used in determining where impairment provisions may be required against specific credit exposures.
- Reviewing compliance with agreed exposure limit, including those for selected industries, and product types. Regular reports are provided to Bank management and the Board on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialized skills to business units to promote best practice throughout the Bank in the management of credit risk.
- Conducting weekly Credit Committee meeting and Branch Loan Committee meetings.

All personnel in-charge in lending is required to implement Bank credit policies and procedure, with credit approval authorities delegated from the Bank Credit Committee.

Regular audits of Credit Group and Bank Credit processes are undertaken by Internal Audit.

Impaired Loans and Receivables

Impaired loan and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to contractual terms of the loans/securities agreement(s).

Past Due but not Impaired Loans

Loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of amounts owed to the Bank.

Loans with Renegotiated Terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

Allowances for Credit Losses
The Bank establishes an allowance for credit losses that represent its estimate of incurred losses in its loan portfolio. The main component of this allowance are specific loss component that relates to individually significant exposures, and a collectives loan loss allowance established for groups of homogenous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-Off Policy
The Bank writes off a loan/security balance (and any related allowances for credit losses) when Bank determines that the loans/securities are finally uncollectible. This is determined after considering information like the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from the loan collateral will not be sufficient to pay back the entire exposure.

For smaller balance standardize loans, charge off decisions generally are based on a product specific past due status.

The Bank holds collateral against loans and receivables from customers/borrowers in the form of mortgage interest over property, other registered securities over assets and guarantees. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

Settlement Risk
The Bank's activities may give rise to risk at the time of settlement of transaction and trades. Settlement risk is the risk of loss due to the failure of a company to honor its obligations to deliver cash, securities or another asset as contractually agreed.

For certain types of transactions the Bank mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligation. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free settlement requires transaction specific or counterparty specific approval from Bank Risk.

6.02.03 Risk Concentration of the Maximum Exposure to Credit Risk
Concentrations arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions, concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location. Such credit risk concentrations, if not properly managed, may cause significant losses that could threaten the Bank's financial strength and undermine public confidence.

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6.02.04 Credit Quality of Financial Assets

The table below shows the credit quality by class of financial assets as of December 31, 2018 and 2017.

2018

	Neither past due nor impaired					
	High Grade	Standard Grade	Substandard Grade	Past due but not impaired	Impaired	Total
Cash and other cash items	9,119,612	–	–	–	–	9,119,612
Due from BSP	30,658,844	–	–	–	–	30,658,844
Due from other banks	260,199,309	–	–	–	–	260,199,309
Held-to-maturity (HTM)	15,225,283	–	–	–	–	15,225,283
Loans and receivables*	827,556,660	–	584,550	5,197,535	44,478,396	877,817,141
Other assets**	37,745,908	–	–	–	–	37,745,908
	1,180,505,616	–	584,550	5,197,535	44,478,396	1,230,766,097

*gross of allowance for credit losses amounting to ₱34,116,555.
**except non-financial assets amounting to ₱48,678,291.

2017

	Neither past due nor impaired					
	High Grade	Standard Grade	Substandard Grade	Past due but not impaired	Impaired	Total
Cash and other cash items	9,111,624	–	–	–	–	9,111,624
Due from BSP	27,451,716	–	–	–	–	27,451,716
Due from other banks	260,337,845	–	–	–	–	260,337,845
Held-to-maturity (HTM)	15,052,537	–	–	–	–	15,052,537
Loans and receivables*	574,145,185	–	21,014,387	11,886,353	37,147,638	644,193,563
Other assets**	20,931,125	–	–	–	–	20,931,125
	907,030,032	–	21,014,387	11,886,353	37,147,638	977,078,410

*gross of allowance for credit losses amounting to ₱22,220,555.
**except non-financial assets amounting to ₱36,042,370.

The credit risk arising from Due from BSP and other banks is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Due from other banks are insured by the Philippine Deposit Insurance Corporation (PDIC) up to a maximum coverage of ₱0.5 million per depositor per banking institution, as provided for under Republic Act No. 9576, Amendment to Charter of PDIC.

High grade cash on hand and in banks and working capital cash fund placed, invested, or deposited in local banks belonging to the top ten (10) banks in the Philippines in terms of resources and profitability. Other high grade accounts are accounts considered to be high value. The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits.

Standard grade accounts are active accounts with minimal to regular instances of payment default, due to ordinary/common collection issues. These accounts are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly.

Substandard grade accounts are accounts which have a probability of impairment based on historical trend. These accounts show propensity to default in payment despite regular follow-up and extended payment terms.

In Philippine Peso

Past due but not impaired accounts are accounts which are not paid upon maturity but typically not impaired as counterparties continuously respond to the Bank's credit actions.

Included in this account category are those accounts provided with less than 50% allowance for credit losses.

Impaired accounts are those accounts that are under litigation and those provided with 100% allowance since collections from counterparties are considered unrealizable.

6.02.05 Aging Analysis
An aging analysis of the Bank's loans and receivables as of December 31, 2018 and 2017 is as follows:

	2018	2017
Outstanding loans and receivables:*		
Current accounts	₱ **828,141,210**	₱ 595,159,572
Past due accounts:		
1 – 30 days past due	**90,916**	4,247,139
31 – 60 days past due	**1,384,112**	2,716,588
61 – 90 days past due	**1,623,356**	2,299,481
over 90 days past due	**46,577,547**	39,770,783
	₱ **877,817,141**	₱ 644,193,563

receivables at gross amount of allowance for credit losses amounting to ₱34,116,555 and ₱22,220,555 for the years ended December 31, 2018 and 2017, respectively

6.02.06 Impairment Assessment
The Bank recognizes impairment losses based on the results of the specific/individual and collective assessment of its credit exposures. Impairment has taken place when there is a presence of known difficulties in the servicing of cash flows by counterparties, infringement of the original terms of the contract has happened, or when there is an inability to pay principal or interest overdue beyond a certain threshold. These and the other factors constitute observable events and/or data that meet the definition of an objective evidence of impairment.

The two methodologies applied by the Bank in assessing and measuring impairment include: (1) specific/individual assessment; and (2) collective assessment. Under specific/individual assessment, the Bank assesses each individual significant credit exposure for any objective evidence of impairment, and where such evidence exists, accordingly calculates the required impairment.

Among the items and factors considered by the Bank when assessing and measuring specific impairment allowances are: (a) the timing of the expected cash flows; (b) the projected receipts or expected cash flows; (c) the going concern of the counterparty's business; (d) the ability of the counterparty to repay its obligations during financial crises; (e) the availability of other sources of financial support; and (f) the existing realizable value of collateral. The impairment allowances, if any, are evaluated as the need arises, in view of favourable or unfavourable developments.

With regard to the collective assessment of impairment, allowances are assessed collectively for losses on receivables that are not individually significant and for individually significant receivables when there is no apparent or objective evidence of individual impairment.

A particular portfolio is reviewed on a periodic basis, in order to determine its corresponding appropriate allowances. The collective assessment evaluates and estimates the impairment of the portfolio in its entirety even though there is no objective evidence of impairment on an individual assessment.

Impairment losses are estimated by taking into consideration the following deterministic information: (a) historical losses/write offs; (b) losses which are likely to occur but has not yet occurred; and (c) the expected receipts and recoveries once impaired.

In Philippine Peso

6.03 Liquidity Risk

Liquidity risk is the risk that the Bank might encounter difficulty in meeting obligation from its financial liabilities.

6.03.01 Management of Liquidity Risk
The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Bangko Sentral ng Pilipinas receives information from other business units regarding the liquidity profile of their financial assets and liabilities and detailed of other projected cash flows arising from projected future business. BSP then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to Banks and other inter-Bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity positions monitored and regular liquidity testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedure are subject to review and approval by the Board of Directors. Daily reports cover the liquidity position of the Bank.

6.03.02 Exposure to Liquidity Risk
The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposit from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade securities (if available) for which there is an active and liquid market less any deposit from Banks and other borrowing and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the Bank's lead regulator.

The tables below summarize maturity profile of the Bank's financial assets and liabilities as of the year ended December 31, 2018 and 2017:

2018	Within 1 Year	1 – 5 Years	Over 5 Years	Total
Financial Assets:				
Cash and other cash items	₱ 9,119,612	₱ –	₱ –	₱ 9,119,612
Due from Bangko Sentral ng Pilipinas	30,658,844	–	–	30,658,844
Due from other banks	260,199,309	–	–	260,199,309
Held-to-maturity investment	15,225,283	–	–	15,225,283
Loans and receivables*	654,791,744	186,161,121	36,864,276	877,817,141
Other assets**	37,745,908	–	–	37,745,908
	₱ 1,007,740,700	₱ 186,161,121	₱ 36,864,276	₱ 1,230,766,097

*gross of allowance for credit losses amounting to ₱34,116,555.
**except non-financial assets amounting to ₱48,678,291

2018	Within 1 Year	1 – 5 Years	Over 5 Years	Total
Financial Liabilities:				
Deposit liabilities	₱ 875,300,304	₱ 19,199,571	₱ –	₱ 894,499,875
Bills payable	130,390,520	–	–	130,390,520
Accrued interest payable	4,408,318	952,232	–	5,360,550
Other liabilities*	59,492,065	–	–	59,492,065
	₱ 1,069,591,207	₱ 20,151,803	₱ –	₱ 1,089,743,010

*excluding government-related payables and non-financial liabilities amounting to ₱1,225,794

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2017	Within 1 Year	1 – 5 Years	Over 5 Years	Total
Financial Assets:				
Cash and other cash items	₱ 9,111,624	₱ –	₱ –	₱ 9,111,624
Due from Bangko Sentral ng Pilipinas	27,451,716	–	–	27,451,716
Due from other banks	260,337,845	–	–	260,337,845
Held-to-maturity investment	15,052,537	–	–	15,052,537
Loans and receivables*	259,424,785	331,937,413	52,831,365	644,193,563
Other assets**	20,931,125	–	–	20,931,125
	₱ 592,309,632	₱ 331,937,413	₱ 52,831,365	₱ 977,078,410

**gross of allowance for credit losses amounting to ₱22,220,555*
***except non-financial assets amounting to ₱36,042,370*

2017	Within 1 Year	1 – 5 Years	Over 5 Years	Total
Financial Liabilities:				
Deposit liabilities	₱ 813,070,451	₱ 20,634,374	₱ –	₱ 833,704,825
Bills payable	–	–	–	–
Accrued interest payable	3,471,924	1,366,104	–	4,838,028
Other liabilities*	14,635,927	–	–	14,635,927
	₱ 831,178,302	₱ 22,000,478	₱ –	₱ 853,178,780

**excluding government-related payables and non-financial liabilities amounting to ₱3,780,596*

6.04 Market Risks

Market risk is the risk that changes in the market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

6.04.01 Management of Market Risk

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Investment Banking unit, and include positions arising from market making and propriety position taking, together with financial assets and liabilities that are managed on a fair values basis.

The management of interest rate risk against interest gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios.

Interest Rate Risk

Interest rate risk is the risk to the earning or capital resulting from adverse movements in the interest rates. The Bank is exposed to interest rate risk since its financial assets and financial liabilities have fixed and variable rates.

The Bank closely monitors the movements of interest rates in the market and reviews its asset and liability structure to ensure that exposures to fluctuations in interest rates are kept within acceptable limits. Interest rate risk management comes in the forms of proper matching of asset and liability products in terms of tenor, yield and interest rate sensitivity.

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The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate assets and liabilities, the analysis is prepared assuming the amount of the financial assets and liabilities outstanding at the end of the reporting period was outstanding for the whole year. A 10% increase or decrease is used when reporting interest rate risk internally to key management personnel and this represents management's assessment of the reasonably possible changes in interest rates.

2018		Amount	Average Interest rate	10% Increase		Net effect
Interest income						
Due from other banks	₱	473,223	0.18%	0.018%	₱	85
Held-to-maturity financial assets		1,148,593	2.20%	0.220%		2,527
Loans receivables		146,945,245	17.42%	1.742%		2,559,786
		148,567,061				**2,562,398**
Interest expense						
Deposit liabilities		14,637,477	1.64%	0.164%		24,005
Loans payable		3,362,308	5.35%	0.535%		17,988
		17,999,785				**41,993**
Net interest income	₱	**130,567,276**			₱	**2,520,405**
Effect on equity					₱	**1,764,284**

2017		Amount	Average interest rate	10% increase		Net effect
Interest income						
Due from other banks	₱	529,911	0.20%	0.020%	₱	106
Held-to-maturity financial assets		805,143	1.86%	0.186%		1,498
Loans receivables		125,948,325	20.25%	2.025%		2,550,454
		127,283,379				2,552,058
Interest expense						
Deposit liabilities		13,765,099	1.65%	0.165%		22,712
Loans payable		2,566,250	4.50%	0.450%		11,548
		16,331,349				34,260
Net interest income	₱	110,952,030			₱	2,517,798
Effect on equity					₱	1,762,459

There is no material impact of changes in interest rates on equity for the years ended December 31, 2018 and 2017.

6.05 Operational Risks

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

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

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The primary responsibility for the development and implementation of control to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

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

Compliance with Bank standards is supported by a program of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the Bank, with summaries to the Audit Committee and senior management of the Bank.

7. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Set out below is a comparison by category and by class of carrying and fair values of all the Bank's financial assets and financial liabilities as of the year ended December 31, 2018 and 2017:

			Fair Value		
2018	Carrying Value	Total	Quoted (Unadjusted) Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
ASSETS					
Cash and other cash items	9,119,612	9,119,612	–	9,119,612	–
Due from Bangko Sentral ng Pilipinas	30,658,844	30,658,844	–	30,658,844	–
Due from other banks	260,199,309	260,199,309	–	260,199,309	–
Held-to-maturity investments	15,225,283	15,225,283	–	15,225,283	–
Loans and receivable – net	843,700,586	843,700,586	–	843,700,586	–
Other assets*	37,745,908	37,745,908	–	37,745,908	–
	1,196,649,542	1,196,649,542	–	1,196,649,542	–
LIABILITIES					
Deposit liabilities	894,499,875	894,499,875	–	894,499,875	–
Bills payable	130,390,520	130,390,520	–	130,390,520	–
Accrued interest payable	5,360,550	5,360,550	–	5,360,550	–
Other liabilities**	59,492,065	59,492,065	–	59,492,065	–
	1,089,743,010	1,089,743,010	–	1,089,743,010	–

**except non-financial assets amounting to ₱48,678,291*
***excluding government-related payables and non-financial liabilities amounting to ₱1,225,794*

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2017	Carrying Value	Total	Fair Value: Quoted (Unadjusted) Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
ASSETS					
Cash and other cash items	9,111,624	9,111,624	–	9,111,624	–
Due from Bangko Sentral ng Pilipinas	27,451,716	27,451,716	–	27,451,716	–
Due from other banks	260,337,845	260,337,845	–	260,337,845	–
Held-to-maturity investments	15,052,537	15,052,537	–	15,052,537	–
Loans and receivable – net	621,973,008	621,973,008	–	621,973,008	–
Other assets*	20,931,125	20,931,125	–	20,931,125	–
	954,857,855	954,857,855	–	954,857,855	–
LIABILITIES					
Deposit liabilities	833,704,825	833,704,825	–	833,704,825	–
Bills payable	–	–	–	–	–
Accrued interest payable	4,838,028	4,838,028	–	4,838,028	–
Other liabilities**	14,635,927	14,635,927	–	14,635,927	–
	853,178,780	853,178,780	–	853,178,780	–

**except non-financial assets amounting to ₱36,042,370*
***excluding government-related payables and non-financial liabilities amounting to ₱3,780,596*

The fair values of financial assets and financial liabilities measured at amortized cost approximates their carrying values either because these instruments are short-term in nature or the effect of discounting for those with maturities of more than one year is not material.

As of December 31, 2018 and 2017, there are no transfers between Level 1 and Level 2 fair value measurement.

7.01 Fair Value Hierarchy

The Bank uses the following hierarchy as guide for determining fair value of financial instruments:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchange;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3: Inputs for the asset or liability that are not based on observable market data (observable inputs). This level includes equity investment (if any) and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Bank has no assets or liabilities classified under Level 3.

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8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

		2018		2017
Cash and other cash items:				
Cash in vault	₱	9,109,531	₱	7,620,570
Checks and other cash items		10,081		1,491,054
		9,119,612		9,111,624
Due from Bangko Sentral ng Pilipinas		30,658,844		27,451,716
Due from other banks		260,199,309		260,337,845
	₱	299,977,765	₱	296,901,185

This account covers funds and other deposits maintained with local depository universal/commercial banks primarily to facilitate checks or other similar payment orders, clearing and collections and other banking services between banks.

Cash and other cash items include cash on hand and checks and other cash items. Cash on hand are actual cash in vault and while checks and other cash items include those checks still in the possession of the Bank awaiting for deposits.

Due from BSP is the balance of demand deposit maintained in compliance with the BSP requirement for rural banks to maintain reserves on savings and time deposits and on certain deposit and deposit substitute liabilities.

Reserves against deposit liabilities for rural banks shall be 3% for both savings and time deposits and 5% for demand deposits.

On top of the regular reserve requirements, legal reserves against Peso demand deposit, savings, and time deposit and deposit substitutes shall be 0% for rural banks.

As of December 31, 2018 and 2017, the Bank has been compliant with the reserve requirement as set by the BSP.

Due from other banks comprise of savings deposits bear interest rates ranging from 0.25% to 0.50% and time deposits having interest rates ranging from 0.875% to 1.75% for 2018 and 2017.

Interest earned on deposits on local banks amounted to ₱473,223 and ₱529,911 for the years ended December 31, 2018 and 2017, respectively.

9. HELD-TO-MATURITY INVESTMENTS

This consists of Small and Medium Enterprise Note (SME Note) from Small Business Corporation (SB Corporation) as of December 31, 2018 and 2017 invested by the Bank as an alternative compliance to mandatory credit allocation.

		2018		2017
MSME Note for Small Enterprise	₱	8,305,026	₱	8,750,670
MSME Note for Medium Enterprise		6,920,257		6,301,867
	₱	15,225,283	₱	15,052,537

In Philippine Peso

Movements of the account are disclosed below:

	2018	2017
Balance at January 1	₱ 15,052,537	₱ 14,906,106
Additions	15,225,283	15,052,537
Redemptions	(15,052,537)	(14,906,106)
Balance at December 31	₱ 15,225,283	₱ 15,052,537

Held-to-maturity investments bear interest rate of 1.50% for small and medium enterprise note.

Interest earned on held-to maturity investment for the years ended December 31, 2018 and 2017 amounted to ₱1,148,593 and ₱805,143, respectively.

10. LOANS AND RECEIVABLES – net

The Bank's loan and receivables consist of:

	2018	2017
Current loans	₱ 857,010,375	₱ 624,589,397
Past due loans	47,573,184	47,256,184
Items in litigation	2,170,782	2,285,462
Total loans and receivables	906,754,341	674,131,043
Unamortized interests and discounts	(28,937,200)	(29,937,480)
	877,817,141	644,193,563
Allowance for credit losses	(34,116,555)	(22,220,555)
	₱ 843,700,586	₱ 621,973,008

Total earned interest amounted to ₱146,945,245 and ₱125,948,325 for the years ended December 31, 2018 and 2017, respectively

Breakdown of loan portfolio as of December 31, 2018 and 2017:

	2018	2017
Loans and discount	₱ 598,317,904	₱ 405,607,116
Agrarian reform/other agricultural credit	264,907,139	221,815,066
Microfinance loans	14,505,340	16,491,807
Development incentive loan	86,758	279,574
	877,817,141	644,193,563
Allowance for credit losses	(34,116,555)	(22,220,555)
	₱ 843,700,586	₱ 621,973,008

Average interest rates (%) of loans and receivables as of December 31 are as follows:

	2018	2017
Loans and discounts	14.21	14.86
Agrarian reform/other agricultural credit	17.78	18.01
Development incentive loans	17.00	14.31
Microfinance loans	25.66	25.17

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The maturity profile of the Bank's loan portfolio follows (net of unamortized discounts):

	2018	2017
Within one year	₱ 236,343,259	₱ 259,424,785
Beyond one year but within five years	598,507,861	331,937,413
Beyond five years	42,966,021	52,831,365
	₱ 877,817,141	₱ 644,193,563

Disclosure as to industry is as follows (net of unamortized discounts):

	2018		2017	
	Amount	%	Amount	%
Agriculture, forestry, and fishing	₱ 265,819,066	30.28%	₱ 223,238,006	34.65%
Wholesale and retail trade repair of motor vehicles, motorcycles	38,471,630	4.38%	33,656,349	5.22%
Education	4,058,462	0.46%	4,662,758	0.73%
Human health and social work activities	25,527,413	2.91%	12,400,039	1.92%
Household consumption	480,231,080	54.71%	308,997,565	47.97%
Others	63,709,490	7.26%	61,238,846	9.51%
	₱ 877,817,141	100.00%	₱ 644,193,563	100.00%

The BSP considers that concentration of credit exist when total loan exposure to a particular industry or economic sector exceeds 30% of total loan portfolio.

The Bank is exposed to credit risk concentration on household consumption being 54.71% and 47.97% of the total loan portfolio as of December 31, 2018 and 2017, respectively, and on agriculture, forestry and fishing being 30.28% and 34.65% of the total loan portfolio as of December 31, 2018 and 2017, respectively.

Breakdown of loans as to secured and unsecured, and secured loan as to type security as of December 31, 2018 and 2017 are as follows: (net of unamortized discounts)

	2018	2017
Secured by real estate mortgage	₱ 42,829,428	₱ 38,206,782
Secured by chattel mortgage	75,482,911	42,817,890
Secured by other collateral	129,951,617	126,841,095
Secured	248,263,956	207,865,767
Unsecured	629,553,185	436,327,796
	₱ 877,817,141	₱ 644,193,563

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The changes in the allowance for credit losses on loans for the years ended December 31, 2018 and 2017:

	Consumer	Commercial	Agri-Agra	Microfinance	Total
Balance, December 31, 2016	₱ 11,343,473	₱ 720,107	₱ 12,789,148	₱ 1,170,363	₱ 26,023,091
Provision for credit losses	1,449,090	54,841	2,987,336	1,983,685	6,474,952
Write-off*	(3,030,809)	–	(6,593,151)	(653,315)	(10,277,275)
Adjustment	–	–	(213)	–	(213)
Balance, December 31, 2017	₱ 9,761,754	₱ 774,948	₱ 9,183,120	₱ 2,500,733	₱ 22,220,555
Provision for credit losses	4,750,874	1,550,757	5,379,292	215,077	11,896,000
Balance, December 31, 2018	₱ 14,512,628	₱ 2,325,705	₱ 14,562,412	₱ 2,715,810	₱ 34,116,555

**Approved by the Board on October 12, 2017*

Breakdown of the allowance for credit losses on loans as to specific and general are disclosed below:

2018	**Consumer**	**Commercial**	**Agri-Agra**	**Microfinance**	**Total**
Specific loan loss provision	₱ 9,656,029	₱ 1,419,777	₱ 12,149,152	₱ 2,379,461	₱ 25,604,419
General loan loss provision	4,856,599	905,928	2,413,260	336,349	8,512,136
Total allowance for credit losses	**₱ 14,512,628**	**₱ 2,325,705**	**₱ 14,562,412**	**₱ 2,715,810**	**₱ 34,116,555**

2017	Consumer	Commercial	Agri-Agra	Microfinance	Total
Specific loan loss provision	₱ 6,581,315	₱ 76,437	₱ 7,163,595	₱ 2,338,072	₱ 16,159,419
General loan loss provision	3,180,439	698,511	2,019,525	162,661	6,061,136
Total allowance for credit losses	₱ 9,761,754	₱ 774,948	₱ 9,183,120	₱ 2,500,733	₱ 22,220,555

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Allowance for credit losses consisted of a specific component and a general unallocated component. For consumer loans, the specific reserve is based on an aging formula. Specific reserve for corporate loans is based on the classification of the individual loans, in accordance with the guidelines set by the BSP.

Specific reserves are supplemented by a general allowance for loans not covered by specific reserves, which is likewise in line with the BSP guidelines.

In the ordinary course of business, the Bank may enter into loan and other transactions with certain directors, officers, stockholders and related interests (DOSRI). Under the Bank's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risk.

In compliance with the regulations of the BSP, the Bank strictly adheres to the setting up the valuation allowance for risk assets. The Bank reviews the quality of its loan portfolio and prepares a quantitative classification of its risks assets including loans.

During 2018 and 2017, the Bank has followed its own Loan Loss Methodology (LLM) which adheres to Appendix 15 of the MORB except for the computation of allowance for accounts classified as "Loss", computed as follows:

Loan Type/Segments	Individually Assessed	Collectively Assessed
DepEd APDS	67.07%	73.59%
Microfinance Loans	96.73%	89.65%
Agricultural Loans	89.03%	85.51%
Autonomous Schools	85.69%	87.86%
Barangays	97.48%	83.86%
BB Loan	98.44%	84.25%
Small and Medium Scale Enterprise	100.00%	100.00%
Private Institution	58.73%	88.28%
Government	69.86%	79.67%
Individual	96.43%	97.38%
LGU	95.90%	64.84%
Other Micro Enterprise Loans	96.94%	96.80%
Private School	100.00%	100.00%

The figures above are taken from the Bank's historical data, analyzed and computed based on the acceptable formulas of computing recoveries. The Bank has taken into account the recommendations of the BSP based on their evaluation of the LLM. The latest version of the Bank's own LLM has been submitted to the BSP and was acknowledged by the latter on December 5, 2017.

On August 20, 2014, the Bank received a letter from BSP allowing the staggered booking of unbooked specific allowance for credit losses on loans and other risk assets, if any, for a period of 5 years based on the first general examination by BSP of the Consolidated Bank.

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Details of the Bank's unbooked allowance for credit losses against its own LLM and Appendix 15 of the MORB as of December 31, 2018 and 2017 are disclosed below:

2018		**Per Bank's own LLM**		**Per Appendix 15**
Required allowance	₱	49,162,185	₱	54,144,159
Booked allowance		(34,116,555)		(34,116,555)
Unbooked allowance		15,045,630		20,027,604
Balance of unbooked allowance covered by staggered booking		(11,091,000)		(11,091,000)
	₱	**3,954,630**	₱	**8,936,604**

2017		Per Bank's own LLM		Per Appendix 15
Required allowance	₱	44,573,567	₱	47,265,939
Booked allowance		(22,220,555)		(22,220,555)
Unbooked allowance		22,353,012		25,045,384
Balance of unbooked allowance covered by staggered booking		(16,621,000)		(16,621,000)
	₱	5,732,012	₱	8,424,384

10.01 Past Due Loans

Past due loans of a bank shall, as a general rule, refer to all accounts in its loan portfolio, all receivable components of trading account securities and other receivables, which are not paid at maturity.

Latest MORB as of December 31, 2017 defined the classification of past due loans as follows:

As a general rule, loans, investments, receivables, or any financial asset, including restructured loans, shall be considered past due when any principal and/or interest or installment due, or portions thereof, are not paid at their contractual date, in which case, the total outstanding balance thereof shall be considered past due.

However, BSFIs may provide a cure period on a credit product-specific basis, not to exceed thirty (30) days within which to allow the obligors or borrowers to catch up on their late payment without being considered as past due: Provided, That any cure period policy shall be based on verifiable collection experience and reasonable judgment that support tolerance of occasional payment delays: Provided further, That the observance of a cure period policy shall not preclude the timely adverse classification of an account that has developed material credit weakness/es, and that BSFIs shall regularly review the reasonableness of its cure period policy. For microfinance and other small loans that feature high frequency payments, the cure period allowable by policy shall not exceed ten (10) days.

Any amounts set aside in respect of losses on loans and advances in addition to those losses that have been specifically identified or potential losses which experience indicates to be present in the portfolio of loans and advances are accounted for as appropriations from retained earnings. Any credits resulting from the reduction of such amounts result in an increase in retained earnings and are not included in the determination of net profit or loss for the period.

The allowance is increased by provisions charged to expenses and reduced by write-offs and reversals.

In Philippine Peso

10.02 Non-Performing Loans

Breakdown of non-performing loans (based on Circular 941) based on days outstanding are as follows:

		2018		2017
Past due accounts:				
Less than 30 days	₱	**196,767**	₱	2,731,650
30 – 60 days		**129,968**		2,656,250
61 – 90 days		**61,713**		2,299,481
91 – 180 days		**3,813,337**		5,702,968
Over 180 days		**42,758,960**		34,067,815
	₱	**46,960,745**	₱	47,458,164

As of December 31, 2018 and 2017, non-performing loans (NPLs) not fully covered by allowance for credit losses are as follows:

		2018		2017
Total Non-performing loans	₱	**46,960,745**	₱	47,458,164
Non-performing loans covered by allowance for credit losses		**(24,806,202)**		(14,808,385)
	₱	**22,154,543**	₱	32,649,779

Latest MORB as of December 31, 2017 defined non-performing loans (NPLs) as follows:

Loans, investments, receivables or any financial asset shall be considered non-performing, even without missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than 90 days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due.

Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

The Bank has restructured loans receivable amounting to ₱460,141 and ₱1,126,752 as of December 31, 2018 and 2017, respectively.

Information regarding the Bank's non-performing loans is as follows:

	2018	2017
Ratio of gross NPLs to gross TLP (%)	**5.25%**	7.37%
Ratio of net NPLs to gross TLP (%)	**2.52%**	5.07%
Ratio of total allowance for credit losses to gross NPLs (%)	**72.65%**	46.82%
Ratio of specific allowance for credit losses on gross TLP to gross NPLs (%)	**54.52%**	34.05%

In Philippine Peso

11. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT – net

The carrying amounts of bank premises, furniture, fixtures and equipment for the years ended December 31, 2018 and 2017 are as follows:

2018	Land	Building and Improvements	Furniture, Fixtures and Equipment	Total
Cost:				
At January 1	₱ 23,346,053	₱ 137,149,805	₱ 62,490,727	₱ 222,986,585
Additions	–	2,353,552	6,923,541	9,277,093
Disposal	(1,950,000)	(2,890,905)	(1,470,660)	(6,311,565)
December 31	**21,396,053**	**136,612,452**	**67,943,608**	**225,952,113**
Accumulated depreciation:				
At January 1	–	31,835,809	56,458,276	88,294,085
Depreciation (Note 24)	–	7,335,851	3,893,748	11,229,599
Disposal	–	(1,710,451)	(1,470,660)	(3,181,111)
Adjustments	–	(833)	–	(833)
December 31	–	37,460,376	58,881,364	96,341,740
Carrying value	₱ 21,396,053	₱ 99,152,076	₱ 9,062,244	₱ 129,610,373

2017	Land	Building and Improvements	Furniture, Fixtures and Equipment	Total
Cost				
At January 1	₱ 23,346,053	₱ 130,509,897	₱ 59,873,235	₱ 213,729,185
Additions	–	3,061,224	4,063,552	7,124,776
Disposal	–	–	(32,500)	(32,500)
Adjustments	–	3,578,684	(1,413,560)	2,165,124
December 31	23,346,053	137,149,805	62,490,727	222,986,585
Accumulated depreciation				
At January 1	–	21,386,047	52,560,435	73,946,482
Depreciation (Note 24)	–	7,238,737	5,377,877	12,616,614
Disposal	–	–	(32,500)	(32,500)
Adjustments	–	3,211,025	(1,447,536)	1,763,489
December 31	–	31,835,809	56,458,276	88,294,085
Carrying value	₱ 23,346,053	₱ 105,313,996	₱ 6,032,451	₱ 134,692,500

The Bank assesses at each financial reporting date whether there is an indication that an item of bank premises, furniture, fixtures and equipment may be impaired, and believes that there is no such indication as of December 31, 2018 and 2017.

No bank premises, furniture, fixtures and equipment were used as collateral for liabilities as at December 31, 2018 and 2017.

All additions were paid in cash.

As of December 31, 2018 and 2017, the Bank has no commitment to purchase bank premises, furniture, fixtures and equipment.

In 2018, the Bank disposed some of its bank premises, furniture, fixtures and equipment with carrying amount of ₱3,130,454 for ₱3,525,398, resulting to a gain on sale of ₱394,944, as disclosed in Note 23.

In 2017, the Bank disposed some of its furniture, fixtures and equipment with carrying amount of nil for ₱1,176, resulting to a gain on sale of ₱1,176, as disclosed in Note 23.

In Philippine Peso

Under Section 109 of the MORB, investments in bank premises, furniture, fixtures and other equipment should not exceed 50% of a Bank's unimpaired capital. As of December 31, 2017, the Bank has complied with this provision.

12. INTANGIBLE ASSETS – net

The carrying amounts of the Bank's intangible assets for the years ended December 31, 2018 and 2017 are as follow:

	Note		2018		2017
Cost					
At January 1		₱	**8,666,836**	₱	4,929,289
Additions			**1,857,816**		4,291,423
Adjustments			–		(553,876)
			10,524,652		8,666,836
Accumulated amortization					
At January 1			**3,760,224**		3,290,367
Amortization	24		**978,633**		642,926
Adjustments			**833**		(173,069)
			4,739,690		3,760,224
Carrying value		₱	**5,784,962**	₱	4,906,612

13. ASSETS HELD FOR SALE – net

Included in this account as of December 31, 2018 and 2017:

		2018		2017
At January 1	₱	**1,173,180**	₱	1,221,778
Reclassifications		–		(48,598)
At December 31		**1,173,180**		1,173,180
Allowance for impairment loss		**(233,511)**		(233,511)
Carrying value	₱	**939,669**	₱	939,669

Assets held for sale represent real and other properties acquired (ROPA) other than those used for banking purposes acquired by the Bank in settlement of loans and which are intended for sale later by the Bank usually on installment basis. The properties acquired in settlement of loans are taken up at their recorded balances of the total Bank's claim at foreclosure date (unpaid face amount less any recorded allowance for credit losses).

Strategies of the Bank relative to disposal of assets held for sale are as follows:

1. Publishing of ROPA accounts in the Bank's website
2. Entertaining walk-in and inquiries
3. Updating of ROPA appraisal
4. Updating of communication with previous owners
5. Consider tie-ups with real estate developers

The Bank plans to dispose thirty percent (30%) of its ROPA by 2019.

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14. OTHER ASSETS

Below is the composition of the Bank's other assets as of December 31, 2018 and 2017.

	Note	2018	2017
Sinking fund redeemable preferred shares		₱ 37,060,123	₱ 28,141,263
Accounts receivable		33,920,404	14,636,740
Accrued interest receivable		5,144,360	7,114,241
Retirement benefit asset	25	2,765,605	2,765,605
Stationery and supplies on hand		1,386,340	1,335,402
Prepaid expenses		5,197,700	1,068,333
Bond sinking fund		152,669	152,669
Petty cash fund		26,000	25,000
Others		2,115,854	2,579,098
		87,769,055	57,818,351
Allowance for credit losses – accounts receivable		(1,344,856)	(844,856)
Total		₱ 86,424,199	₱ 56,973,495

The changes in the allowance for credit losses – accounts receivable for the years ended December 31, 2018 and 2017 are disclosed below:

	2018	2017
At January 1	₱ 844,856	₱ 581,753
Provisions	500,000	263,103
At December 31	₱ 1,344,856	₱ 844,856

Accounts receivable consists mainly of amount due from AGFP claims and amount due from the previous Bank's owners as a result of acquisition of RB Ocampo by RB Camalig.

Others refer to the Bank's souvenir and promotional items.

15. DEPOSIT LIABILITIES

This account represents depositor's accounts consisting of savings, time and non-reserve deposits as shown below:

	2018	2017
Savings	₱ 808,228,300	₱ 760,328,322
Demand	63,855,240	52,058,094
Time	22,416,335	21,318,409
	₱ 894,499,875	₱ 833,704,825

Savings deposits are interest bearing and are withdrawable on demand upon presentation of a properly accomplished withdrawal slip, which is usually accompanied by a passbook.

Time certificate of deposits is interest bearing, has specific maturity dates, and is evidenced by certificates issued by the Bank to depositors/clients.

Interest rates per annum provided to deposits as of December 31, 2018 and 2017 are as follows:

Type	Range
Savings	0.25% – 0.75% per annum
Time	1.25% – 3.50% per annum

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Demand deposits are non-interest bearing.

Interest expense on deposit liabilities charged to profit or loss for the years ended December 31, 2018 and 2017 amounted to ₱14,637,477 and ₱13,765,099, respectively.

Under the Section 251 of the MORB, savings deposits, time deposits, and demand deposits of the Bank are subject to statutory reserve equivalent to 3.0%, 3.0% and 5.0%, respectively.

As of December 31, 2018 and 2017, the Bank's reserves are maintained in the form of Due from BSP.

Available reserves as of December 31, 2018 and 2017 are as follows:

	2018		2017	
	Rate	**Amount**	Rate	Amount
Savings	3%	**₱ 24,246,849**	3%	₱ 22,809,850
Time	3%	**672,490**	3%	639,552
Demand	5%	**3,192,762**	5%	2,602,905
Total		**28,112,101**		26,052,307
Due from BSP (Note 8)		**30,658,844**		27,451,716
Excess reserves		**₱ (2,546,743)**		₱ (1,399,409)

16. DUE TO THE TREASURER OF THE PHILIPPINES

This refers to all credits and deposits, including interest thereon, held by the bank in favor of persons known to be dead or who have not made further deposits or withdrawals during the preceding ten (10) years or more, which have been reported to the Treasurer of the Philippines pursuant to the provisions of the Unclaimed Balances Act (Act No. 3936, as amended). These credits and deposits, including interest thereon, shall remain in this account up to the time the proceeds thereof have been remitted under court order to the Treasurer of the Philippines or other parties.

As of December 31, 2018 and 2017, the Bank has due to the Treasurer of the Philippines amounting to ₱99,081.

17. BILLS PAYABLE

This account pertains to borrowings from the BSP and Land Bank of the Philippines (LBP) amounting to ₱130,390,520 and nil as of December 31, 2018 and 2017, respectively.

Movements of the account are disclosed below:

	2018	2017
Balance at January 1	₱ –	₱ 95,000,000
Availments	**139,105,790**	–
Payments	**(8,715,270)**	(95,000,000)
Balance at December 31	**₱ 130,390,520**	₱ –

Interest rates (%) of bills payable ranges from 5.20% to 5.50% per annum in 2018 and 4.50% per annum in 2017.

The average payment terms of these bills payable is one (1) year. The promissory notes of loans and receivables amounting to ₱130,390,520 and ₱95,000,000 are pledged as security for the related bills payable as of December 31, 2018 and 2017, respectively.

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Interest expense on bills payable charged to profit or loss for the years ended December 31, 2018 and 2017 amounted to ₱3,362,308 and ₱2,566,250, respectively.

18. ACCRUED TAXES, INTEREST AND OTHER EXPENSES

Included in this account as of December 31, 2018 and 2017 are the following:

		2018		2017
Accrued interest expense	₱	**5,360,550**	₱	4,838,028
Accrued expenses		**7,131,845**		2,100,033
	₱	**12,492,395**	₱	6,938,061

Accrued interest expense consists of:

		2018		2017
Savings deposits	₱	**2,582,230**	₱	2,837,179
Time deposits		**2,039,291**		2,000,849
Borrowings – BSP		**5,925**		–
Borrowings – LBP		**733,104**		–
	₱	**5,360,550**	₱	4,838,028

Accrued expenses pertain to expenses already incurred but not yet incurred such as rentals, utilities, and bonuses.

19. OTHER LIABILITIES

The Bank's other liabilities consist of:

		2018		2017
Accounts payable	₱	**59,492,065**	₱	14,635,927
Withholding tax payable		**603,127**		731,246
SSS, Medicare, employer's compensation premiums and PAG-IBIG contribution payable		**314,644**		158,522
Unearned income		**308,023**		315,029
Rebates payable		–		2,525,484
SSS salary loan payable		–		19,783
Others		–		30,532
	₱	**60,717,859**	₱	18,416,523

Accounts payable includes the advance loan remittances from borrowers, retention fee for the construction of corporate site and other payables.

20. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has loans and other transactions with certain directors, officers, stakeholders and related interests (DOSRI). Under the Bank's policy, these loans and other transactions are made substantially on the terms as with other individuals and businesses of comparable risks. The General Banking Act and BSP regulations limit the amount of the loans to each DOSRI as follows:

a. The individual ceiling for credit accommodations of a bank to each of its DOSRI shall be equivalent to his outstanding deposits and book value of his paid-in capital in the lending bank. The unsecured credit accommodations to each of the Bank's directors and officers shall not exceed 30% of his total credit accommodations.

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b. The aggregate ceiling for credit accommodations, whether direct or indirect, to DOSRI of a bank shall not exceed 15% of the total loan portfolio of the Bank or its combined capital accounts net of deferred income tax, unbooked valuation reserves and other capital adjustments required by the BSP, whichever is lower. The total unsecured direct and indirect borrowings of directors and officers shall not exceed 30% of the aggregate ceiling or the outstanding direct/indirect credit accommodations thereto, whichever is lower.

20.01 Related Party Transactions

20.01.01 DOSRI Loans
The Bank has no DOSRI loans as of December 31, 2018 and 2017.

For the years ended December 31, 2018 and 2017, the Bank is in full compliance with the General Banking Act and the Bangko Sentral ng Pilipinas (BSP) regulations on DOSRI loans. The outstanding balance of fringe benefit loans to employees under the Bank's Fringe Benefit Loans Program approved by the BSP amounted to ₱8,173,769 and ₱6,063,092 as of December 31, 2018 and 2017, respectively.

20.01.02 Deposits from DOSRI
Details of deposits from related parties as of December 31, 2018 and 2017 are shown below:

		2018		2017
Time and savings deposits	₱	**25,375,762**	₱	36,536,662

Interest on DOSRI deposits are within the approved Board Rates ranging from 0.25% to 3.50%.

20.01.03 Real Estate Transactions with DOSRI
On August 25, 2018, the stockholders, through Stockholders Resolution No.2018/07, approved the sale of the Bank's property in Virac to FC Moraleda Corporation amounting to ₱3,200,000 covered by TCT Nos. 15020 and 14969. The stockholders also approved that the Bank lease the said property by paying a monthly rental amounting to ₱33,750, net of tax, for a period of 10 years starting October 1, 2018.

The Bank is also leasing properties for its operations from its lessor, AMMIN Holdings, Inc. Real estate transactions with DOSRI were reported to the BSP.

Rent expense recognized from its related party transactions amounted to ₱1,138,579 and ₱1,032,000 for the years ended December 31, 2018 and 2017, respectively.

20.01.04 Other Related Party Transactions
Management and professional fees incurred by the Bank from its related parties amounted to ₱90,000 for the years ended December 31, 2018 and 2017.

20.02 Remuneration of Key Management Personnel

The key management compensation for the years ended December 31, 2018 and 2017 are composed of:

		2018		2017
Directors' fees	₱	**1,263,743**	₱	1,255,556
Key management personnel compensation, salaries, and other short-term benefits		**19,096,287**		18,541,465
	₱	**20,360,030**	₱	19,797,021

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21. CAPITAL STOCK

The issued capital of the Bank for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
Preferred stock	₱ 45,000,000	₱ 45,000,000
Common stock	172,552,200	172,552,200
	217,552,200	217,552,200
Additional paid-in capital	90,914	90,914
	₱ 217,643,114	₱ 217,643,114

21.01 Preferred Stock

Shown below are the details on the movements of common stock for the years ended December 31, 2018 and 2017:

	2018		2017	
	Shares	**Amount**	Shares	Amount
Authorized shares ₱100 par value	1,300,000	₱ 130,000,000	1,300,000	₱ 130,000,000
Issued and fully paid, at ₱100 par value				
Balance, beginning	450,000	₱ 45,000,000	450,000	₱ 45,000,000
Issuances	-	-	-	-
Balance, December 31	450,000	₱ 45,000,000	450,000	₱ 45,000,000

21.02 Common Stock

Shown below are the details on the movements of common stock for the years ended December 31, 2018 and 2017:

	2018		2017	
	Shares	**Amount**	Shares	Amount
Authorized shares At ₱100 par value	3,500,000	₱ 350,000,000	3,500,000	₱ 350,000,000
Issued and fully paid, at ₱100 par value				
Balance, beginning	1,725,522	₱ 172,552,200	1,724,002	₱ 172,400,200
Issuances	-	-	1,520	152,000
Balance, December 31	1,725,522	₱ 172,552,200	1,725,522	₱ 172,552,200

Common stocks carry one vote per share and a right to dividend.

On October 12, 2017, the Bank redeemed the redeemable preferred shares and replaced it by 1,510 common shares. Also, on February 7, 2017, ten (10) shares of stock were awarded to one of the Bank's employee.

21.03 Capital Management

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

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The Bank manages its capital structure, which is composed of paid-up capital and surplus reserve, and makes adjustments to these ratios in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital structure or issue capital securities.

Under current banking regulations, the combined capital accounts of a Bank should not be less than an amount equal to ten percent (10%) of its risk assets. Risk assets consists of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board of the BSP.

As of December 31, 2018 and 2017, the Bank is in compliance with current banking 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 of the Bank 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. deferred income tax.

b. Tier 2 Capital includes:
   i. paid up perpetual cumulative preferred stock,
   ii. general loan loss provision,

   Subject to deductions for:
   i. sinking fund for redemption of limited life redeemable preferred stock with the replacement requirement upon redemption.

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

Information regarding the Bank's "unimpaired capital" for the years ended December 31, 2018 and 2017 is shown below.

	2018 In (000,000's)	2017 In (000,000's)
Tier 1 Capital	₱ 236.21	₱ 226.98
Tier 2 Capital	16.45	22.92
Net qualifying capital	₱ 252.66	₱ 249.90
Total risk-weighted assets	₱ 1,364.65	₱ 1,108.30
Total capital adequacy ratio	18.52%	22.55%

In Philippine Peso

22. SURPLUS

22.01 Surplus Reserve

For the years ended December 31, 2018 and 2017, surplus reserve has the following composition:

	2018	2017
At January 1	₱ 21,119,439	₱ 21,119,439
Appropriation of surplus free	18,000,000	–
At December 31	₱ 39,119,439	₱ 21,119,439

On April 21, 2018, the Board of Directors, through Board Resolution No. 2018/70 approved to set aside ₱18,000,000 from surplus free to surplus reserves for the redemption of preferred shares.

22.02 Surplus Free

The table below shows the surplus free for the years ended December 31, 2018 and 2017.

	2018	2017
At January 1	₱ 37,963,046	₱ 28,569,734
Appropriation of surplus free	(18,000,000)	–
Profit	12,959,257	9,393,312
At December 31	₱ 32,922,303	₱ 37,963,046

The Bank's surplus is not subject and is exempt from the provision of improperly accumulated earnings tax as provided under Section 29 of National Internal Revenue Code of the Philippines and as implemented by Revenue Regulation 02-2001, and Section 34 Republic Act No. 8791 requiring banks to maintain a specific minimum Capital Adequacy Ratio (CAR).

23. OTHER OPERATING INCOME

The account is composed of the following other operating income:

	Note	2018	2017
Commissions		₱ 18,723,757	₱ 18,805,149
Recovery of charged-off assets		4,365,339	3,068,985
Service charges		3,374,133	3,348,282
Loan penalty income		1,888,008	2,068,797
Gain on sale of non-financial assets	11	394,944	1,176
Miscellaneous income		3,232,246	3,497,414
		₱ 31,978,427	₱ 30,789,803

Recovery of charged-off assets pertains to the collection of accounts previously written-off.

Miscellaneous income includes rental income and other income from sale of Bank's souvenir and promotional items.

In Philippine Peso

24. OTHER OPERATING EXPENSES

The account is composed of the following other operating expenses:

	Notes	2018	2017
Compensation and benefits		₱ 63,591,839	₱ 59,600,724
Depreciation	11	11,229,599	12,616,614
Security and janitorial		9,602,381	7,403,868
Rent	26	5,311,787	4,864,405
Power, light and water		4,185,044	3,375,359
Postage, telephone, cables		3,756,310	3,495,668
Travelling expense		3,647,420	3,213,284
Fuel and lubricants		3,269,901	2,589,133
Insurance		3,038,706	2,907,913
Stationery and supplies used		1,774,874	1,471,099
Repairs and maintenance		1,644,858	1,341,650
Staff development		1,605,637	1,350,671
Taxes and licenses		1,578,831	1,029,612
Documentary stamps tax		1,404,537	542,768
Representation and entertainment		1,209,004	1,272,834
Management and other professional fee		1,188,316	1,658,398
Amortization	12	978,633	642,926
Advertising and publicity		845,076	795,050
Banking supervision fees		221,522	196,351
Information technology expense		140,711	199,968
Membership fees		111,223	98,413
Litigation expenses on assets acquired		70,911	150,069
Periodicals and magazines		25,617	22,608
Fines, penalties and charges		2,000	89,031
Miscellaneous expenses		11,610,091	11,241,723
		₱ 132,044,828	₱ 122,170,139

Miscellaneous expenses pertain to high volume with relatively small value expenses such as cashier and teller allowances, guarantee fees and other expenses.

Compensation and benefits include:

	Note	2018	2017
Salaries and allowances		₱ 58,947,798	₱ 53,390,261
SSS, Medicare & employees' compensation premium and PAG-IBIG contributions		3,380,298	2,901,520
Directors' and committee member's fees		1,263,743	1,255,556
Retirement benefit expense	25	-	2,053,387
		₱ 63,591,839	₱ 59,600,724

25. RETIREMENT BENEFIT OBLIGATION

The Bank's retirement plan is non-contributory and of the defined benefit type which provides a retirement benefit from eighty percent (80%) up to one hundred fifty percent (150%) of final monthly pay for every year of credited service. Benefits are paid in a lump sum upon retirement or separation in accordance with the terms of the plan.

The most recent actuarial valuations of plan assets and the present value of the retirement benefit obligation were carried out at December 31, 2017 by E.M. Zalamea Actuarial Services, Inc. The present value of the retirement benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

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The movement in the net asset recognized in the statements of financial position is as follows:

	2018	2017
At January 1	₱ (2,765,605)	₱ –
Defined benefit income – OCI	–	(4,818,992)
Retirement benefit expense – profit or loss	–	2,053,387
At December 31 (Note 14)	₱ (2,765,605)	₱ (2,765,605)

The present value of the retirement benefit obligations is as follows:

	2018	2017
At January 1	₱ 18,413,084	₱ 17,329,106
Current service cost	–	2,050,687
Actuarial gain – experience	–	(941,027)
Interest expense	–	935,772
Actuarial gain – changes in financial assumption	–	(861,454)
Benefits paid	–	(100,000)
At December 31	₱ 18,413,084	₱ 18,413,084

The fair value of the plan asset is as follows:

	2018	2017
At January 1	₱ 21,379,050	₱ 17,329,106
Remeasurement gain	–	3,216,872
Interest income	–	933,072
Benefits paid	–	(100,000)
At December 31	₱ 21,379,050	₱ 21,379,050

Amounts recognized in profit or loss in respect of this retirement benefit plans are as follows:

	2018	2017
Current service cost	₱ –	₱ 2,050,687
Interest expense	–	935,772
Interest income	–	(933,072)
	₱ –	₱ 2,053,387

Amounts recognized in other comprehensive income (loss) are as follows:

	2018	2017
At January 1	₱ 1,339,668	₱ (2,033,626)
Origination:		
Remeasurement gain	–	3,216,872
Actuarial gain – experience	–	941,027
Actuarial gain – changes in financial assumptions	–	861,454
Asset ceiling	–	(200,361)
Total OCI for the year	–	4,818,992
Tax effect at 30%	–	(1,445,698)
OCI for the year, net of tax	–	3,372,294
Cumulative OCI at December 31, net of tax	₱ 1,339,668	₱ 1,339,668

In Philippine Peso

The funding status of the retirement benefit plan is disclosed below:

	2018	2017
Present value of defined benefit obligation	₱ 18,413,084	₱ 18,413,084
Fair value of the plan assets	(21,379,050)	(21,379,050)
Funding status – Surplus	₱ (2,965,966)	₱ (2,965,966)

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

The assumptions used to determine retirement benefits of the Bank are as follows:

	2018	2017
Discount rate	5.70%	5.70%
Salary rate increase	5.00%	5.00%

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 bonds 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.

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.

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.

The allocation of the fair value of plan assets at the end of the reporting period by category is presented below.

	2018		2017	
	%	Amount	%	Amount
Cash and cash equivalents	1.28	272,372	1.28	₱ 272,372
Equity instruments	46.74	9,945,828	46.74	9,945,828
Debt instruments – government bonds	17.18	3,655,741	17.18	3,655,741
Debt instruments – other bonds	25.73	5,475,099	25.73	5,475,099
Unit investments trust funds	6.87	1,461,871	6.87	1,461,871
Others	2.20	468,139	2.20	468,139
Total	100.00	21,279,050	100.00	₱ 21,279,050

The information on the sensitivity analysis and the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation are described below:

	Impact on Retirement Benefit Obligation		
2018	Change in Assumption	Increase in Assumption	Decrease in Assumption
Discount rate	+/- 1.0%	–	–
Salary growth rate	+/- 1.0%	–	–

In Philippine Peso

	Impact on Retirement Benefit Obligation		
2017	Change in Assumption	Increase in Assumption	Decrease in Assumption
Discount rate	+/- 1.0%	(2,512,424)	3,099,207
Salary growth rate	+/- 1.0%	2,889,597	(2,399,868)

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be a 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.

The retirement assets are valued by the fund manager at fair value using the mark-to-market valuation. While no significant changes in asset allocation are expected in the next financial year, the Retirement Plan Trustee may make changes at any time.

The expected future benefit payments are as follows:

Financial Year		
2019	₱	**748,108**
2020		**523,909**
2021		**1,132,757**
2022		**665,101**
2023-2027		**9,493,685**

26. OPERATING LEASE AGREEMENTS

The Bank has several lease agreements which are renewable under certain terms and conditions. The rentals are included as part of Depreciation/Amortization, rent and other equipment-related expenses.

On March 8, 2011, the Bank entered into a lease agreement with the owner of the building Bonacua Commercial Building, located at Guevara St., San Roque, Iriga City. The leased premise is currently being used by the Bank's unit in Iriga City.

The lease contract for the Tabaco City branch was entered into by the Bank for a 25-year lease contract with Ms. Nelia A. Ziga for a monthly rental of ₱50,000 from 1st to 2nd year with a 5% escalation beginning on the 4th year up to the 10th subject to renegotiation on the renewal of the contract. The contract was renewed on August 8, 2018 subject to 5% annual increase based on the original contract.

On March 15, 2014, lease contract with the owner of Royal and Park Square and Commercial Complex was entered by the Bank for a 102 sq. meter commercial space for its Daraga Office with monthly rental of ₱44,000 subject to a 10% increase in the fourth year of the contract. Contract is renewable.

Lease contract was also entered by the Bank with the owner of South Sea Construction and Development Corporation on February 1, 2013 to expire on December 31, 2022, renewable upon mutual agreement of both parties for a portion of property consisting of the ground floor containing an area of 125 sq. meters with monthly rental of ₱25,000 subject to a 5% increase annually starting on the fourth year of the contract. Leased premise is for the use of the Bank's Bulan office.

On July 1, 2014, a 10-year lease contract was also entered by the Bank with AMMIN Holdings for the ground floor containing an area of 144 sq. meters of the building located at Penaranda Street, Legazpi City. Monthly rental is ₱39,500, inclusive of VAT, less withholding tax. Same is subject to a 5% annual increase beginning on the 6th year of the contract. Leased premise is for the use of the Bank's Legazpi office.

Certain parcel of real property situated at the Municipality of Irosin commonly known as V& R BALDERAMA BLDG units 100A and 100B was also leased by the Bank from Jelly Balderama-Ereno, owner, for the use of its Irosin office. Contract is for 5 years commencing on December 1, 2014 and ends on November 31, 2019. Monthly rental is ₱22,500, not subject to any escalation rate.

Building containing 145.72 sq. meters office space located at Rizal Street, Barangay 5, Centro Camalig Albay was also leased by the Bank from AMMIN Holdings for the use of its Camalig Office. Contract is for 10 years commencing from January 1, 2014 to December 31, 2023 with ₱39,000 monthly rental, inclusive of VAT and other taxes subject to 5% increase annually beginning on the 6th year or January 1, 2019 applied on the base rent of ₱39,000. An additional office space was also leased by the Bank from the same lessor starting July 1, 2015 to December 31, 2023 for an additional monthly rental of ₱7,500.

Portion of commercial building located at Vinzon's Avenue Brgy. Gahonon, Daet Camarines Norte containing an area 92 sq. meters was also leased by the Bank from Mona Liza A. Arandia, lessor, for the use of its Daet office. The lease is for 10 years commencing on November 16, 2015 to November 15, 2025. Monthly rental is ₱23,000 net of taxes, which shall be increased by ₱1,000 annually beginning on the 3rd year or November 16, 2017. The escalation of ₱1,000 will stop on the 9th year until the end of the contract on the 10th year.

The Bank also leased a building from Carl Anthony Clores, lessor, located at Zurbito corner Domingo Streets, Barangay Pating, Masbate City, containing an area of 120 sq. meters for 10 years commencing from August 16, 2010 to August 15, 2020 renewable upon mutual agreement of both parties. Monthly rental is ₱30,000, inclusive of VAT but exclusive of applicable withholding taxes, and subject to 5% increase on the monthly rental beginning on the 4th year up to the 10th year.

The Bank leased a building in Brgy. Piot, Sorsogon City to be used as its new office in Sorsogon City. Monthly rental amounted to ₱42,000.

A building located at Cumadcad, Castilla, Sorsogon was leased by the Bank beginning March 1, 2018 for a period of 10 years, for the use of its Castilla office. Monthly rent per contract amounted to ₱15,000, with 10% increase on the 4th year and every two (2) years thereafter.

The Bank also leased a building located at Cataingan, Masbate at a monthly rate of ₱12,000. Terms of the lease contract included 10% increase in rent every two (2) years . The leased property will be used for the Bank's Cataingan office.

Also, as disclosed in Note 20, the Bank sold a property to FC Moraleda Corporation and subsequently leased the property at monthly rate of ₱33,750, net of tax, for a period of 10 years starting October 1, 2018. Terms of the lease contract included 10% increase on the 2nd year and every two (2) years thereafter.

Rent expense recognized in the statement of comprehensive income amounted to ₱5,311,787 and ₱4,864,405 for the years ended December 31, 2018 and 2017, respectively as disclosed in Note 24.

In Philippine Peso

At the reporting date, the future minimum lease payment under non-cancellable operating leases is as follows:

		2018		2017
Not later than one year	₱	**5,114,050**	₱	4,617,023
Later than one year and not later than five years		**16,947,725**		13,232,162
Later than five years		**2,786,125**		14,173,417
	₱	**24,847,900**	₱	32,022,602

27. INCOME TAXES

Under Philippine tax laws, the Bank is subject to percentage and other taxes (included in taxes and licenses in the comprehensive income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp tax. The Bank's liability will be based on regulations to be issued by tax authorities.

Income taxes include the corporate income tax, discussed below, and final tax paid which represents the final withholding tax on gross interest income from government securities and other deposit substitutes. These income taxes, as well as the deferred tax benefits and provisions, are presented as provision for income tax in the statements of income.

Under current tax regulations, the applicable income tax rate is thirty percent (30%). Interest allowed as a deductible expense is reduced by an amount equivalent to thirty three percent (33%) of interest income subjected to final tax. Also, entertainment, amusement and recreation (EAR) expense is limited to one percent (1%) of net revenues, as defined, for sellers of services beginning September 1, 2002.

The Bank's liability for income tax is based on existing tax laws and BIR regulations. However, income tax expense as shown on the statement of position is determined under the provision of PAS 12 *Income Taxes*. Under PAS 12, income tax expense is the sum of current tax expense computed under tax laws and deferred tax expense determined through the use of balance sheet liability method. Deferred tax expense is the sum of changes in deferred tax asset and deferred tax liability. The balance sheet liability method focuses on temporary differences. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the statement of financial position. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

27.01 Income Tax Recognized in Profit or Loss

Components of income tax expense are as follows:

		2018		2017
Income tax expense – current	₱	**8,864,418**	₱	3,169,039
Income tax expense (benefit) – deferred		**(3,718,800)**		271,288
	₱	**5,145,618**	₱	3,440,327

In Philippine Peso

A numerical reconciliation between tax expense and the product of accounting profit multiplied by the tax rate for the years ended December 31, 2018 and 2017 is as follows:

	2018	2017
Accounting profit	₱ **18,104,875**	₱ 12,833,639
Tax expense at 30%	**5,431,463**	3,850,092
Tax effect of:		
Interest income subject to final tax	**(486,545)**	(400,516)
Non-deductible interest expense	**200,700**	165,213
Recognition of previously unrecognized deferred tax asset on allowance for credit losses – accounts receivable	–	(174,526)
Reversal of previously recognized deferred tax asset on allowance for credit losses – loans receivable	–	64
	₱ **5,145,618**	₱ 3,440,327

28. **DEFERRED TAXES**

28.01 Deferred Tax Assets

The components of the Bank's deferred tax assets and liabilities and their respective movements for the years ended December 31, 2018 and 2017 are as follow:

	Allowance for credit losses		
	Loans receivable	**Accounts receivable**	**Total**
Balance, December 31, 2016	₱ 7,806,928	₱ –	₱ 7,806,928
Recognition in profit or loss			
Origination	1,942,486	78,931	2,021,417
Reversal	(3,083,183)	–	(3,083,183)
Recognition of previously unrecognized DTA	–	174,526	174,526
Reversal of previously recognized DTA	(64)	–	(64)
Balance, December 31, 2017	6,666,167	253,457	6,919,624
Recognition in profit or loss			
Origination	3,568,800	150,000	3,718,800
Balance, December 31, 2018	₱ **10,234,967**	₱ **403,457**	₱ **10,638,424**

28.02 Deferred Tax Liability

Details of the Bank's deferred tax liability are as follows:

	2018	2017
Beginning	₱ **(829,682)**	₱ –
Origination in P&L – retirement benefit expense	–	616,016
Origination in OCI – remeasurement gain	–	(1,445,698)
	₱ **(829,682)**	₱ (829,682)

In Philippine Peso

29. BASIC QUANTITATIVE INDICATORS OF FINANCIAL PERFORMANCE

The Bank's key financial performance indicators follow (% in general average):

	2018	2017
Return on average equity	**4.55%**	4.70%
Return on average assets	**0.99%**	1.11%
Net interest margin	**15.34%**	11.63%
Risk-based capital adequacy ratio	**18.52%**	22.55%

30. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

In the normal course of the Bank's operations, there are various outstanding commitments and contingent liabilities which are not reflected in the accompanying financial statements. Management believes that as of December 31, 2018 and 2017, losses, if any, which may arise from these commitments and contingent liabilities, will not have any material effect on the Bank's financial statements.

The following is a summary of the Bank's contingent accounts as of December 31, 2018 and 2017:

	2018	2017
Items held as collateral	**412**	494

31. EVENTS AFTER THE END OF THE REPORTING PERIOD

No events after the date of the statement of financial position were identified in these financial statements that provide evidence of conditions that existed at the date of the statement of financial position (adjusting events after the date of the statement of financial position) and that were indicative of conditions that arose after the date of the statement of financial position (non-adjusting events after the date of the statement of financial position.

32. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorized for issue by the Board of Directors on April 11, 2019.

33. SUPPLEMENTARY INFORMATION UNDER REVENUE REGULATIONS 15-2010

Revenue Regulations (RR) No. 21-2002 prescribing additional procedural and/or documentary requirements in connection with the preparation and submission of financial statements accompanying income tax returns was amended under RR 15-2010. The amendment that became effective on December 28, 2010 requires the inclusion in the notes to financial statements, information on taxes, duties and license fees paid or accrued during the year in addition to what is required under the Philippine Financial Reporting Standards and such other standards and/or conventions.

Below is the additional information required by RR 15-2010. This information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

In Philippine Peso

33.01 Gross Receipts Tax (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.

	2018	2017
Gross receipts tax	₱ –	₱ –

Per Rural Bank Act No. 7353, Sec.15, All rural banks created and organized under the provisions of this Act shall be exempt from the payment of all taxes, fees and charges of whatever nature and description, except the corporate income tax and local taxes, fees and charges, for a period of five (5) years from the date of commencement of operations. The application for exemption per Board Resolution No.2015/136 was already approved.

33.02 Withholding Taxes

Withholding taxes paid and accrued during the year are as follows:

2018	Paid	Accrued	Total
Expanded withholding tax	₱ 666,524	₱ 55,346	₱ 721,870
Withholding tax on compensation	1,354,252	233,564	1,587,816
Final withholding tax	2,948,784	283,177	3,231,961
	₱ 4,969,560	₱ 572,087	₱ 5,541,647

2017	Paid	Accrued	Total
Expanded withholding tax	₱ 798,010	₱ 89,895	₱ 887,905
Withholding tax on compensation	4,261,829	383,205	4,645,034
Final withholding tax	2,409,205	258,146	2,667,351
	₱ 7,469,044	₱ 731,246	₱ 8,200,290

33.03 Taxes and Licenses

Other taxes and licenses paid and accrued during 2018 and 2017 are as follows:

	2018	2017
Permit fees	₱ 1,000,463	₱ 754,493
Others	578,368	275,119
	₱ 1,578,831	₱ 1,029,612

34. SUPPLEMENTARY INFORMATION UNDER REVENUE REGULATIONS 19-2011

Revenue Regulation No. 19-2011 was issued to prescribe the new BIR forms that will be used for Income Tax filing covering and starting with December 31, 2011. In case of the corporations using BIR form 1702, the tax payer is now required to include as part of its notes to the audited financial statements, which will be attached to the income tax return (ITR), the schedules and information on taxable income and deductions to be taken. The information is presented for the purposes of filing with the BIR and is not required part of the basic financial statements

The following are the schedules prescribed under existing revenue issuances applicable to the Bank for the year ended December 31, 2018:

CAMALIG BANK, INC. (A RURAL BANK)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
In Philippine Peso

34.01 Interest Income

The breakdown of the Bank's interest income consists of:

	Per financial statements	Per income tax return
Interest income on loans	₱ 146,945,245	₱ 146,945,245
Interest on investments	1,148,593	–
Interest on bank deposits	473,223	–
	₱ 148,567,061	₱ 146,945,245

34.02 Cost of Services

The breakdown of deductible cost of services consists of:

	Per financial statements	Per income tax return
Personnel costs – direct	₱ 32,634,152	₱ 32,634,152
Interest expense	17,999,785	17,330,785
Insurance – PDIC	1,735,047	1,735,047
Supervision fees	221,522	221,522
	₱ 52,590,506	₱ 51,921,506

34.03 Other Operating Income

Details of operating and taxable other income consists of:

	Per financial statements	Per income tax return
Commissions	₱ 18,723,757	₱ 18,723,757
Recovery of charged off assets	4,365,339	4,365,339
Service charges	3,374,133	3,374,133
Rental income	2,338,528	2,338,528
Loan penalty income	1,888,008	1,888,008
Gain on sale of non-financial assets	394,944	394,944
Miscellaneous income	893,718	893,718
	₱ 31,978,427	₱ 31,978,427

CAMALIG BANK, INC. (A RURAL BANK)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
In Philippine Peso

34.04 Allowable Deductions

Deductible costs and expenses consist of:

	Per financial statements	Per income tax return
Compensation and fringe benefits	₱ 30,957,687	₱ 30,957,687
Depreciation	11,229,599	11,229,599
Security and janitorial	9,602,381	9,602,381
Rent	5,311,787	5,311,787
Power, light and water	4,185,044	4,185,044
Postage, telephone, cables	3,756,310	3,756,310
Travelling expense	3,647,420	3,647,420
Fuel and lubricants	3,269,901	3,269,901
Stationery and supplies used	1,774,874	1,774,874
Repairs and maintenance	1,644,858	1,644,858
Staff development	1,605,637	1,605,637
Taxes and licenses	1,578,831	1,578,831
Documentary stamps tax	1,404,537	1,404,537
Insurance – others	1,303,659	1,303,659
Representation and entertainment	1,209,004	1,209,004
Management and other professional fee	1,188,316	1,188,316
Amortization	978,633	978,633
Advertising and publicity	845,076	845,076
Information technology expense	140,711	140,711
Membership fees	111,223	111,223
Litigation expenses on assets acquired	70,911	70,911
Periodicals and magazines	25,617	25,617
Fines, penalties and charges	2,000	2,000
Miscellaneous expenses	11,610,091	11,610,091
	97,454,107	97,454,107
Provision for credit losses	12,396,000	–
	₱ **109,850,107**	₱ **97,454,107**

Practitioner's Compilation Report

HERBERT M. LANIP, CPA

Block 217 Lot 12 Lotus Extension, Pembo, Makati City

PRACTITIONER'S COMPILATION REPORT

To the Management
CAMALIG BANK, INC. (A RURAL BANK)
Rizal Street, Ilawod East, Legazpi City

I have compiled the accompanying financial statements of **CAMALIG BANK, INC. (A RURAL BANK)** based on information you have provided. These financial statements comprise the statement of financial position of **CAMALIG BANK, INC. (A RURAL BANK)** as at December 31, 2018, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

I performed this compilation engagement in accordance with Philippine Standard on Related Services 4410 (Revised), Compilation Engagements.

I have applied my expertise in accounting and financial reporting to assist you in the preparation and presentation of these financial statements in accordance with Philippine Financial Reporting Standards. I have complied with relevant ethical requirements, including principles of integrity, objectivity, professional competence and due care.

These financial statements and the accuracy and completeness of the information used to compile them are your responsibility.

Since a compilation engagement is not an assurance engagement, I am not required to verify the accuracy or completeness of the information you provided to me to compile these financial statements. Accordingly, I do not express an audit opinion or a review conclusion on whether these financial statements are prepared in accordance with Philippine Financial Reporting Standards.

HERBERT M. LANIP
CPA Certificate No. 0125390
BOA Accreditation No. 7622
Valid until March 13, 2020
BIR Accreditation No. 08-006992-001-2017
Valid from November 27, 2017 to November 26, 2020
Tax Identification No. 261-369-184
PTR No. 7336150ME
Issued on January 5, 2019 at Makati City

April 11, 2019

Certification of Financial Statement Audit

C E R T I F I C A T I O N

We have audited the financial statements of **CAMALIG BANK, INC. (A RURAL BANK)** with principal office address at Rizal Street, Ilawod East, Legazpi City, Albay.

In compliance with Section 174 of the Manual of Regulations for Banks, **ALAS OPLAS & CO. CPAs**, external auditors of **CAMALIG BANK, INC. (A RURAL BANK)** (the "Bank") do hereby depose and state the following:

1. That our examination commenced on January 28, 2019 and ended on April 11, 2019.
2. That we have issued our audit report to the Board of Directors on April 11, 2019.
3. That **ALAS OPLAS & CO. CPAs**, partners, associates, auditor-in-charge of the engagement and the members of our family do not have any direct or indirect financial interest with the Bank and our independence is not considered impaired under the circumstances specified in the Code of Professional Ethics for CPAs.

It is however understood that our accountability is based on matters within the normal coverage of an audit conducted in accordance with Philippine Standards on Auditing.

ALAS, OPLAS & CO., CPAs

By:

RYAN A. SABUG
Affiant

Subscribed and sworn before me this ______ day of APR 1 5 2019 ______, 2019 at Pasig City. Affiant who exhibited to me his Professional Regulation Commission ID No. 00111183 issued in Manila City on June 30, 2016.

Doc No.: 80
Page No.: 17
Book No.: 9
Series of 2019.

PENACHOS
Notary Public
Appointment No. 132 (2018-2019)
Roll No. 64888/TIN No.245-743-042
MCLE Compliance No. V0010458
DAP Bldg., San Miguel Avenue
Center, Pasig City

Certification of External Audit

CERTIFICATION

In compliance with Appendix 39 of the Manual of Regulations for Banks (MORB), **ALAS OPLAS & CO. CPAs**, external auditor of **CAMALIG BANK, INC. (A RURAL BANK)**, do hereby depose and state that based on the audit with the records of **CAMALIG BANK, INC. (A RURAL BANK)**, on which the external auditor issued the report dated April 11, 2019, there is none to report (e.g. fraud, dishonesty, breach of laws, etc., as required under Item H – Appendix 39 of the MORB) that may require urgent action by the Bangko Sentral ng Pilipinas.

It is understood that the accountability of the external auditor is based on matters within the normal coverage of an audit conducted in accordance with Philippine Standards on Auditing.

ALAS, OPLAS & CO., CPAs

By:

RYAN A. SABUG
Affiant

Subscribed and sworn before me this ______ day of APR 15 2019, 2019 at Pasig City. Affiant who exhibited to me his Professional Regulation Commission ID No. 0111183 issued in Manila City on June 30, 2016.

Doc No.: 8
Page No.: 18
Book No.: 16
Series of 2019.

ATTY. PATRICK [illegible]. PENACHIOS
Notary Public
Appointment No. 132 (2018-2019)
Roll No. 64888/TIN No.345-743-042
MCLE Compliance No. V0010458
[illegible]F DAP Bldg., San Miguel Avenue
Ortigas Center, Pasig City

Consolidated Income Sheet and Income Statement and Audited Financial Statement

CAMALIG BANK, INC. (A RURAL BANK)
Comparison of Submitted Consolidated Balance Sheet and Income Statement
and Audited Financial Statements
As of December 31, 2018

	Submitted Report	Audited Report	Variance/ Discrepancy	Reason for discrepancy (see list of adjusting journal entries)
ASSETS				
Cash and other cash items	9,119,612	9,119,612	-	
Due from Bangko Sentral ng Pilipinas	30,658,844	30,658,844	-	
Due from other banks	260,199,067	260,199,309	(242)	13,14
Held-to-maturity financial assets – net	15,225,283	15,225,283	-	
Loans and other receivables – net	843,700,586	843,700,586	-	
Bank premises, furniture, fixtures and equipment – net	129,752,946	129,610,373	142,573	10,12,20
Intangible assets - net	5,784,962	5,784,962	-	
Assets held for sale	939,869	939,869	-	
Deferred tax assets	10,638,423	10,638,424	(1)	22
Other assets	86,276,982	86,424,199	(147,217)	1,3,4,16,17,18,19
TOTAL ASSETS	1,392,296,374	1,392,301,261	(4,887)	
LIABILITIES AND EQUITY				
Deposit liabilities	894,499,875	894,499,875	-	
Due to the treasurer of the Philippines	99,081	99,081	-	
Bills Payable	130,390,520	130,390,520	-	
Accrued taxes and interest	12,690,920	12,492,395	198,525	2,5,6,7,8,15
Income tax payable	2,240,894	2,247,325	(6,431)	18
Deferred tax liability	829,682	829,682	-	
Other liabilities	60,689,893	60,717,859	(27,966)	5,6,9
Total Liabilities	1,101,440,865	1,101,276,737	164,128	
EQUITY				
Capital stock – common	172,552,000	172,552,000	-	
Capital stock – preferred	45,000,000	45,000,000	-	
Additional paid-in capital	90,914	90,914	-	
Surplus reserve	39,119,439	39,119,439	-	
Surplus free	32,753,288	32,922,303	(169,015)	11,12,13,14
Other comprehensive income	1,339,668	1,339,668	-	
Total Equity	290,855,309	291,024,324	(169,015)	
TOTAL LIABILITIES AND EQUITY	1,392,296,174	1,392,301,061	(4,887)	
INCOME AND EXPENSES				
TOTAL INCOME	180,373,022	180,545,488	(172,466)	1,3,4,11,16,17
TOTAL EXPENSES	167,580,986	167,586,231	(5,245)	2,6,7,8,9,10,15,18,19,20,21
NET INCOME	12,792,036	12,959,257	(167,221)	

Adjusting Journal Entries

Client: Camalig Bank, Inc. (A Rural Bank)
Year end: December 31, 2018
Subject: Adjusting Journal Entries (AJEs)

Alas Oplas
credibility and honor defined.

AJE No.	ACCOUNTS	Amount (In Php) DR	CR
1	Accrued Interest Income From Financial Asset	29,787.02	
	Interest - DFOB - (TCD)		29,787.02
	to adjust recorded interest income from DFOB		
2	Accrued Interest Payable-Bills Payable-LBP	197,128.21	
	Interest Expense - Bills Payable		197,128.21
	to adjust recorded interest expense on bills payable		
3	INT- Held-to-Maturity (HTM) Financial Assets	3,322.71	
	Accrued Interest Income From Financial Asset		3,322.71
	to adjust recorded interest income from HTM		
4	Accrued Interest Income From Financial Asset	31,728.10	
	INT- Held-to-Maturity (HTM) Financial Assets		31,728.10
	to adjust recorded interest income from sinking fund		
5	Accrued Interest Payable - Special Savings Deposits	13,760.57	
	Withholding Tax Payable - Special Savings		13,760.57
	To adjust recorded accrued interest on Special Savings		
6	Interest Expense - Special Savings Deposit	58,517.53	
	Withholding Tax Payable - Special Savings		11,703.51
	Accrued Interest Payable - Special Savings Deposits		46,814.03
	To adjust understated interest expenses on Special Savings		
7	Accrued Interest Payable - Special Savings Deposits	10,854.63	
	Interest Expense - Special Savings Deposit		10,854.63
	To adjust overstated Interest Expense on Special Savings		
8	Accrued Interest Payable - Special Savings Deposits	5,980.84	
	Interest Expense - Special Savings Deposit		5,980.84
	To adjust overstated Interest Expense on Special Savings		
9	Rent	2,500.00	
	Withholding Tax Payable - Expanded		2,500.00
	To adjust understated rental expense		
10	Depreciation - Information And Technology Equipment	72,759.41	
	Information And Technology Equipment - Accumulated Depreciation		72,759.41
	To record understated Depreciation Expense-IT Equipment, items shall be fully depreciated		
11	Miscellaneous Income	720.00	
	Retained Earnings (Surplus) Free		720.00
	to reverse erroneous entry made		
12	Leasehold Improvements - Accumulated Depreciation	833.00	
	Retained Earnings (Surplus) Free		833.00
	to record previous year's adjusting entry which were not yet taken up		
13	Phil. National Bank (PNB) - BO - CA 25-277-000-2351	756.02	
	LBP CMO CA#2762-1017-37	440.12	
	Retained Earnings (Surplus) Free		1,196.14
	to record previous year's adjusting entry which were not yet taken up		
14	Retained Earnings (Surplus) Free	954.77	
	LBP CMO CA#2762-1017-37		954.77
	to record previous year's adjusting entry which were not yet taken up		
15	Accrued Interest Payable-Bills Payable-LBP	17,614.96	
	Interest Expense - Bills Payable		17,614.96
	to adjust recorded interest expense on bills payable-LBP		
16	INT- Held-to-Maturity (HTM) Financial Assets	3,460.43	
	Accrued Interest Income From Financial Asset		3,460.43
	to adjust recorded interest income from HTM		

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17	Accrued Interest Income From Financial Asset	118,454.53	
	INT- Held-to-Maturity (HTM) Financial Assets		118,454.53
	to adjust recorded interest income from sinking fund		
18	Income Tax Expense	3,746,495.10	
	Income Tax Payable		6,430.39
	Prepaid Expenses - Other Assets		21,264.70
	Income tax expense - deferred		3,718,800.00
	to adjust income tax expense and payable per income tax computation		
19	Miscellaneous Expenses	7,692.47	
	Prepaid Expenses - Other Assets		4,704.56
	Repairs and Maintenance		2,987.91
	to adjust prepaid expenses		
20	Depreciation - Furniture And Fixtures	68,825.96	
	Depreciation - Information And Technology Equipment	1,820.74	
	Furniture, Fixtures And Equipment - Accumulated Depreciation		68,825.96
	Information And Technology Equipment - Accumulated Depreciation		1,820.74
	to adjust accumulated depreciation of items that should be fully depreciated per stated useful life in lapsing schedule		
21	Insurance Expense-Others	10,682.70	
	Miscellaneous Expenses	18,040.00	
	Taxes and Licenses		28,722.70
	to adjust taxes and licenses		
22	due to rounding off		