BANK OF MAKATI

BUILDING A COMMUNITY OF FILIPINO SAVERS AND ENTREPRENUERS

ANNUAL REPORT 2017

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Ayala Avenue near corner
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Makati City

889.0000

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ANNUAL REPORT 2017 | BUILDING A COMMUNITY OF FILIPINO SAVERS AND ENTREPRENUERS

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BANK OF MAKATI
A Savings Bank

Building A COMMUNITY OF FILIPINO SAVERS AND ENTREPRENEURS

ANNUAL REPORT 2017

BANK OF MAKATI
A Savings Bank

Building a community of Filipino Savers and Entrepreneurs

Within an upbeat economic environment in 2017, Bank of Makati continued to pursue its goal of building a community of Filipino savers and entrepreneurs.

BMI closed the year strong, growing our business to 55,957 individual and corporate deposit products accounts; 4,911 consumer loans accounts; and 6,175 business loans accounts.

We achieved key milestones, most notably a net income surpassing Php1.0 billion and our network hitting 62 branches nationwide.

2017 was a good year for BMI; and 2018 – despite its challenges – holds much promise. As we enter a new growth phase, we will remain focused on serving our clients and growing our community, especially the micro, small, and medium enterprises, as well as the unbanked and underserved market.

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Our Mission

We exist to help more people attain better financial security.

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

We are dedicated to the continuing growth of the Bank.

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

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

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

teamwork, integrity, concern and excellence.

Our Vision

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

We will be:

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

TCO

Thomas C. Ongtenco

chairman's message

2017 was a banner year for Bank of Makati (A Savings Bank), Inc. For the first time in our more than 60-year history, our net income breached the Php1.0 billion mark.

This unprecedented achievement comes at the backdrop of a buoyant Philippine economy, which was among the best performers in the Asian region that year. While Gross Domestic Product (GDP) dipped to 6.7% from 6.9% in 2016, it remained above the 6.0% level for the sixth consecutive year, owing to strong infrastructure, consumption, financial expenditures, better imports and exports, as well as recovery in the agriculture sector.

BMI was able to take advantage of the country's sustained economic growth, achieving its strategic objectives for growth and expansion in its key performance areas. With GDP growing at 6.7%, the market offered greater opportunities for us to lend to start-up and expanding businesses, and to the fast-growing consumer loans segment of the industry. BMI successfully improved its consumer and mSME loan volumes, with loan growth recorded at 15.1%, or 63.77% more than the previous year's 9.22%. And our net income also grew by a remarkable 117.51% from Php645M in 2016 to Php1.403B in 2017.

While economic indicators, including a rising inflation rate, show a slowing of the Philippine economy this 2018, we are optimistic that our good performance in 2017 will keep us on track of our targets this year. There will be challenges, of course, but we still foresee a lot of opportunities to serve existing and potential customers, especially the mSMEs, as well as the unbanked and underserved market.

We see a clear strategic direction for BMI in 2018. We will continue to serve mSMEs and endeavor to become their Bank of Choice. BMI will continue to anchor its growth and expansion, serving and reaching out to customers who may not have easy access to basic financial services. The Bank shall seek to harness the use of data analytic tools and technology to improve its products, service delivery systems and profitability.

In the conduct of its business, BMI has remained strong in complying with governance standards, and puts great value on prudential guidance on risk management issues.

I wish to convey my overwhelming gratitude to the men and women of the BMI family for their utmost dedication, diligence and loyalty in bringing forth our milestone results in 2017. I also wish to thank our committed Board of Directors who became more active in overseeing the daily operations and activities of the Bank. I applaud the professionalism and perseverance of our Senior Management and Officers in improving processes and policies, and instituting risk-based controls so that we may more effectively and efficiently manage the Bank's day-to-day operations.

I look forward to working with all of you towards a better 2018.

Maraming salamat sa inyong lahat!

president's report

The country has been in a state of constantly changing political and economic conditions in recent years. Despite periods of uncertainty, Bank of Makati (A Savings Bank), Inc. (BMI) has been able to gain significant grounds.

For BMI, 2017 has been a remarkable year, notably for several milestones:

- The opening of the Legaspi and Dasmarinas branches, which brought our total branches to 62.
- The growth of our total deposit client base by 31.97% to 40,689, with total deposits expanding by 6.07% to Php22.005 billion as a result of aggressive deposit campaigns nationwide.
- The Branch Banking Group (BBG) reconfigured its branches from four (4) to five (5) areas to closely monitor branch operations and targets.
- BMI has already obtained its Broker Dealer License from the Securities and Exchange Commission, hence enabling the Bank to expand its trading activities.
- The Microfinance Department was placed under the supervision of the Branch Banking Group to foster synergy among the Bank's microfinance and regular branches, and thus propagate microfinance lending to its growing clientele. The Branch Banking Group has also initiated a new service facility, the HMO Collections for hospitals, as well as enhanced its deposit products.

For BMI's business and consumer loans, a percentage of new clients joined the roster of loan borrowers. Total loan clients increased from 373,163 to 396,958, with total portfolio growth increasing by 15.1% to Php22.36 billion from Php19.43 billion in 2016. Net interest income surged by 13.14% to Php4.68 billion, with net income more than doubling to more than Php1.4 billion in 2017. The Bank is also enhancing its fee-based income to augment overall profit.

The Bank's profitability ratios also doubled with Return on Equity (ROE) increasing from 10.21% in 2016 to 20.79% in 2017, and Return on Assets (ROA) from 2.27% to 4.80%. These ratios were also registered to be higher than the industry levels of 12.70% and 1.60% in ROE and ROA, respectively. Further, the Bank was able to lower its Non-Performing Loans-Net (NPL-Net) Ratio within industry standards through improvements in credit scoring, lending parameters and credit risk assessment models. BMI also maintained its strong capital base, having 17.30% in capital adequacy ratio (CAR) as compared to the industry's 16.54% in 2017.

BMI is aiming to be the country's micro, small and medium enterprise (mSME) Bank of Choice. It has been extraneously serving its target markets with a simpler and more straightforward way of doing business. BMI's tagline of Malalapitan, Maaasahang Kaibigan, together with its service outcry of DIRETSO. ASENSO. reflects its desire for its customers, certainly make a difference in helping us promote the Bank's products and services. Public awareness of BMI is most evident in its commercial advertisements being shown in airports, seaports and aired in reputable radio stations nationwide. The Bank also has updated its website, showcasing the Bank's history and milestones, Board of Directors, branches and contact numbers, as well as various deposit and loan products and services.

Process improvements have been instituted bank-wide. BMI continued to strengthen its systems, controls and processes, with audit, risk management, and compliance in the forefront of all these.

More importantly, the Bank values its people. Several initiatives were instituted by the Human Resources Department, such as the automation of the Performance Management System for real-time and objective performance assessment; all-year-round seminars and workshops for personality development and technical skills; creation of the Family Welfare Committee to promote work-life balance; issuance of new bank uniforms and IDs for 2018 as part of branding image efforts; and continuous improvement of the Bank's total compensation package for talent retention and recognition.

It is with much pride and pleasure that I have taken on the responsibility of President of BMI. With the guidance of our Board of Directors, and together with our competent and committed Senior Management, Officers, and staff, I take on the challenge to lead BMI to greater leaps and heights to achieve our goals and targets.

THE BMI BRAND

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

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

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

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

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

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

BUSINESS model

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

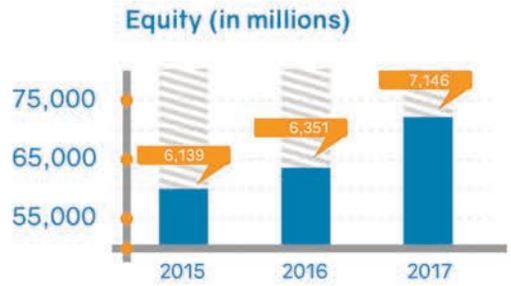
BMI is a low-cost, high quality provider of financial services. We have established 62 branches in key provincial cities and towns in the country, including Metro Manila. In support of our vision to promote financial inclusion, BMI aims to be present in more unbanked/underbanked areas, a market, which,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

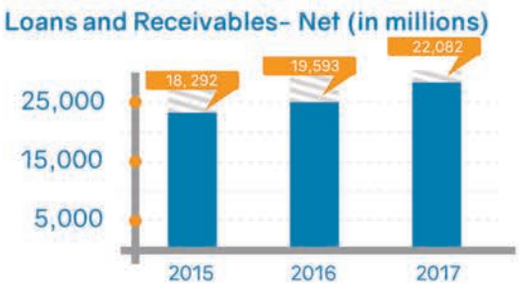
BMI has range of deposit and loan products that cater to our target market. Under the loans product line, BMI has Malalapitan Microfinance Loan, Power Negosyo Enterprise Loan, Expanded Motor Loan, Business loans and other consumer loans that cater to the lower C, D and E income strata segments.

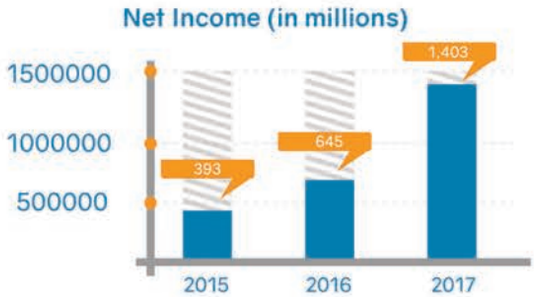
For deposit products, we have low-cost current, savings deposit and small-denominated time deposit.

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

financial highlights







AS OF AND FOR THE YEARS ENDED (in millions)	2015	2016	2017
Total Resources	27,876	28,190	30,328
Total Loans and Receivables-Net	18,292	19,593	22,082
Total Deposit Liabilities	20,649	20,746	22,006
Total Equity	6,139	6,351	7,146
Total Net Income	393	645	1,403
Total Revenues	5,737	5,761	6,418
Total Expenses	5,344	5,116	5,015
Net Income	393	645	1,403
Return on Resources	1.47%	2.27%	4.80%
Return on Equity	6.64%	10.21%	20.79%
Regular Branches	25	46	48
Microfinance Branches	13	14	14
Loan Centers	18	1	0

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

The management of **Bank of Makati (A Savings Bank), Inc.** (the Company) is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2017 and 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative to do so.

The Board of Directors is responsible for overseeing the Company'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.

Punongbayan and Araullo, the independent auditors appointed by the stockholders, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.

Thomas C. Ongtenco
Chairman of the Board

Luis M. Chua
President

Rowell A. Umali
Comptroller

Signed this 6th day of February, 2018.

Report of Independent Auditors

The Board of Directors
Bank of Makati (A Savings Bank), Inc.
44 Senator Gil Puyat Avenue
Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Bank of Makati (A Savings Bank), Inc. (the Bank), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2017, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2017 and 2016, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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.

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2017 required by the Bureau of Internal Revenue as disclosed in Note 27 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: **Sheryl G. Llovido**
Partner

CPA Reg. No. 0108392
TIN 221-750-103
PTR No. 6616012, January 3, 2018, Makati City
SEC Group A Accreditation
Partner - No. 1554-A (until Apr. 14, 2019)
Firm - No. 0002-FR-4 (until Apr. 30, 2018)
BIR AN 08-002511-36-2015 (until Nov. 1, 2018)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

February 6, 2018

BANK OF MAKATI (A SAVINGS BANK), INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016
(Amounts in Philippine Pesos)

	Notes	2017	2016
RESOURCES			
CASH	8	**P 59,212,747**	P 51,902,747
DUE FROM BANGKO SENTRAL NG PILIPINAS	8	**2,116,067,079**	2,052,525,572
DUE FROM OTHER BANKS	8	**319,936,628**	293,236,256
INVESTMENT SECURITIES			
Available-for-sale financial assets - Net	9	**2,718,176,276**	3,330,318,906
Held-to-maturity investments - Net	10	**391,095,789**	490,051,356
LOANS AND RECEIVABLES - Net	11	**22,082,180,266**	19,593,431,899
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	12	**267,882,431**	205,061,634
ASSETS HELD FOR SALE - Net	13	**313,187,687**	365,656,042
INVESTMENT PROPERTIES - Net	14	**179,916,074**	157,446,662
INVESTMENT IN AN ASSOCIATE	15	**1,132,475,940**	887,336,802
DEFERRED TAX ASSETS - Net	23	**637,553,908**	643,588,409
OTHER RESOURCES - Net	16	**110,649,290**	119,135,188
TOTAL RESOURCES		**P 30,328,334,115**	P 28,189,691,473
LIABILITIES AND EQUITY			
DEPOSIT LIABILITIES	17	**P 22,005,928,874**	P 20,746,231,692
ACCRUED EXPENSES AND OTHER LIABILITIES	18	**1,176,531,322**	1,092,831,190
Total liabilities		**23,182,460,196**	21,839,062,882
EQUITY	19		
Capital stock		**4,750,000,000**	3,000,000,000
Retained earnings		**2,169,462,085**	3,324,488,110
Stock dividends distributable		**250,000,000**	-
Revalutation reserves		**(23,588,166)**	26,140,481
Total equity		**7,145,873,919**	6,350,628,591
TOTAL LIABILITIES AND EQUITY		**P 30,328,334,115**	P 28,189,691,473

See Notes to Financial Statements.

BANK OF MAKATI (A SAVINGS BANK), INC.
STATEMENTS OF PROFIT OR LOSS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Philippine Pesos)

	Notes	2017	2016	2015
INTEREST INCOME				
Loans and receivables	11	**P 5,333,216,217**	P 4,853,688,141	P 5,017,360,044
Available-for-sale financial assets	9	**149,404,791**	170,350,218	112,159,053
Due from Bangko Sentral ng Pilipinas and other banks	8	**36,586,768**	37,402,100	56,632,238
Held-to-maturity investments	10	**16,244,355**	18,339,634	15,649,914
		5,535,452,131	5,079,780,093	5,201,801,249
INTEREST EXPENSE				
Deposit liabilities	17	**857,227,905**	943,761,971	1,381,091,685
Bills payable		**-**	44,479	19,063
Others	21	**1,654,900**	2,675,700	3,296,900
		858,882,805	946,482,150	1,384,407,648
NET INTEREST INCOME		**4,676,569,326**	4,133,297,943	3,817,393,601
IMPAIRMENT LOSSES	11, 13, 14	**1,235,513,620**	1,795,326,768	1,619,836,957
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**3,441,055,706**	2,337,971,175	2,197,556,644
OTHER OPERATING INCOME	20	**882,543,804**	681,269,495	534,921,031
OTHER OPERATING EXPENSES	20	**(2,432,005,061)**	(2,154,449,777)	(2,178,338,003)
PROFIT BEFORE TAX		**1,891,594,449**	864,790,893	554,139,672
TAX EXPENSE	23	**488,495,474**	219,839,776	161,193,637
NET PROFIT		**P 1,403,098,975**	P 644,951,117	P 392,946,035
Earnings Per Share				
Basic and Diluted	25	**P 2.81**	P 2.15	P 1.31

Supplementary Information on Earnings Per Share –

The calculation of basic and diluted EPS for all periods presented was adjusted retrospectively to effect the issuance of stock dividends and 10-for-1 stock split approved on January 5, 2018 (see Note 25).

See Notes to Financial Statements.

BANK OF MAKATI (A SAVINGS BANK), INC.
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Philippine Pesos)

	Notes	2017	2016	2015
NET PROFIT		**P 1,403,098,975**	P 644,951,117	P 392,946,035
OTHER COMPREHENSIVE INCOME (LOSS)				
Item that will not be reclassified subsequently to profit or loss				
Remeasurements of defined benefit plan	21	**2,210,200**	2,747,400	3,726,600
Tax expense	23	**(663,060)**	(824,220)	(1,117,980)
		1,547,140	1,923,180	2,608,620
Item that will be reclassified subsequently to profit or loss				
Fair value gain (loss) on available-for-sale financial assets - net of tax				
Fair value gains (losses) during the year		**(41,418,147)**	9,857,640	(55,284,755)
Fair value (gains) losses on disposed AFS financial assets reclassified to profit or loss		**(9,857,640)**	55,284,755	(7,265,391)
	9	**(51,275,787)**	65,142,395	(62,550,146)
Other Comprehensive Income (Loss)		**(49,728,647)**	67,065,575	(59,941,526)
TOTAL COMPREHENSIVE INCOME		**P 1,353,370,328**	P 712,016,692	P 333,004,509

See Notes to Financial Statements.

BANK OF MAKATI (A SA
STATEMENTS OF CHA
FOR THE YEARS ENDED DECE
(Amounts in Phil

	Note	CAPITAL STOCK	STOCK DIVIDEND DISTRIBUTABLE	RETAI EARN
Balance at January 1, 2017		P 3,000,000,000	P -	P 3,
Stock dividends distributed and/or declared during the year	19	1,750,000,000	250,000,000	(2,
Cash dividends paid during the year	19	-	-	(
Total comprehensive income for the year		-	-	1,
Balance at December 31, 2017	19	**P 4,750,000,000**	**P 250,000,000**	**P 2,**
Balance at January 1, 2016		P 2,762,825,824	P 237,326,581	P 3,
Stock dividends distributed during the year	19	237,174,176	(237,174,176)	-
Shares encashed	19	-	(152,405)	-
Cash dividends paid during the year	19	-	-	(
Total comprehensive income for the year		-	-	
Balance at December 31, 2016	19	P 3,000,000,000	P -	P 3,
Balance at January 1, 2015		P 2,762,825,824	P 237,326,581	P 2,
Total comprehensive income for the year		-	-	
Balance at December 31, 2015	19	P 2,762,825,824	P 237,326,581	P 3,

See Notes to Financ

TI (A SAVINGS BANK), INC.
OF CHANGES IN EQUITY
D DECEMBER 31, 2017, 2016 AND 2015
ts in Philippine Pesos)

	REVALUATION RESERVES				
RETAINED EARNINGS	UNREALIZED FAIR VALUE GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS	REMEASUREMENTS OF DEFINED BENEFIT PLAN	TOTAL	TOTAL EQUITY
3,324,488,110	P 9,857,640	P 16,282,841	P 26,140,481	P 6,350,628,591
2,000,000,000)	-	-	-	-
558,125,000)	-	-	-	(558,125,000)
1,403,098,975	(51,275,787)	1,547,140	(49,728,647)	1,353,370,328
2,169,462,085	**(P 41,418,147)**	**P 17,829,981**	**(P 23,588,166)**	**P 7,145,873,919**
3,179,536,993	(P 55,284,755)	P 14,359,661	(P 40,925,094)	P 6,138,764,304
-	-	-	-	-
-	-	-	-	(152,405)
500,000,000)	-	-	-	(500,000,000)
644,951,117	65,142,395	1,923,180	67,065,575	712,016,692
3,324,488,110	P 9,857,640	P 16,282,841	P 26,140,481	P 6,350,628,591
2,786,590,958	P 7,265,391	P 11,751,041	P 19,016,432	P 5,805,759,795
392,946,035	(62,550,146)	2,608,620	(59,941,526)	333,004,509
3,179,536,993	(P 55,284,755)	P 14,359,661	(P 40,925,094)	P 6,138,764,304

to Financial Statements.

BANK OF MAKATI (A SAVINGS BANK), INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Philippine Pesos)

	Notes	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		**P 1,891,594,449**	P 864,790,893	P 554,139,672
Adjustments for:				
Interest income	8, 9, 10, 11	**(5,535,452,131)**	(5,079,780,093)	(5,201,801,249)
Interest received		**5,138,089,152**	5,956,702,078	5,348,109,427
Impairment losses	11, 13, 14	**1,235,513,620**	1,795,326,768	1,619,836,957
Interest paid		**(1,019,165,718)**	(1,538,865,679)	(2,595,239,721)
Interest expense	17, 21	**858,882,805**	946,482,150	1,384,407,648
Share in profit of associate	15	**(245,139,138)**	(87,336,802)	-
Depreciation and amortization	12, 14, 16	**115,559,576**	72,215,362	65,480,518
Loss (gain) on sale of properties - net	12, 13, 14	**(36,635,480)**	(24,087,538)	45,622,197
Realized gain on available-for-sale (AFS) financial assets	9	**(12,761,798)**	(32,981,345)	(10,384,217)
Operating profit before changes in resources and liabilities		**2,390,485,338**	2,872,465,794	1,210,171,232
Increase in loans and receivables		**(3,683,540,727)**	(3,431,208,328)	(824,996,604)
Decrease (increase) in assets held for sale		**82,693,586**	(96,884,110)	(177,990,801)
Decrease (increase) in investment properties		**(28,823,596)**	4,854,904	(35,494,528)
Increase in other resources		**(8,485,898)**	(49,319,047)	(225,601,243)
Increase in deposit liabilities		**1,259,697,182**	501,016,757	2,316,282,856
Increase (decrease) in bills payable		**-**	(25,000,000)	25,000,000
Increase in accrued expenses and other liabilities		**244,491,074**	10,248,848	54,647,328
Cash used in operations		**256,516,959**	(213,825,182)	2,342,018,240
Cash paid for income taxes		**(256,373,281)**	(192,257,945)	(245,303,198)
Net Cash From (Used In) Operating Activities		**143,677**	(406,083,127)	2,096,715,042
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from disposal of AFS financial assets	9	**1,392,609,798**	1,827,791,345	1,613,675,612
Acquisition of AFS financial assets	9	**(833,000,000)**	(1,409,352,000)	(4,231,344,394)
Acquisitions of bank premises, furniture, fixtures and equipment	12	**(169,238,828)**	(79,460,300)	(40,968,737)
Proceeds from maturities of held-to-maturity (HTM) investments	10	**98,955,567**	106,235,359	193,726,843
Interest received on HTM investments and AFS financial assets	9, 10	**165,649,146**	188,689,852	127,808,967
Proceeds from disposal of bank premises, furniture, fixtures and equipment	12	**557,519**	29,839,445	4,602,361
Investment in an associate	15	**-**	(800,000,000)	-
Acquisitions of HTM investments	10	**-**	(17,930,639)	(115,199,741)
Net Cash From (Used in) Investing Activities		**655,533,202**	(154,186,938)	(2,447,699,089)
CASH FLOWS FROM A FINANCING ACTIVITY				
Payment of cash dividends	19	**(558,125,000)**	(500,000,000)	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**97,551,879**	(1,060,270,065)	(350,984,047)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	8			
Cash		**51,902,747**	34,662,726	30,623,548
Due from Bangko Sentral ng Pilipinas		**2,052,525,572**	3,217,528,605	576,591,137
Due from other banks		**293,236,256**	205,743,309	3,201,704,002
		2,397,664,575	3,457,934,640	3,808,918,687
CASH AND CASH EQUIVALENTS AT END OF YEAR	8			
Cash		**59,212,747**	51,902,747	34,662,726
Due from Bangko Sentral ng Pilipinas		**2,116,067,079**	2,052,525,572	3,217,528,605
Due from other banks		**319,936,628**	293,236,256	205,743,309
		P 2,495,216,454	P 2,397,664,575	P 3,457,934,640

Supplementary Information on Non-Cash Investing Activities:

(1) On January 10, 2017, the Bank's Board of Directors approved the declaration of stock dividends amounting to P1.75 billion and P0.25 billion, which was issued on May 18, 2017 and January 5, 2018, respectively (see Note 19.2).

(2) Transfers from Loans and other receivables to Assets held for sale in 2017, 2016 and 2015 amounted to P1.4 billion, P1.5 billion and P1.7 billion, respectively (see Note 13). On the other hand, transfers from Loans and other receivables to Investment properties as a result of foreclosures amounted to P34.0 million, P18.1 million and P47.4 million in 2017, 2016 and 2015, respectively (see Note 14).

(3) In 2015, the Bank reclassified Computer software with carrying amount of P71.6 million, previously presented as part of Other Resources account, to Bank Premises, Furniture, Fixtures and Equipment account (see Note 12).

See Notes to Financial Statements.

BANK OF MAKATI (A SAVINGS BANK), INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Philippine Pesos)

1. CORPORATE MATTERS

1.1 Bank Operations

On September 22, 1956, the Bangko Sentral ng Pilipinas (BSP) granted approval to Bank of Makati (A Rural Bank), Inc. to operate as a rural bank. The extension of the corporate life together with the amendment on the articles of incorporation was subsequently approved by the Securities and Exchange Commission (SEC) on April 8, 2005.

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

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

The Bank started with a capitalization of P1.0 million at its inception. At the end of 2017, the Bank's total equity reached P7.1 billion and has 62 branches (which includes 48 regular branches and 14 microfinance-oriented branches) and 10 automated teller machines.

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

The Bank's registered address, which is also its principal place of business, is at 44 Senator Gil Puyat Avenue, Makati City. On January 5, 2018, the SEC approved the change of the Bank's principal place of business to Bank of Makati Building, Ayala Avenue near corner Metropolitan Avenue, Makati City.

1.2 Approval of Financial Statements

The financial statements of the Bank as of and for the year ended December 31, 2017 (including the comparative financial statements as of December 31, 2016 and for the years ended December 31, 2016 and 2015) were authorized for issue by the Bank's Board of Directors (BOD) on February 6, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Bank presents a statement of comprehensive income separate from the statement of profit or loss.

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

(c) Functional and Presentation Currency

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

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

2.2 Adoption of New and Amended PFRS

(a) Effective in 2017 that are Relevant to the Bank

The Bank adopted for the first time the following amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2017:

PAS 7 (Amendments)	:	Statement of Cash Flows – Disclosure Initiative
PAS 12 (Amendments)	:	Income taxes – Recognition of Deferred Tax Assets for Unrealized Losses

Discussed below are the relevant information about these amendments.

(i) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative*. The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes). It requires an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, it suggests a number of specific disclosures that may be necessary in order to satisfy the above requirement, including: (a) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and, (b) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

This amendment has no significant impact on the Bank's financial statements as it has no other financing activities during the years presented, except for the payment of cash dividends in 2017 and 2016 (see Note 19.2).

(ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses*. The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, (d) combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference. The application of this amendment has no impact on the Bank's financial statements.

(b) Effective in 2017 that are not Relevant to the Bank

The following annual improvement to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2017 but are not relevant to the Bank's financial statements:

Annual Improvements to PFRS (2014-2016 Cycle)		
PFRS 12	:	Disclosure of Interest in Other Entities – Scope Clarification on Disclosure of Summarized Financial Information for Interests classified as Held for Sale

(c) Effective Subsequent to 2017 but not Adopted Early

There are new PFRS and amendments to existing standards effective for annual periods subsequent to 2017, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Bank's financial statements:

(i) PAS 40 (Amendment), *Investment Property – Reclassification to and from investment property* (effective from January 1, 2018). The amendment states that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendment provided a non-exhaustive list of examples constituting change in use. Management has assessed that this amendment has no significant impact on the Bank's financial statements.

(ii) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will replace PAS 39, *Financial Instruments: Classification and Measurement*, and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;

- an expected credit loss (ECL) model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and

- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

Based on an assessment of the Bank's financial assets and liabilities as at December 31, 2017, which has been limited to the facts and circumstances existing at that date, management has identified the following areas that are expected to be most impacted by the application of PFRS 9 (2014):

- On classification and measurement of the Bank's financial assets, management holds most financial assets to hold and collect the associated cash flows and is currently assessing the underlying types of cash flows to classify financial assets correctly.

- Loans and other receivables are composed of receivables from customers and other receivables which is held to collect contractual cash flows representing SPPI (see Note 11). These financial assets will continue to be measured at amortized cost upon application of PFRS 9 (2014).

- Held-to-maturity (HTM) investments are primarily composed of government debt securities bearing fixed interest rates and defined maturity dates (see Note 10). The Bank initially assessed that the contractual cash flows of government and private debt securities classified in this portfolio qualify under the SPPI test, and these instruments qualify under the held-to-collect contractual cash flows business model. Thus, upon application of PFRS 9 (2014), these financial assets will continue to be measured at amortized cost.

- The Bank assessed that the government and other debt securities classified as available-for-sale (AFS) securities qualify under the SPPI test and the held-to-collect and sell business model. Thus, these financial assets will continue to be measured at fair value, with mark-to-market fluctuations recognized in OCI subject to recycling upon disposal of the securities.

- The ECL methodology will apply to the Bank's loan receivables and investments in debt-type assets currently classified as HTM investments and AFS financial assets. For other financial assets and other receivables, the Bank will apply a simplified model of recognizing lifetime expected credit losses as these items do not have a significant financing component.

- The Bank's equity securities, regardless if quoted or not, will be measured at fair value with changes in fair value presented in other comprehensive income. To present changes in other comprehensive income requires making an irrevocable designation on initial recognition or at the date of transition.

(iii) PFRS 10 (Amendments*), Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely). The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

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

Management has initially assessed that this new standard has no material impact on Bank's financial statements.

(v) Annual Improvements to PFRS 2014-2016 Cycle. Among the improvements, PAS 28 (Amendment), *Investment in Associates – Clarification on Fair Value through Profit or Loss Classification* (effective from January 1, 2018) is relevant to the Bank. The amendments clarify that the option for venture capital organization, mutual funds and other similar entities to elect the fair value through profit or loss classification in measuring investments in associates and joint ventures shall be made at initial recognition, separately for each associate or joint venture. Management has initially assessed that this amendment has no material impact on the Bank's financial statements.

(vi) PAS 28 (Amendment), *Investment in Associates – Long-term Interest in Associates and Joint Venture* (effective from January 1, 2019). The amendment clarifies that the scope exclusion in PFRS 9 (2014) applies only to ownership interests accounted for using the equity method. Thus, the amendment further clarifies that long term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9 (2014), which shall also include long term interests that, in substance, form part of the entity's net investment in an associate or joint venture. Management is currently assessing the impact of this new standard in its financial statements.

(vii) PFRS 9 (Amendment), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendment clarifies that prepayment features with negative compensation attached to financial instruments may still qualify under the SPPI test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVTOCI. Management is currently assessing the impact of this new standard in its financial statements.

(viii) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*.

For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right of use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

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

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

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

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

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

2.3 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Bank's chief operating decision-maker (BOD). The BOD is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Bank's products and services as disclosed in Note 7.

Each of these operating segments is managed separately as each of these services requires different technologies and resources as well as marketing approaches.

The measurement policies of the Bank used for segment reporting under PFRS 8, *Operating Segments*, is the same as those used in its financial statements. In addition, corporate resources which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

The Bank's operations are organized according to the nature of the products and services provided. Financial performance on operating segments is presented in Note 7.

2.4 Financial Assets

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

(a) Classification and Measurement of Financial Assets

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

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs.

A more detailed description of the categories of financial assets relevant to the Bank is as follows:

(i) Loans and Receivables

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

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

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any (see Note 2.12).

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

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

(ii) HTM Investments

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

Subsequent to initial recognition, HTM investments are measured at amortized cost using the effective interest method, less impairment losses, if any (see Note 2.12).

(iii) AFS Financial Assets

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

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

When the financial asset is disposed of or is determined to be impaired, that is, when there is a significant or prolonged decline in the fair value of the security below its cost, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income even though the financial asset has not been derecognized (see Note 2.12).

(b) Items of Income and Expense Related to Financial Assets

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Interest Income, Interest Expense or Impairment Losses account in the statement of profit or loss.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

(c) Derecognition of Financial Assets

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

2.5 Bank Premises, Furniture, Fixtures and Equipment

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.17).

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

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

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

2.6 Assets Held for Sale

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

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

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

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

2.7 Investment Properties

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

The Bank adopted the cost model in measuring its investment properties; hence, these are carried at cost less accumulated depreciation and any impairment in value. The cost of an investment property comprises its purchase price and directly attributable costs incurred. Depreciation and impairment loss are recognized in the same manner as in bank premises, furniture, fixtures and equipment (see Note 2.17).

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

2.8 Intangible Assets

Intangible assets, presented under Other Resources account, pertain to the membership fee to the Philippine Clearing House Corporation (PCHC) which entitled the Bank to participate directly in the clearing operations of PCHC.

The cost of the asset is the amount of cash or cash equivalent paid or the fair value of the other consideration given up to acquire the asset at the time of its acquisition. In addition, intangible assets are subject to impairment testing as described in Note 2.17.

2.9 Investment in an Associate

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

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

Impairment loss is provided when there is objective evidence that the investment in an associate will not be recovered (see Note 2.17).

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

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

2.10 Other Resources

Other resources pertain 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.

2.11 Financial Liabilities

Financial liabilities, which include Deposit Liabilities and Accrued Expenses and Other Liabilities (except for tax-related liabilities and retirement benefit obligation), are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges incurred on financial liabilities are recognized as an expense in profit or loss under the caption Interest Expense in the statement of profit or loss.

Deposit liabilities and accrued expenses and other liabilities (except for tax-related payables and retirement benefit obligation) are recognized initially at their fair value and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Dividend distributions to shareholders are recognized as financial liabilities when the dividends are declared by the Bank's BOD and subject to the requirements of BSP Circular 888, *Amendments to Regulations on Dividend Declaration and Interest Payments on Tier I Capital Instruments*.

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

2.12 Impairment of Financial Assets

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

(a) Financial Assets Carried at Amortized Cost – Loans and Receivables and HTM Investments

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

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of profit or loss. As a practical expedient, the Bank may measure impairment on the basis on an instrument's fair value using an observable market price.

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

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

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

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

(b) Financial Assets Carried at Fair Value – AFS Financial Assets

In the case of investments classified as AFS financial assets, a significant or prolonged decline in the fair value of the assets below its cost is considered in determining whether the assets are impaired. If any such evidence exists for AFS financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in other comprehensive income as part of equity – is reclassified from other comprehensive income to profit or loss as a reclassification adjustment. Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as AFS financial assets increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

2.13 Offsetting Financial Instruments

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

2.14 Provisions and Contingencies

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

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

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

2.15 Revenue and Expense Recognition

Revenue comprises revenue from rendering of services measured by reference to the fair value of consideration received or receivable by the Bank for services rendered.

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that future economic benefits will flow to the Bank; and, the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue is recognized:

(a) *Interest income and expenses* – are recognized in profit or loss for all instruments measured at amortized cost using the effective interest method.

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

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(b) *Service charges and fees* – are recognized as earned when collected or when there is reasonable degree of certainty as to their collectibility.

(c) *Gain (loss) on sale of properties* – is recognized when title to the asset is transferred to the buyer.

Costs and expenses are recognized in profit or loss upon utilization of the goods or services or at the date they are incurred. Interest expense is reported in profit or loss on accrual basis, while capitalized borrowing costs are included as part of the cost of the related qualifying asset (see Note 2.19).

2.16 Leases – Bank as Lessee

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

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

2.17 Impairment of Non-financial Assets

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

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

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

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

2.18 Employee Benefits

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

(a) Post-employment Defined Benefit Plan

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

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

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

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

(b) Post-employment Defined Contribution Plan

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

(c) Bonus Plans

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

(d) Termination Benefits

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

2.19 Borrowing Costs

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

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

2.20 Income Taxes

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

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

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

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

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

The measurement of deferred tax 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 taxation authority.

2.21 Related Party Relationships and Transactions

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

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

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

2.22 Equity

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

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

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

Revaluation reserves comprise of unrealized gains and losses arising from the revaluation of AFS financial assets and remeasurements of defined benefit plan.

2.23 Earnings Per Share

Basic earnings per share (EPS) is determined by dividing net profit attributable to common shares by the weighted average number of common shares subscribed and issued during the period, after retroactive adjustment for any stock dividend declared in the current period.

The diluted EPS is also computed by dividing net profit by the weighted average number of common shares subscribed and issued during the period. However, net profit attributable to common shares and the weighted average number of common shares outstanding are adjusted to reflect the effects of any potentially dilutive shares. As of December 31, 2017 and 2016, the Bank has no potentially dilutive shares (see Note 25).

2.24 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Principles

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

(a) Classification of Financial Assets as HTM Investments

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

(b) Impairment of AFS Financial Assets

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

Based on the recent evaluation of information and circumstances affecting the Bank's AFS financial assets, management concluded that the assets are not impaired as of December 31, 2017 and 2016. Future changes in those information and circumstances might significantly affect the carrying amount of the assets.

(c) *Distinction Between Investment Properties, Assets Held for Sale and Owner-managed Properties*

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

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

(d) *Distinction Between Operating and Finance Leases*

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

(e) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Accounting policies on recognition of provisions and contingencies are discussed in Note 2.14 and relevant disclosures are presented in Note 26.

3.2 Key Sources of Estimation Uncertainty

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

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

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

(b) *Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, and Investment Properties*

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment, investment properties, and intangible assets based on the period over which the assets are expected to be available for use. The estimated useful lives of bank premises, furniture, fixtures and equipment, investment properties, 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. The carrying amounts of bank premises, furniture, fixtures and equipment, investment properties, and intangible assets are presented in Notes 12, 14, and 16, respectively.

In 2017, based on current facts and circumstances, management changed the estimated useful life of computer software from 10 to 15 years to five years and other office and transportation equipment (presented as part of Furniture, fixtures and equipment) from five years to three years (see Note 2.5). The depreciation for 2017 would have been lower by P50.1 million if there was no change in useful lives during the year.

(c) *Impairment of 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 the customers and counterparties, the customers' and counterparties' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience. The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

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

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

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management assessed that the deferred tax assets recognized as at December 31, 2017 and 2016 will be fully utilized in the succeeding reporting periods. The carrying values of deferred tax assets as of those dates are disclosed in Note 23.1.

(e) *Impairment of Non-financial Assets*

The Bank's policy on estimating the impairment of non-financial assets is discussed in Note 2.17. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Impairment losses recognized on assets held for sale and investment properties are disclosed in Notes 13 and 14, respectively. No impairment losses were recognized for bank premises, furniture, fixtures and equipment, investment in an associate, and intangible assets based on management's assessment.

(f) Fair Value Measurement for Financial Instruments

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

The carrying values of the Bank's AFS financial assets and the amounts of fair value changes recognized are disclosed in Note 9.

(g) Fair Value Measurement of Non-financial Assets

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

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

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

(h) Valuation of Post-employment Defined Benefits

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 others, discount rates, salary rate increase, and employee turnover rate. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 21.2.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

4.1 Integrated Risk Management Framework

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

4.2 Risk Responsibilities

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

(a) Executive Committee

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

(b) Risk Oversight Committee

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

(c) Audit and Compliance Committee

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

(d) Corporate Governance Committee

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

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

(e) Related Party Transactions Committee

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

4.3 Financial Risk Management

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

4.3.1 Credit Risk

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

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

(a) Establish credit policies, asset allocations and concentration limits, risk asset acceptance criteria, target market and clearly defined approving authorities;
(b) Define documentation policies of approved credit lines;
(c) Independence of credit control and monitoring functions from the credit risk-taking function;
(d) Regular review of the adequacy of valuation reserves;
(e) Active loan portfolio management to determine the quality of the loan portfolio, including risks associated with particular industry sectors, regions; monitor portfolio growth, collection performance and delinquency trends, trend of nonperforming loans, concentration risk, and other performance indicators; and,
(f) Close monitoring of remedial accounts.

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

	Notes	**2017**	2016
Due from BSP	8	**P 2,116,067,079**	P 2,052,525,572
Due from other banks	8	**319,936,628**	293,236,256
AFS financial assets	9	**2,591,728,406**	3,201,124,207
HTM investments	10	**391,095,789**	490,051,356
Loans and receivables – net	11	**22,082,180,266**	19,593,431,899
Rental and utilities deposits	16	**25,604,845**	18,771,560
Returned checks and other cash items	16	**3,252**	-
		P 27,562,616,265	P 25,649,140,850

The Bank's management considers that all the above financial assets that are not impaired or past due at the end of reporting periods are of good credit quality.

(a) Due from BSP and Other Banks

The credit risk for 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 P0.5 million per depositor per banking institution, as provided for under Republic Act (RA) No. 9576, *Amendment to Charter of PDIC.*

(b) AFS Financial Assets

Credit risk for AFS debt securities is addressed by setting limits as to the maximum amount of investment that can be made on certain type of security with consideration of the credit quality of the counterparty.

(c) HTM Investments

There is also no significant credit risk for the investment securities since all of the investments is guaranteed by the Philippine government.

(d) Loans and Receivables

In respect of loans and receivables, the Bank is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Loans consist of a large number of customers in various industries and geographical areas.

The carrying amount of loans and receivables whose terms have been renegotiated, which would otherwise be past due or impaired, is P553.4 million and P577.8 million as of December 31, 2017 and 2016, respectively.

4.3.1.1 Exposure to Credit Risk

Credit exposures are assessed either individually or collectively. Loans with significant credit exposures warrant an individual assessment. Significant credit exposures are those with amounts which exceed the materiality threshold of P500,000 credit.

All credit exposures that fall below the Bank's materiality threshold for individual assessment (e.g. salary loans, auto loans, consumer loans, and business and housing loans that fall below the materiality threshold) shall be grouped for the purpose of assessing credit risk and valuation.

The Bank's loan loss methodology shall only be applicable to individually-assessed loans. The Bank's credit classification for individually assessed loans is clone on the basis of internal credit risk rating system and will also consider current performance of the borrower in terms of loan repayment to the Bank.

The classification system shall promptly identify deteriorating credit exposures and determine appropriate allowance for credit losses. Periodic review should be conducted in accordance with the policy on credit review to ensure up-to-date loan classification of individually-assessed loans. The Bank's classification of loans and other credit accommodations is mapped and is consistent with regulatory classification.

The Bank has in place a reliable credit classification system to promptly identify deteriorating credit exposures and determine appropriate allowance for credit losses. Classification can be done on the basis of internal credit risk rating system, including payment delinquency status. All credit classifications, not only those reflecting severe credit deterioration, shall be considered in determining the appropriate allowance for credit losses.

The Bank maps their classification of loans and other credit accommodations against the regulatory classification criteria provided below:

(a) Pass

These are loans and other credit accommodations that do not have a greater-than-normal credit risk. The borrower has the apparent ability and willingness to satisfy his obligations in full and therefore no loss in ultimate collection is anticipated.

(b) Especially Mentioned (EM)

These are loans and other credit accommodations that have potential weaknesses that deserve management's close attention. If left uncorrected, these weaknesses may affect the repayment of the loan. Some degree of structural weakness may be found in virtually any aspect of the loan arrangement or type of loan, and the presence of one (or more) need not be indicative of an overall credit weakness deserving criticism. Instead, the Bank must evaluate the relative importance of such factors in the context of the borrower's overall financial strength, the condition of the borrower's industry or market, and the borrower's total relationship with the Bank.

(c) Substandard

These are loans and other credit accommodations that have well-defined weakness/(es), that may jeopardize repayment/liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower.

(d) Doubtful

These are loans and other credit accommodations that exhibit more severe weaknesses than those classified as Substandard, whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable, however the exact amount remains undeterminable as yet. Classification as Loss is deferred because of specific pending factors which may strengthen the assets.

(e) Loss

These are loans and other credit accommodations which are considered uncollectible or worthless and of such little value that their continuance as bankable assets are not warranted although the loans may have some recovery or salvage value. This shall be viewed as a transitional category for loans and other credit accommodations which have been identified as requiring write-off during the current reporting period even though partial recovery may be obtained in the future.

In addition, credit portfolio review is another integral part of the Bank's credit risk management. This activity involves the conduct of periodical post-approval review of individual credits with main objective to help monitor and maintain sound and healthy risk asset portfolio. The parameters of the credit portfolio review are structured so as to reflect both sides of the risk management equation such as credit quality and process. This function actuates the philosophy that credit quality is derived from sound risk management process. The credit quality of financial assets is managed by the Bank using internal credit ratings.

Loan Loss Methodology and Provisioning for Individually – Assessed Loan

The Bank provides allowance for identified and expected losses based on the following criteria:

(a) Borrower's risk rating (BRR)

Loans shall be initially provided with allowance based on its borrower's risk rating. Consistent with BSP Circular No. 439, *Rules and Regulations Governing the Development and Implementation of Banks' Internal Credit Risk Rating System*, the rating criteria reflect an established blend of qualitative and quantitative parameters. The BRR is a borrower dimension that focuses on factors that affect the inherent credit quality of each borrower. This BRR is largely adopted from Small Business Corporation's BRR with slight adjustments to give more emphasis on a criterion which the Bank conceives crucial based on its own experience.

The BRR will effectively screen out bad accounts and help identify the level of risk of potentially problematic accounts. It will also help fast track the processing of accounts with minimal risks involved. Each borrower would be risk rated and each loan would be managed and priced according to the risk level.

The objectives of the BRR system are as follows:

- To provide a system of credit analysis both quantitative and qualitative to provide a basis for management to approve or deny credit applications;
- To set up a BRR wherein each borrower is given a credit risk estimate and description;
- To identify areas of risks in accounts and the ways to mitigate risks in these areas;
- To provide for a basis by which the performance of accounts could be monitored; and,
- To identify potential problem accounts and institute necessary monitoring measures to manage risks.

The BRR system is a risk rating model that focuses on four areas of concern in a borrower as follows:

1. *Cash* refers to financials of the borrower and looks into its financial ratios and balance sheet items specifically: the current ratio, debt to equity ratio, debt servicing capacity, and the accounts receivable level.

2. *Administration* refers to the owners and the management of the borrower. Specifically, the factors looked into are: the management experience of the owners in the line of business engaged by the borrower, the owner's health and plan of succession, the financial capacity of the owners which refers to their personal net worth, and the attitude of the owners towards banks.

3. *Market* looks into the general market condition of the borrower for its products and/or services. Specifically, it evaluates the clientele of the borrower, and the increase in sales over the last three years.

4. *Production* is concerned mostly in the ability of the borrower to meet the demand for the products and services and to expand capacity when needed. Specific items looked into under this area are: the number of suppliers, the quality and speed of movement of inventory, potential to increase production and service capacity, and the quality of the business location.

The following are the provisioning rates matrix for both unsecured and secured loans according to the Bank's BRR:

1. *Unsecured loans*

   BRR of 1 to 5 pertains to loans with 0 to 30 days past due is classified as "Pass" and with provisioning rates ranging from 1.00% to 1.20%.

   BRR of 6 to 7 are loan accounts with 0 to 30 days but contain potential weaknesses, thus, classified as "EM" and with provisioning rates of 2.00% and 5.00%, respectively.

   BRR of 8, 9 and 10 are loans with days past due of 31 to 120 days, 121 to 181 days, and over 181 days, respectively. The Bank provides for allowance for impairment on these loans by 25.00%, 50.00%, and 100.00%, respectively.

2. *Secured loans*

   BRR of 1 to 5 pertains to loans with 0 to 30 days past due classified as "Pass" and with a provisioning rate of 1.00%.

   BRR of 6 to 7 are loan accounts with 0 to 30 days but contain potential weaknesses, thus, classified as "EM" and with provisioning rates of 1.00% and 2.00%, respectively.

   BRR of 8, 9 and 10 are loans with days past due of 31 to 360 days, 1 to 5 years, and over 5 years, respectively. The Bank provides for allowance for impairment on these loans by 5.00%, 25.00%, and 100.00%, respectively.

(b) Days of missed payment

For loan accounts with missed payments of more than 30 days, allowance shall be provided based on the missed payments classification, whichever provides the higher allowance for losses.

(c) Account Officer (AO) judgment

The AOs, based on valued judgment and with sufficient justification, should recommend amount of provision, whether higher or lower than the one provided by the BRR or days of missed payment.

(d) Good performance of the loan

During loan review, borrower's with BRR of below "5" but has already made six continuous payments and has zero missed payment as of the review date, will be reclassified to BRR 5 (Acceptable) for allowance purposes only.

Loan Loss Methodology on Motorcycle Loans

The Bank's impairment loss model includes factors such as roll-forward rate, repossession rate, geographical location, and days past due bucket. Roll-forward rate eliminates distortion in loan movements caused by termination of accounts, application of excess payments and repossession. This also demonstrates the normal behavior of the Bank's motorcycle loan accounts. The following probabilities are considered in the Bank's loan loss methodology for motorcycle loans:

a. Repossession loss probability – refers to the historical average of repossessed accounts per past due bucket multiplied by the historical rate of loss on repossession.

b. Write-off loss probability – refers to the historical roll-forward rate per past due bucket (excluding repossession) until accounts are written-off.

Provisioning for Collectively –Assessed Loans

The Bank provides for the estimated credit losses on collectively-assessed loans based on the Bank's historical net charge-off rate of the groups, adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans in these groups as of the evaluation date, and applied consistently over time.

The following table shows the Bank's exposure to credit risk as of December 31, 2017 and 2016 for each internal risk grade and the related allowance for impairment:

	December 31, 2017			
	Due from BSP and Other Banks	Loans and Receivables	HTM Investments	AFS Financial Assets
Carrying Amount	**P 2,436,003,707**	**P 22,082,180,266**	**P 391,095,789**	**P 2,591,728,406**
Individually Impaired				
Grade C : LEM	-	369,022,105	-	-
Grade D: Substandard	-	194,636,947	-	-
Grade E : Doubtful	-	362,354,354	-	-
Grade F : Loss	-	228,525,540	50,000,000	-
Gross amount	-	1,154,538,946	50,000,000	-
Allowance for impairment	-	(508,798,460)	(50,000,000)	-
Carrying amount	-	645,740,486	-	-
Collectively Impaired				
Gross amount	-	16,522,957,066	-	-
Allowance for impairment	-	(1,212,973,489)	-	-
Carrying amount	-	15,309,983,577	-	-
Neither Past Due				
Nor Impaired				
Unclassified	2,436,003,707	6,179,948,173	391,095,789	2,591,728,406
Allowance for impairment	-	(53,491,970)	-	-
Carrying amount	2,436,003,707	6,126,456,203	391,095,789	2,591,728,406
Net Carrying Amount	**P 2,436,003,707**	**P 22,082,180,266**	**P 391,095,789**	**P 2,591,728,406**

	December 31, 2016			
Carrying Amount	P 2,345,761,828	P 19,593,431,899	P 490,051,356	P 3,201,124,207
Individually Impaired				
Grade C : LEM	-	130,365,849	-	-
Grade D: Substandard	-	193,873,156	-	-
Grade E : Doubtful	-	64,633,723	-	-
Grade F : Loss	-	150,918,263	50,000,000	-
Gross amount	-	539,790,991	50,000,000	-
Allowance for impairment	-	(227,194,312)	(50,000,000)	-
Carrying amount	-	312,596,679	-	-
Collectively Impaired				
Gross amount	-	1,761,600,654	-	-
Allowance for impairment	-	(1,333,411,426)	-	-
Carrying amount	-	428,189,228	-	-
Neither Past Due				
Nor Impaired				
Unclassified	2,345,761,828	18,995,020,807	490,051,356	3,201,124,207
Allowance for impairment	-	(142,374,815)	-	-
Carrying amount	2,345,761,828	18,852,645,992	490,051,356	3,201,124,207
Net Carrying Amount	P 2,345,761,828	P 19,593,431,899	P 490,051,356	P 3,201,124,207

4.3.1.2 Collateral Held as Security and Other Credit Enhancements

The Bank holds collateral against loans and other receivables from customers in the form of mortgage interests over property, hold-out deposits, other registered securities over assets and guarantees (see Note 11). Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over due from other banks, interbank loans and investment securities, except when securities are held as part of reverse repurchase and securities borrowing activity.

4.3.2 Market Risk

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

(a) Interest Risk

The Bank's policy is to minimize interest rate cash flow risk exposures. As of December 31, 2017 and 2016, the Bank is exposed to changes in market interest rates through its short-term placements which form part of amounts due from other banks, AFS financial assets and HTM investments, which are subject to variable interest. All other financial assets and financial liabilities either have fixed interest rates or are noninterest-bearing.

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

	2017		
	+/- %	**Profit before tax**	**Equity**
Due from other banks	0.90%	P 2,895,382	P 2,318,306
AFS financial assets	0.74%	19,115,643	15,292,514
HTM investments	0.74%	2,884,580	2,307,664
		P 24,895,605	**P 19,916,484**

	2016		
	+/- %	Profit before tax	Equity
Due from other banks	0.58%	P 1,689,076	P 1,351,261
AFS financial assets	0.57%	18,356,520	14,685,216
HTM investments	0.57%	2,810,150	2,248,120
		P 22,855,746	P 18,284,597

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

(b) Other Price Risk

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

For AFS equity securities held by the Bank, an average volatility of 10.95% and 13.01%, has been observed during 2017 and 2016, respectively. If quoted price for these securities increased or decreased by that amount, equity would have changed by P13.8 million and P16.8 million in 2017 and 2016, respectively.

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

4.3.3 Liquidity Risk

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

The analysis of the maturity groupings of the Bank's financial assets and financial liabilities (at gross amounts) as of December 31, 2017 and 2016 is presented below.

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

	2016			
	Due Within One Year	Due Beyond One Year but Within Five Years	Due Beyond Five Years	Total
Financial Resources:				
Cash	P 51,902,747	P -	P -	P 51,902,747
Due from BSP	2,052,525,572	-	-	2,052,525,572
Due from other banks	293,236,256	-	-	293,236,256
AFS financial assets	3,330,318,906	-	-	3,330,318,906
HTM investments	101,334,825	111,811,496	326,905,035	540,051,356
Loans and receivables	7,027,048,733	13,308,966,523	1,030,965,513	21,366,980,769
Rental and utilities deposits	-	-	18,771,560	18,771,560
Total	12,856,367,039	13,420,778,019	1,376,642,108	27,653,787,166
Financial Liabilities:				
Deposit liabilities	10,990,791,232	9,755,440,460	-	20,746,231,692
Accrued expenses and other liabilities	955,870,157	-	-	955,870,157
Total	11,946,661,389	9,755,440,460	-	21,702,101,849
Periodic Surplus (Gap)	909,705,650	3,665,337,559	1,376,642,108	5,951,685,317
Cumulative Total Surplus (Gap)	P 909,705,650	P 4,575,043,209	P 5,951,685,317	P 5,951,685,317

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

4.3.4 Operations Risk

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

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

5. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.1 Carrying Amounts and Fair Values by Category

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

		2017		2016	
	Notes	**Carrying Amounts**	**Fair Values**	Carrying Amounts	Fair Values
Financial Assets:					
Loans and receivables:					
Cash	8	**P 59,212,747**	**P 59,212,747**	P 51,902,747	P 51,902,747
Due from BSP	8	**2,116,067,079**	**2,116,067,079**	2,052,525,572	2,052,525,572
Due from other banks	8	**319,936,628**	**319,936,628**	293,236,256	293,236,256
Loans and receivables	11	**22,082,180,266**	**22,082,180,266**	19,593,431,899	19,593,431,899
Rental and utilities deposits	16	**25,604,845**	**25,604,845**	18,771,560	18,771,560
Returned checks and other cash items	16	**3,252**	**3,252**	-	-
		24,603,004,817	**24,603,004,817**	22,009,868,034	22,009,868,034
HTM investments	10	**391,095,789**	**392,888,850**	490,051,356	510,205,565
AFS financial assets	9	**2,718,176,276**	**2,718,176,276**	3,330,318,906	3,330,318,906
		P27,712,276,882	**P27,714,069,943**	P25,830,238,296	P 25,850,392,505
Financial Liabilities:					
At amortized cost:					
Deposit liabilities	17	**P22,005,928,874**	**P22,005,928,874**	P 20,746,231,692	P 20,746,231,692
Accrued expenses and other liabilities	18	**907,870,484**	**907,870,484**	955,870,157	955,870,157
		P22,913,799,358	**P22,913,799,358**	P 21,702,101,849	P 21,702,101,849

5.2 Offsetting of Financial Assets and Financial Liabilities

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

	Gross amounts recognized in the statement of of financial position		Net amount presented in statement of financial position	Related amounts not set-off in the statement of financial position		
	Financial instruments	**Amount set-off**		**Financial instruments**	**Collateral received**	**Net amount**
December 31, 2017						
Financial assets –						
Loans and receivables	**P 22,093,255**	**(P 11,075)**	**P 22,082,180**	**P 22,082,180**	**(P 560,941)**	**P 21,521,239**
Financial liabilities:						
Deposit liabilities	P 22,005,929	P -	P 22,005,929	P 22,005,929	(P 560,941)	P 21,444,988
Accrued expenses and other liabilities	981,945	(11,075)	970,870	970,870	-	970,870
Total	**P 22,987,874**	**(P 11,075)**	**P 22,976,799**	**P 22,976,799**	**(P 560,941)**	**P 22,415,858**
December 31, 2016						
Financial assets –						
Loans and receivables	P 19,667,364	(P 73,932)	P 19,593,432	P 19,593,432	(P 1,384,486)	P 18,208,946
Financial liabilities:						
Deposit liabilities	P 20,746,232	P -	P 20,746,232	P 20,746,232	(P 1,384,486)	P 19,361,746
Accrued expenses and other liabilities	73,932	(73,932)	-	-	-	-
Total	P 20,820,164	(P 73,932)	P 20,746,232	P 20,746,232	(P 1,384,486)	P 19,361,746

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

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

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

6. FAIR VALUE MEASUREMENT AND DISCLOSURE

6.1 Fair Value Hierarchy

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

6.2 Financial Instruments Measured at Fair Value

The Bank's financial assets measured at fair value in the statements of financial position on a recurring basis as of December 31, 2017 and 2016, presented as AFS financial assets amounting to P2.7 billion and P3.3 billion, respectively, and fair value hierarchy is presented below.

	December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Equity securities	P 126,447,870	P -	P -	P 126,447,870
Corporate debt securities	-	2,531,755,819	-	2,531,755,819
Government debt securities	-	59,972,587	-	59,972,587
	P 126,447,870	**P 2,591,728,406**	**P -**	**P 2,718,176,276**

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Equity securities	P 129,194,699	P -	P -	P 129,194,699
Corporate debt securities	-	2,964,519,548	-	2,964,519,548
Government debt securities	-	236,604,659	-	236,604,659
	P 129,194,699	P 3,201,124,207	P -	P 3,330,318,906

The fair value of AFS financial assets of the Bank are categorized within Level 1 and Level 2. For equity securities included in Level 1, these are valued based on their published closing prices in the Philippine Stock Exchange (PSE). On the other hand, the fair value of government and corporate debt securities categorized within Level 2 are determined based on the prices of relative benchmark securities which are quoted in Bloomberg and PDEx.

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

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

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

	Level 1	**Level 2**	**Level 3**	**Total**
December 31, 2017				
Financial assets:				
Cash and other cash items	P 59,212,747	P -	P -	P 59,212,747
Due from BSP	2,116,067,079	-	-	2,116,067,079
Due from other banks	319,936,628	-	-	319,936,628
HTM investments – net	-	392,888,850	-	392,888,850
Loans and receivables – net	-	-	22,082,180,266	22,082,180,266
Rental and utilities deposits	-	-	25,604,845	25,604,845
Returned checks and other cash items	-	-	3,252	3,252
	P 2,495,216,454	**P 392,888,850**	**P 22,107,788,363**	**P 24,995,893,667**
Financial liabilities:				
Deposit liabilities	P 22,005,928,874	P -	P -	P 22,005,928,874
Accrued interest and other expense	-	-	907,870,484	907,870,484
	P 22,005,928,874	**P -**	**P 907,870,484**	**P 22,913,799,358**

	Level 1	Level 2	Level 3	Total
December 31, 2016				
Financial assets:				
Cash and other cash items	P 51,902,747	P -	P -	P 51,902,747
Due from BSP	2,052,525,572	-	-	2,052,525,572
Due from other banks	293,236,256	-	-	293,236,256
HTM investments – net	-	510,205,565	-	510,205,565
Loans and receivables – net	-	-	19,593,431,899	19,593,431,899
Rental and utilities deposits	-	-	18,771,560	18,771,560
	P 2,397,664,575	P 510,205,565	P 19,612,203,459	P 22,520,073,599
Financial liabilities:				
Deposit liabilities	P 20,746,231,692	P -	P -	P 20,746,231,692
Accrued interest and other expenses	-	-	955,870,157	955,870,157
	P 20,746,231,692	P -	P 955,870,157	P 21,702,101,849

HTM investments consist of securities issued by the government-owned-and-controlled corporations (GOCC) with fair value included in Level 2, was determined based on prices quoted in PDEx representing prices of benchmark debt securities at the end of the reporting period.

6.4 Fair Value Measurement for Non-financial Assets

(a) Determining Fair Value of Investment Properties

The table below shows the Levels within the hierarchy of investment properties measured at fair value on a recurring basis as of December 31, 2017 and 2016.

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

	2016			
	Level 1	Level 2	Level 3	Total
Land	P -	P 95,279,092	P 31,417,145	P 126,696,237
Buildings	-	66,653,108	66,994,061	133,647,169
	P -	P 161,932,200	P 98,411,206	P 260,343,406

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

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

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

(i) Fair Value Measurement for Land

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

(ii) Fair Value Measurement for Buildings

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

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

(b) Determining Fair Value of Assets Held for Sale

The fair value of the Bank's assets held for sale amounting to P499.1 million and P424.7 million in 2017 and 2016, respectively, are determined based on the recent experience in the valuation of similar properties. The fair value, determined under Level 3 measurement, was derived using the market data approach that reflects the recent transaction prices for similar properties, adjusted for differences in property age and condition.

There has been no change to the valuation techniques used by the Bank during the year for its non-financial assets. Also, there were no transfer into or out of Level 3 fair value hierarchy in 2017 and 2016.

7. SEGMENT REPORTING

The Bank's main operating businesses are organized and managed separately according to the nature of services and products provided and the different markets served, with each segment representing a strategic business unit. These are also the basis of the Bank in reporting to its chief operating decision-maker for its strategic decision-making activities.

Management currently identifies the Bank's four service lines as its primary operating segments.

(a) *Corporate and Retail Lending* – handles consumer loans as well as loans and other credit facilities for small and medium enterprise, and corporate clients;

(b) *Branch Banking* – handles marketing of deposit and loan products in the branches;

(c) *Treasury Operations* – manages the Bank's liquidity as well as institutional deposits; and,

(d) *Head Office* – refers to general operations of the Bank.

These segments are the basis on which the Bank reports its segment information. Transactions between the segments are on normal commercial terms and conditions.

Segment revenues and expenses that are directly attributable to primary operating segment and the relevant portions of the Bank's revenues and expenses that can be allocated to that operating segment are accordingly reflected as revenues and expenses of that operating segment. Revenue sharing agreements are used to allocate external customer revenues to a segment on a reasonable basis.

The contribution of these various business activities to the Bank's revenues and income for the years 2017, 2016 and 2015 are as follows (in million Philippine pesos):

	Corporate and Retail Lending	Branch Banking	Treasury Operations	Head Office	Total
December 31, 2017					
Statement of Profit or Loss					
Net interest income					
Third party	P 5,144	(P 1)	P 25	(P 492)	P 4,677
Intersegment	(883)	258	82	543	-
	4,261	257	107	51	4,677
Non-interest income	581	30	13	259	883
Total income (after interest expense)	4,842	287	120	310	5,559
Operating expenses	(3,030)	(280)	(28)	(330)	(3,668)
Pre-tax profit	1,812	7	92	(20)	1,891
Tax expenses	(473)	(2)	(18)	(5)	(488)
Net profit	**P 1,339**	**P 5**	**P 74**	**(P 15)**	**P 1,403**
Statement of Financial Position					
Total Resources	**P 22,590**	**P 1,220**	**P 4,252**	**P 2,266**	**P 30,328**
Total Liabilities	**P 1,054**	**P 5,185**	**P 4,088**	**P 12,855**	**P 23,182**
Other segment information					
Provision for impairment	**P 1,205**	**P 31**	**P -**	**P -**	**P 1,236**
December 31, 2016					
Statement of Profit or Loss					
Net interest income					
Third party	P 4,751	(P 54)	P 19	(P 583)	P 4,133
Intersegment	(949)	227	75	647	-
	3,802	173	94	64	4,133
Non-interest income	535	17	43	86	681
Total income (after interest expense)	4,337	190	137	150	4,815
Operating expenses	(3,463)	(172)	(26)	(289)	(3,950)
Pre-tax profit	874	18	111	139	865
Tax expenses	(229)	(5)	(22)	(36)	(220)
Net profit	P 645	P 13	P 89	P 103	P 645
Statement of Financial Position					
Total Resources	P 20,135	P 929	P 4,589	P 2,267	P 28,190
Total Liabilities	P 1,146	P 4,178	P 3,672	P 12,753	P 21,839
Other segment information					
Provision for impairment	P 1,786	P 9	P -	P -	P 1,795

	Corporate and Retail Lending	Branch Banking	Treasury Operations	Head Office	Total
December 31, 2015					
Statement of Profit or Loss					
Net interest income					
Third party	P 4,927	(P 81)	P 14	(P 1,043)	P 3,817
Intersegment	(1,263)	202	75	986	-
	3,664	121	89	(57)	3,817
Non-interest income	495	18	22	-	535
Total income (after interest expense)	4,159	139	111	(57)	4,352
Operating expenses	(3,388)	(116)	(22)	(272)	(3,798)
Pre-tax profit	771	23	89	(329)	554
Tax expenses	(237)	(7)	(18)	(101)	(161)
Net profit	P 534	P 16	P 71	(P 228)	P 393
Statement of Financial Position					
Total Resources	P 19,164	P 802	P 6,583	P 1,327	P 27,876
Total Liabilities	P 1,117	P 4,160	P 3,746	P 12,714	P 21,737
Other segment information					
Provision for impairment	P 1,615	P 5	P -	P -	P 1,620

8. CASH AND CASH EQUIVALENTS

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

	2017	2016
Cash	**P 59,212,747**	P 51,902,747
Due from BSP	**2,116,067,079**	2,052,525,572
Due from other banks	**319,936,628**	293,236,256
	P 2,495,216,454	P 2,397,664,575

Cash accounts with other banks generally earn interest based on daily bank deposit rates. Short-term placements, which are included as part of Due from Other Banks, are made for varying periods between seven and thirty days and earn annual effective interest at rates ranging from 0.25% to 1.50% in 2017 and 1.20% to 1.75% in both 2016 and 2015.

The Bank maintains account with the BSP for regular reserve requirement and a special depository account. Due from BSP, excluding mandatory reserves, which has no interest, bears annual interest rate of 2.50% to 3.50% in 2017 and 2.50% in both 2016 and 2015.

Interest income from Due from Other Banks amounted to P1.8 million, P1.9 million, and P3.6 million in 2017, 2016 and 2015, respectively; while interest income from Due from BSP amounted to P34.8 million, P35.5 million and P53.0 million in 2017, 2016 and 2015, respectively. Both are presented as Interest Income from Due from BSP and other banks account in the statements of profit or loss.

In accordance with BSP regulations, the Bank is required to maintain regular reserves against savings, time deposits and demand deposits at 8.00% of the outstanding balance thereof in both 2017 and 2016. The Bank has satisfactorily complied with the reserve requirements of the BSP as of December 31, 2017 and 2016 (see Note 17).

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account is composed of the following:

	2017	2016
Debt securities:		
Corporate	**P 2,531,755,819**	P 2,964,519,548
Government	**59,972,587**	236,604,659
Equity securities	**126,447,870**	129,194,699
	P 2,718,176,276	P 3,330,318,906

The reconciliation of the carrying amounts of the Bank's holdings of AFS financial assets is summarized below.

	2017	2016
Balance at beginning of year	**P 3,330,318,906**	P 3,815,119,647
Disposals	**(1,379,848,000)**	(1,794,810,000)
Additions	**833,000,000**	1,409,352,000
Amortization of discount or premium	**(14,018,843)**	(127,858,694)
Fair value (losses) gains – net	**(51,275,787)**	65,142,395
Accrued interest receivable	**-**	(36,626,442)
Balance at end of year	**P 2,718,176,276**	P 3,330,318,906

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

Debt securities earn coupon interest at rates ranging from 4.75% to 5.88%, 3.63% to 8.00% and 3.38% to 8.00% per annum in 2017, 2016 and 2015, respectively, for government debt securities and 4.38% to 6.60% for 2017 and 4.13% to 6.60% per annum both in 2016 and 2015 for corporate debt securities.

The total interest earned from AFS financial assets in 2017, 2016 and 2015 amounted to P149.4 million, P170.4 million and P112.2 million, respectively, and is presented as Interest income on AFS financial assets in the statements of profit or loss. In 2017, 2016 and 2015, the total realized gain recognized by the Bank from the disposal of AFS financial assets amounted to P12.7 million, P33.0 million and P10.4 million, respectively, and is presented as Realized gain on AFS financial assets under Other Operating Income in the statements of profit or loss (see Note 20.1).

Dividends earned from AFS financial assets amounted to P6.6 million in 2017 and 2016 and P8.9 million in 2015, and is presented as Dividend income under Other Operating income in the statements of profit or loss (see Note 20.1).

10. HELD-TO-MATURITY INVESTMENTS

This account is composed of government debt securities with carrying amount as show below:

	2017	2016
Cost	**P 441,095,789**	P 540,051,356
Allowance for impairment	**(50,000,000)**	(50,000,000)
	P 391,095,789	P 490,051,356

The investments earn coupon interest at rates ranging from 1.30% to 6.75% in 2017, 2016 and 2015. The total interest earned amounted to P16.2 million, P18.3 million and P15.6 million in 2017, 2016 and 2015, respectively, and is presented as Interest income on HTM investments in the statements of profit or loss.

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

	2017	2016
Within one year	**P 46,923,855**	P 101,334,825
Beyond one year but within five years	**142,602,255**	111,811,496
Beyond five years	**201,569,679**	276,905,035
	P 391,095,789	P 490,051,356

Changes in HTM investments are summarized below.

	2017	2016
Balance at beginning of year	**P 490,051,356**	P 578,356,076
Redemptions	**(98,955,567)**	(106,235,359)
Additions	**-**	17,930,639
Balance at end of year	**P 391,095,789**	P 490,051,356

11. LOANS AND RECEIVABLES

Loans and receivables consist of the following:

	2017	2016
Receivables from customers:		
Motorcycle loans	**P 15,664,088,467**	P12,973,364,901
Commercial loans	**5,457,449,954**	5,416,094,613
Consumption loans	**1,119,692,964**	985,959,501
Microfinance loans	**122,204,836**	58,110,625
	22,363,436,221	19,433,529,640
Other receivables:		
Receivables arising from reverse repurchase agreement	**1,016,069,140**	1,282,001,539
Accrued interest receivable	**447,438,392**	501,365,993
Accounts receivable	**18,609,028**	47,808,052
Sales contracts receivable	**14,288,674**	42,368,258
	1,496,405,234	1,873,543,842
Allowance for impairment	**(1,775,263,919)**	(1,702,980,553)
Unearned interest	**(2,397,270)**	(10,661,030)
	P 22,082,180,266	P19,593,431,899

The annual effective interest rates on these loans range from 1.25% to 61.0%, 1.00% to 61.0%, and 1.50% to 60.0%, in 2017, 2016 and 2015, respectively. Total interest earned amounted to P5.3 billion, P4.9 billion and P5.0 billion in 2017, 2016 and 2015, respectively, and are presented as Interest income on loans and receivables in the statements of profit or loss.

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

	2017	2016
Within one year	**P 2,531,021,318**	P 2,923,140,523
Beyond one year but within five years	**17,697,056,719**	15,173,192,667
Beyond five years	**2,135,358,184**	1,337,196,450
	P 22,363,436,221	P19,433,529,640

The Bank's concentration of credit as to economic activity follows:

	2017	2016
Consumption	**P 14,228,159,403**	P 9,050,708,580
Real estate, renting and other related activities	**1,657,519,934**	1,498,178,938
Wholesale and retail trade	**1,649,864,676**	2,064,938,246
Other community, social and personal services	**1,355,206,085**	2,079,534,021
Agriculture, hunting and forestry	**957,870,782**	1,386,879,696
Manufacturing	**583,188,289**	571,377,642
Transportation, storage and communication	**381,089,510**	627,633,536
Financial and insurance activities	**360,746,408**	858,992,219
Construction	**335,337,916**	293,876,796
Accommodation and food services	**249,505,308**	201,794,138
Human health and social work	**199,437,822**	173,803,024
Electricity, gas and water	**181,316,617**	207,760,557
Private household	**118,672,596**	151,533,924
Education	**97,795,548**	247,745,961
Mining and quarrying	**7,725,327**	18,772,362
	P 22,363,436,221	P 19,433,529,640

As to security, loans are classified into:

	2017	2016
Secured:		
Hold out deposits	**P 560,940,831**	P 1,384,485,778
Real estate mortgage	**853,851,077**	694,842,617
Others	**56,060,105**	76,031,568
	1,470,852,013	2,155,359,963
Unsecured	**20,892,584,208**	17,278,169,677
	P 22,363,436,221	P 19,433,529,640

Details of non-performing loans (NPLs) follow:

	2017	2016
Unsecured	**P 1,968,213,813**	P 2,101,407,007
Secured	**144,752,254**	141,666,457
	P 2,112,966,067	P 2,243,073,464

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

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

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

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

Restructured loans and receivables, which do not meet the requirements to be treated as performing receivables, shall also be considered as NPLs. All items in litigation shall be considered non-performing.

Non-performing loans included in the total loan portfolio net of specific allowance for impairment are presented below.

	2017	2016
NPL	**P 2,112,966,067**	P 2,243,073,464
Allowance for impairment	**(1,682,105,051)**	(1,548,358,800)
	P 430,861,016	P 694,714,664

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

	2017	2016
Balance at beginning of year	**P 1,702,980,553**	P 1,416,141,961
Impairment losses during the year	**1,004,966,665**	1,500,769,794
Write-off	**(830,081,465)**	(974,673,933)
Reversals:		
Motorcycle and consumer loans	**(79,872,057)**	(237,658,542)
Business loan	**(22,729,777)**	(1,598,727)
Balance at end of year	**P 1,775,263,919**	P 1,702,980,553

The Bank establishes allowance for impairment losses on loans and other risk assets in accordance with the requirements of the BSP which management believes is not materially different with the provisions of PFRS (see Note 4).

12. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment at the beginning and end of 2017 and 2016 are shown below.

	Building and Improvements	Furniture, Fixtures and Equipment	Land	Computer Software	Total
December 31, 2017					
Cost	P 221,495,312	P 286,823,620	P 32,294,285	P 163,332,644	P 703,945,861
Accumulated depreciation and amortization	(138,132,513)	(263,241,850)	-	(34,689,067)	(436,063,430)
Net carrying amount	**P 83,362,799**	**P 23,581,770**	**P 32,294,285**	**P 128,643,577**	**P 267,882,431**
December 31, 2016					
Cost	P 198,474,173	P 269,426,023	P 32,294,285	P 57,638,473	P 557,832,954
Accumulated depreciation and amortization	(115,248,279)	(225,446,053)	-	(12,076,988)	(352,771,320)
Net carrying amount	P 83,225,894	P 43,979,970	P 32,294,285	P 45,561,485	P 205,061,634
January 1, 2016					
Cost	P 162,586,119	P 239,697,093	P 32,294,285	P 149,122,641	P 583,700,638
Accumulated depreciation and amortization	(94,832,611)	(197,915,828)	-	(74,291,904)	(367,040,343)
Net carrying amount	P 67,754,508	P 41,781,265	P 32,294,285	P 74,830,737	P 216,660,295

A reconciliation of the carrying amounts at the beginning and end of 2017 and 2016 of bank premises, furniture, fixtures and equipment is shown below.

	Building and Improvements	Furniture, Fixtures and Equipment	Land	Computer Software	Total
Balance at January 1, 2017, net of accumulated depreciation and amortization	P 83,225,894	P 43,979,970	P 32,294,285	P 45,561,485	P 205,061,634
Additions	23,021,140	18,902,570	-	127,315,118	169,238,828
Disposal	-	(1,039,500)	-	-	(1,039,500)
Depreciation and amortization charges for the year	(22,884,235)	(38,261,270)	-	(44,233,026)	(105,378,531)
Balance at December 31, 2017, net of accumulated depreciation and amortization	**P 83,362,799**	**P 23,581,770**	**P 32,294,285**	**P 128,643,577**	**P 267,882,431**

	Building and Improvements	Furniture, Fixtures and Equipment	Land	Computer Software	Total
Balance at January 1, 2016, net of accumulated depreciation and amortization	P 67,754,008	P 41,781,265	P 32,294,285	P 74,830,737	P 216,660,295
Additions	36,436,246	29,840,703	-	13,183,351	79,460,300
Disposal	-	(784,399)	-	(28,959,408)	(29,743,807)
Reclassification	-	1,345,175	-	(1,345,175)	-
Depreciation and amortization charges for the year	(20,964,360)	(28,202,797)	-	(12,148,020)	(61,315,154)
Balance at December 31, 2016, net of accumulated depreciation and amortization	P 83,225,894	P 43,979,970	P 32,294,285	P 45,561,485	P 205,061,634

Under BSP rules, investments in bank premises, furniture, fixtures and other equipment should not exceed 50% of a bank's unimpaired capital. As of December 31, 2017 and 2016, the Bank has satisfactorily complied with this BSP requirement.

As of December 31, 2017 and 2016, the total cost of fully depreciated bank premises, furniture, fixtures and equipment that is still currently being used by the Bank in operations amounts to P275.7 million and P115.6 million, respectively.

The Bank sold certain bank premises, furniture, fixtures and equipment, which resulted to a gain of P0.1 million in 2016 and loss of P0.2 million in 2015 (nil in 2017), and is presented as part of Gain on sale of properties account under Other Operating Income and Loss on sale of properties – net account under Other Operating Expenses, respectively, in the statements of profit or loss (see Note 20).

13. ASSETS HELD FOR SALE

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

	2017	2016
Cost	**P 445,125,203**	P 575,936,629
Allowance for impairment	**(131,937,516)**	(210,280,587)
	P 313,187,687	P 365,656,042

The Bank recognized gain of P33.3 million and P18.2 million in 2017 and 2016, respectively, and a loss of P47.1 million in 2015, from the sale of assets held for sale and is presented as part of Gain on sale of properties account under the Other Operating Income and Loss on sale of properties account under Other Operating Expenses, respectively, in the statements of profit or loss (see Note 20).

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

	2017	2016
Balance at beginning of year	**P 210,280,587**	P 281,266,871
Impairment losses	**228,597,884**	292,102,692
Reversal of impairment due to disposal	**(306,940,955)**	(363,088,976)
Balance at end of year	**P 131,937,516**	P 210,280,587

14. INVESTMENT PROPERTIES

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

The gross carrying amounts and accumulated depreciation and impairment of investment properties at the beginning and end of 2017 and 2016 are shown below.

	Buildings and Improvements	Land	Total
December 31, 2017			
Cost	P 117,127,911	P 100,914,019	P 218,041,930
Accumulated depreciation	(33,218,625)	-	(33,218,625)
Allowance for impairment	(318,009)	(4,589,222)	(4,907,231)
Net carrying amount	**P 83,591,277**	**P 96,324,797**	**P 179,916,074**
December 31, 2016			
Cost	P 94,835,298	P 93,098,671	P 187,933,969
Accumulated depreciation	(24,988,457)	-	(24,988,457)
Allowance for impairment	(2,858,699)	(2,640,151)	(5,498,850)
Net carrying amount	P 66,988,142	P 90,458,520	P 157,446,662
January 1, 2016			
Cost	P 89,020,260	P 105,008,476	P 194,028,736
Accumulated depreciation	(17,662,946)	-	(17,662,946)
Allowance for impairment	(404,417)	(4,723,383)	(5,127,800)
Net carrying amount	P 70,952,897	P 100,285,093	P 171,237,990

A reconciliation of the carrying amounts at the beginning and end of 2017 and 2016 of investment properties is shown below.

	Buildings and Improvements	Land	Total
Balance at January 1, 2017, net of accumulated depreciation and impairment	P 66,988,142	P 90,458,520	P 157,446,662
Additions	26,197,357	7,815,348	34,012,705
Disposal	(2,435,848)	-	(2,435,848)
Reversal of impairment	2,540,690	-	2,540,690
Impairment loss	-	(1,949,071)	(1,949,071)
Depreciation charges for the year	(9,699,064)	-	(9,699,064)
Balance at December 31, 2017, net of accumulated depreciation and impairment	**P 83,591,277**	**P 96,324,797**	**P 179,916,074**
Balance at January 1, 2016, net of accumulated depreciation and impairment	P 70,952,897	P 100,285,093	P 171,237,990
Additions	6,428,781	11,644,922	18,073,703
Disposal	(613,743)	(23,554,727)	(24,168,470)
Impairment loss	(2,454,282)	-	(2,454,282)
Reversal of impairment	-	2,083,232	2,083,232
Depreciation charges for the year	(7,325,511)	-	(7,325,511)
Balance at December 31, 2016, net of accumulated depreciation and impairment	P 66,988,142	P 90,458,520	P 157,446,662

The Bank recognized impairment loss amounting to P1.9 million, P2.4 million and P1.6 million in 2017, 2016, and 2015, respectively, and is presented as part of Impairment Losses in the statements of profit or loss based on management's latest evaluation of recoverable amount computed based on appraised value of the properties (see Note 6.4).

The Bank sold certain investment properties which resulted in a gain of P3.3 million, P5.8 million and P1.3 million in 2017, 2016 and 2015, respectively, and is presented as part of Gain on sale of properties under the Other Operating Income account in the statements of profit or loss (see Note 20.1). Other information about the fair value measurement and disclosures related to investment properties are presented in Note 6.4(a).

15. INVESTMENT IN AN ASSOCIATE

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

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

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

	2017	2016
Acquisition cost	**P 800,000,000**	P 800,000,000
Accumulated share in profit	**332,475,940**	87,336,802
	P1,132,475,940	P 887,336,802

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

	2017	2016
Balance at beginning of year	**P 887,336,802**	P -
Share in profit of associate for the year	**245,139,138**	87,336,802
Acquisition cost	**-**	800,000,000
Balance at end of year	**P1,132,475,940**	P 887,336,802

Share in profit of associate is presented as part of Other Operating Income in the statements of profit or loss (see Note 20.1).

The financial information of BFC as of and for the year ended December 31, 2017 and 2016 are shown below.

	2017	2016
Assets	**P5,216,232,096**	P 3,988,131,250
Liabilities	**2,385,042,245**	1,769,789,244
Revenues	**2,238,969,009**	873,629,928
Expenses	**1,626,121,165**	655,287,922
Profit	**612,847,845**	218,342,006

16. OTHER RESOURCES

This account consists of:

	Notes	2017	2016
Prepayments		**P 52,086,960**	P 45,401,838
Rental and utilities deposits	26.1	**25,604,845**	18,771,560
Intangible assets – net		**12,967,937**	32,221,886
Advances to suppliers		**7,394,089**	2,726,345
Documentary stamps on hand	27.1(b)	**5,968,078**	13,228,045
Others		**6,627,381**	6,785,514
		P 110,649,290	P 119,135,188

Amortization of the Bank's licenses classified as intangible assets in 2017 and 2016 amounted to P0.5 million and P3.6 million, respectively, and is presented as part of Depreciation and amortization under Other Operating Expenses account in the statements of profit or loss (see Note 20.2).

17. DEPOSIT LIABILITIES

This account consists of:

	2017	2016
Time	**P 19,335,933,378**	P 18,411,025,522
Demand	**975,638,231**	924,025,021
Savings	**1,694,357,265**	1,411,181,149
	P 22,005,928,874	P 20,746,231,692

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

	2017	2016
Within one year	**P 12,715,068,547**	P 10,990,791,232
Beyond one year but within five years	**9,288,860,327**	9,755,440,460
Beyond five years	**2,000,000**	-
	P 22,005,928,874	P 20,746,231,692

Interest rates on deposit liabilities range between 0.75% to 3.50% per annum in 2017, 2016 and 2015. The deposit liabilities are inclusive of accrued interest payable amounting to P1.6 billion and P1.2 billion as of December 31, 2017 and 2016, respectively.

Interest expense on deposit liabilities amounted to P0.9 billion, P0.9 billion and P1.4 billion in 2017, 2016 and 2015, respectively and is presented as Interest expense

on deposit liabilities account in the statements of profit or loss.

Per BSP Circular 832, *Increase in Reserve Requirements,* the Bank is required to maintain reserve requirements (both for regular and liquidity reserves) with the BSP. The required reserves per deposit are as follows:

	2017	2016
Time	**P 1,546,874,670**	P 1,472,882,042
Savings	**135,548,581**	112,894,492
Demand	**78,051,058**	73,922,002
	P 1,760,474,309	P 1,659,698,536

The BSP's reserve requirement is composed of regular reserve and liquidity reserve requirement equivalent to 8.00% in 2017 and 2016.

Currently, the Bank's reserves are maintained in the form of amounts due from BSP. As of December 31, 2017 and 2016, the Bank's deposit liabilities are adequately covered by reserves as required by the BSP.

18. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consist of:

	Notes	2017	2016
Accounts payable – net	22.2, 22.3, 22.4, 22.7	**P 773,985,921**	P 882,436,351
Income tax payable		**169,953,187**	45,000,363
Manager's checks		**61,335,529**	33,506,065
Retirement benefit obligation	21.2	**49,853,700**	47,035,000
Gross receipts tax payable		**29,310,878**	24,130,129
Due to Philippine Deposit Insurance (PDIC)		**21,398,628**	20,684,465
Withholding tax payable		**19,543,073**	20,795,541
Collection fees payable		**11,255,732**	11,144,827
Others		**39,894,674**	8,098,449
		P 1,176,531,322	P 1,092,831,190

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

19. EQUITY

19.1 Capital Stock

The details of the Banks's capital stock as at December 31 are as follows:

	Shares			Amount		
	2017	2016	2015	**2017**	2016	2015
Common stock – P100 par value						
Authorized	**50,000,000**	50,000,000	50,000,000	**P5,000,000,000**	P 5,000,000,000	P5,000,000,000
Issued and outstanding						
Balance at beginning of year	**30,000,000**	27,628,258	27,628,258	**P3,000,000,000**	P 2,762,825,824	P2,762,825,824
Issuance of shares	**17,500,000**	2,371,742	-	**1,750,000,000**	237,174,176	-
Balance at end of year	**47,500,000**	30,000,000	27,628,258	**P4,750,000,000**	P 3,000,000,000	P2,762,825,824

On December 13, 2016 and January 10, 2017, respectively, the Bank's BOD and stockholders approved the amendment to the Bank's Articles of Incorporation to increase the authorized capital stock of the Bank from P5.0 billion to P6.0 billion. The Bank also effected a 10:1 stock split thereby decreasing the par value of the Bank's common shares from P100.00 per share to P10.00 per share. The increase in authorized capital stock was approved by the BSP on July 28, 2017 and by the SEC on January 8, 2018. Following the increase in authorized capital stock of the Bank in 2018, the Bank proportionately issued the previously declared stock dividends to its stockholders for a total consideration of P250.0 million.

The Bank has 22 stockholders and 19 stockholders as of December 31, 2017 and 2016, respectively, owning 100 or more shares each of the Bank's capital stock.

19.2 Dividends Declared

In 2017 and 2016, the Bank declared stock and cash dividends. The details of the dividends declared with corresponding dates of declaration, payments and issuances follow:

Cash Dividends			
Amount	Declaration Date	Payment Date	Dividend per share
P 500,000,000	Jun. 18, 2016	Jul. 19, 2016	P 0.18
558,125,000	Nov. 21, 2017	Dec. 11, 2017	11.75

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

The outstanding stock dividends in 2017 presented as Stock Dividends Distributable in the 2017 statement of changes in equity was distributed on January 8, 2018 through issuance of stocks.

The outstanding stock dividends in 2015 presented as Stock Dividends Distributable in the 2015 statement of changes in equity was distributed in 2016 through issuance of stocks with certain portion including fractional shares encashed amounting to P152,405.

19.3 Capital Management and Regulatory Capital

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

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

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

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

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

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

a. Tier 1 Capital includes the following:

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

   Subject to deductions for:

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

b. Tier 2 Capital includes:

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

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

	2017	2016	2015
Tier 1 Capital	**P 5,455,828**	P 4,940,058	P 5,567,248
Tier 2 Capital	**-**	-	165,384
Total Regulatory Qualifying Capital	**P 5,455,828**	P 4,940,058	P 5,732,632
Total Risk Weighted Assets	**P 31,544,508**	P 28,539,110	P 28,616,177
Capital Ratios:			
Total regulatory capital expressed as percentage of total risk weighted assets	**17.30%**	17.31%	20.03%
Total Tier 1 expressed as percentage of total risk weighted assets	**17.30%**	17.31%	19.45%

As of December 31, 2017, 2016 and 2015, the Bank's capital adequacy ratios are 17.30%, 17.31%, and 20.03%, respectively, which are higher than the BSP minimum requirement of 10.00% on the ratio of capital accounts against the risk weighted assets (see Note 24).

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

19.4 Minimum Capital Requirement

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

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

20. OTHER OPERATING INCOME AND EXPENSES

20.1 Other Operating Income

This account is composed of the following:

	Notes	2017	2016	2015
Other interest charges		**P 405,251,110**	P 426,722,823	P 436,601,443
Share in profit of associate	15	**245,139,138**	87,336,802	-
Processing fees		**85,252,615**	51,272,558	49,263,326
Recovery of written off accounts		**66,809,118**	37,991,585	18,218,211
Gain on sale of properties - net	12, 13, 14	**36,635,480**	24,087,538	-
Realized gain on AFS financial assets	9	**12,761,798**	32,981,345	10,384,217
Dormancy fees		**2,535**	436,645	774,248
Dividend income	9	**6,561,700**	6,582,353	8,869,544
Miscellaneous		**24,130,310**	13,857,846	10,810,042
		P 882,543,804	P 681,269,495	P 534,921,031

Other interest charges are charged by the Bank to borrowers upon default. These charges are integral part of the Bank's core lending activities.

20.2 Other Operating Expenses

This account is composed of the following:

	Notes	2017	2016	2015
Employee benefits	21.1, 22.7	**P 629,601,789**	P 659,116,493	P 909,286,643
Outside services	22.3, 22.4	**610,774,008**	491,519,831	186,807,425
Taxes and licenses	27.1(d)	**350,048,075**	334,696,476	357,401,745
Fees and commissions	22.2	**228,291,788**	148,130,598	153,012,296
Depreciation and amortization	12, 14, 16	**115,559,576**	72,215,362	65,480,518
Advertising and publicity		**113,676,167**	74,114,130	81,439,610
Rent	26.1	**88,980,766**	78,111,768	74,768,573
Communication		**45,065,952**	47,221,776	54,167,059
Insurance		**44,283,588**	46,193,250	44,814,875
Security services		**36,478,832**	28,250,026	18,345,660
Power, light and water		**20,560,714**	18,251,894	18,754,183
Transportation and travel		**18,022,706**	17,930,680	20,308,274
Supplies		**17,611,222**	20,692,956	19,190,579
Janitorial and messengerial services		**15,779,383**	14,682,272	13,033,093
Information technology		**14,776,760**	17,818,244	12,367,503
Donations and charitable contributions		**10,000,000**	10,000,000	5,000,000
Seminars and trainings		**9,276,802**	10,362,227	8,666,319
Supervision fees		**8,907,993**	9,608,644	9,098,403
Management and other professional fees		**8,773,063**	8,846,335	8,375,350
Repairs and maintenance		**7,653,423**	6,518,644	6,560,096
Litigation/assets acquired expenses		**4,984,270**	5,337,465	1,866,550
Fuel		**4,904,837**	14,635,057	44,579,362
Representation and entertainment		**4,179,296**	3,052,761	1,592,074
Freight		**3,140,345**	2,032,378	1,513,043
Directors' fees		**1,895,000**	810,000	775,000
Loss on sale of properties – net	12, 13, 14	**-**	-	45,622,197
Miscellaneous		**18,778,706**	14,300,510	15,511,573
		P 2,432,005,061	P 2,154,449,777	P 2,178,338,003

21. EMPLOYEE BENEFITS

21.1 Employee Benefits Expense

Expenses recognized for employee benefits are presented below (see Note 20.2).

	2017	2016	2015
Short-term employee benefits	**P 610,699,589**	P 652,416,293	P 882,238,943
Post-employment defined benefit	**18,902,200**	6,700,200	27,047,700
	P 629,601,789	P 659,116,493	P 909,286,643

21.2 Post-employment Benefits

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

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

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

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2017, 2016 and 2015.

The amounts of retirement benefit obligation recognized in the statements of financial position are determined as follows (see Note 18):

	2017	2016
Present value of the obligation	**P 95,079,300**	P 89,477,200
Fair value of plan assets	**(45,225,600)**	(42,442,200)
	P 49,853,700	P 47,035,000

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

	2017	2016
Balance at beginning of year	**P 89,477,200**	P 127,299,400
Current service costs	**18,902,200**	18,526,100
Benefits paid	**(13,388,200)**	(9,972,300)
Interest expense	**3,830,500**	4,585,100
Remeasurements –		
Actuarial losses (gains) arising from:		
Changes in financial assumptions	**(8,480,400)**	(5,596,349)
Experience adjustments	**4,738,000**	3,897,949
Effects of curtailment	**-**	(49,262,700)
Balance at end of year	**P 95,079,300**	P 89,477,200

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

	2017	2016
Balance at beginning of year	**P 42,442,200**	P 36,892,900
Contributions to the plan	**15,528,200**	50,000,000
Benefits paid	**(13,388,200)**	(9,972,300)
Interest income	**2,175,600**	1,909,400
Actuarial gains (losses) on plan asset	**(1,532,200)**	1,049,000
Settlements from curtailment	**-**	(37,436,800)
Balance at end of year	**P 45,225,600**	P 42,442,200

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

	2017	2016
Time deposit accounts	**P 39,555,700**	P 35,614,681
Mutual fund investments	**5,669,900**	6,827,519
	P 45,225,600	P 42,442,200

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

Actual return on plan assets was P0.6 million in 2017 and P3.0 million in 2016.

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

	2017	2016	2015
Reported in profit or loss			
Current service cost	**P 18,902,200**	P 18,526,100	P 27,047,700
Net interest expense	**1,654,900**	2,675,700	3,296,900
Net gain on curtailment	**-**	(11,825,900)	-
	P 20,557,100	P 9,375,900	P 30,344,600
Reported in other comprehensive income (loss)			
Actuarial (losses) gains arising from changes in:			
Financial assumptions	**P 8,480,400**	P 5,596,349	P 9,697,378
Experience adjustments	**(4,738,000)**	(3,897,949)	(6,084,778)
Return on plan assets (excluding amounts included in net interest expense)	**(1,532,200)**	1,049,000	114,000
	P 2,210,200	P 2,747,400	P 3,726,600

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

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

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

	2017	2016
Discount rates	**5.75%**	5.00%
Expected rate of salary increases	**3.00%**	3.50%

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

(c) Risks Associated with the Retirement Plan

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

(i) Investment and Interest Risks

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

(ii) Longevity and Salary Risks

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

(d) Other Information

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

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2017 and 2016:

	Impact on Post-employment Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
December 31, 2017			
Discount rate	**+/- 1.00%**	**(P 106,677,400)**	**P 85,520,300**
Salary growth rate	**+/- 1.00%**	**106,895,100**	**(85,200,600)**
December 31, 2016			
Discount rate	+/- 1.00%	(P 101,094,900)	P 101,094,900
Salary growth rate	+/- 1.00%	101,220,800	(101,220,800)

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

(ii) Asset-liability Matching Strategies

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

(iii) Funding Arrangements and Expected Contributions

The plan is currently underfunded by P49.9 million based on the latest actuarial valuation. While there are no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about five to ten years' time when the current fair value of plan assets is not enough to cover the expected retirement benefit payments.

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

	2017	2016
Within one year	**P 10,557,044**	P 7,861,800
More than one year to five years	**13,203,977**	11,080,500
More than five years to ten years	**23,202,008**	38,386,600
	P 46,923,029	P 57,328,900

The weighted average duration of the defined benefit obligation at the end of the reporting period is 10 years.

22. RELATED PARTY TRANSACTIONS

The Bank's related parties include its associate, entities under common ownership and key management personnel.

The summary of the Bank's transactions and outstanding balances with its related parties follows:

Related Party Category	Notes	2017 Amount of Transaction	2017 Outstanding Balance	2016 Amount of Transaction	2016 Outstanding Balance
Associate					
Collection fees	22.4	**P 335,660,283**	**P 5,627,090**	P 234,306,857	P 26,857,745
Share in net profit	15	**245,139,138**	**-**	87,336,802	-
Deposit liabilities	22.9	**226,872,879**	**226,872,879**	167,292,259	167,292,259
Accounts payable	22.8	**108,073,069**	**108,073,069**	48,218,693	48,218,693
Credit investigation support services	22.5	**93,677,000**	**9,568,941**	46,927,500	6,167,433
Accounts receivable	22.7	**11,074,611**	**11,074,611**	55,384,703	55,384,703
Investment	15	**-**	**800,000,000**	800,000,000	800,000,000
Related Parties Under Common Ownership					
DOSRI loans	22.1	**736,593,670**	**454,478,129**	998,154,526	950,436,966
Referral commission	22.2	**216,220,379**	**73,351,530**	139,026,020	19,060,909
Collection fees	22.4	**75,375,551**	**11,255,732**	64,194,246	9,756,436
Selling commission	22.3	**48,058,080**	**8,275,770**	70,378,560	3,870,720
Leases	26.1	**37,294,044**	**-**	15,993,142	-
Interest income	22.1	**24,645,272**	**-**	39,922,236	-
Key Management Personnel					
Compensation	22.10	**56,594,501**	**-**	49,839,782	-
DOSRI loans	22.1	**16,343,338**	**11,652,308**	8,653,338	6,480,224
Interest income	22.1	**660,892**	**-**	370,869	-

22.1 DOSRI Loans

The Bank grants loans to DOSRI. The General Banking Act and BSP regulations limit the amount of the loans granted by the Bank to a single borrower to 25.00% of equity. The amount of individual loans to DOSRI, of which 70.00% must be secured, should not exceed the amount of their deposits and the book value of their investments in the Bank. In aggregate, loans to DOSRI generally should not exceed the total capital funds or 15.00% of the total loan portfolio of the Bank, whichever is lower. The Bank complied with the restrictions on DOSRI loans as of December 31, 2017 and 2016.

The total DOSRI loans amounted to P466.1 million and P956.9 million as of December 31, 2017 and 2016, respectively and presented as part of Loans and Receivable - Net account in the statements of financial position. These loans bear annual interest ranging from 2.37% to 10.0% for 2017 and 2016 and 2.37% to 10.5% in 2015, are fully secured, and have terms ranging from one month to five years. The percentage of DOSRI to total loans in 2017 and 2016 is 1.99% and 4.38%, respectively. There were no unsecured and past due DOSRI loans in 2017 and 2016. The Bank assessed that DOSRI loans are not impaired as of December 31, 2017 and 2016.

22.2 Referral Commission

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

The total fees are shown as part of Fees and commissions under the Other Operating Expenses account in the statements of profit or loss (see Note 20.2). The outstanding payable on referral commission is presented as part of Accounts payable under Accrued Expenses and Other Liabilities account in the statements of financial position, and is noninterest-bearing, payable in cash and due to be settled within 30 days from the end of the reporting period (see Note 18).

22.3 Selling Commission

The Bank entered into agreements with certain accredited dealers that are considered as related parties under common ownership whereby the accredited dealers shall provide assistance in the selling of the Bank's repossessed motorcycles. In consideration for the services performed, the Bank pays a fixed fee for each repossessed motorcycle sold. The total fees recognized related to these agreements are shown as part of Outside services under the Other Operating Expenses account in the statements of profit or loss (see Note 20.2). The outstanding payable on selling commission as of December 31, 2017 and 2016 is presented as part of Accounts payable under Accrued Expenses and Other Liabilities account in the statements of financial position, and is noninterest-bearing, payable in cash and due to be settled within 30 days from the end of the reporting period (see Note 18).

22.4 Collection Fees

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

The total fees arising from these service agreements are shown as part of Outside services under the Other Operating Expenses account in the statements of profit or loss (see Note 20.2). The outstanding liability arising from this transaction is presented as part of Accounts payable under the Accrued Expenses and Other Liabilities account in the statements of financial position, and is noninterest-bearing, payable in cash and due to be settled within 30 days from the end of the reporting period (see Note 18).

22.5 Credit Investigation Support Services

The Bank entered into an agreement with its associate where the latter shall provide credit investigation services using its manpower complement and necessary equipment for all loan application endorsed by the Bank. The credit investigation includes identity and character validation, residency verification, and employment and source of income validation. The total fees arising from these service agreements are shown as part of Fees and commissions under the Other Operating Expenses account in the statements of profit or loss (see Note 20.2).

The outstanding liability arising from this transaction is presented as part of Accounts payable under the Accrued Expenses and Other Liabilities account in the statements of financial position, and is noninterest-bearing, payable in cash and due to be settled within 30 days from the end of the reporting period (see Note 18).

22.6 Retirement Fund

Time deposit accounts amounting to P39.6 million and P35.6 million as of December 31, 2017, and 2016, respectively, were established by the Bank as plan assets for the retirement plan. Interest income earned by these time deposits amounted to P2.2 million, P1.9 million, and P1.6 million in 2017, 2016 and 2015, respectively. These bank accounts are included as part of the Bank's deposit liabilities and are accounted for separately from the cash accounts of the Bank. The retirement fund is managed by the Bank's Treasury Department. The composition of the plan assets is presented under Note 21.2.

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

22.7 Accounts Receivable

This mainly pertains to assets held for sale of the Bank which were subsequently sold and refinanced by its associate. This is presented and netted against Accounts payable – net presented under the Accrued Expenses and Other Liabilities account (see Note 18).

22.8 Accounts Payable

This pertains to collections of the Bank's associate deposited to the account of the Bank. This is presented as part of Accounts payable – net presented under the Accrued Expenses and Other Liabilities account (see Note 18).

22.9 Deposit Liabilities

The Bank has deposit liabilities to its associate amounting to P226.9 million and P167.3 million as of December 31, 2017 and 2016, respectively, and is presented as part of Deposit Liabilities in the statements of financial position (see Note 17).

Moreover, in the ordinary course of business, the Bank has deposit transactions with certain DOSRI and with outstanding deposit balance as of December 31, 2017 and 2016.

22.10 Key Management Personnel Compensation

The key management personnel compensation amounted to P56.6 million, P49.8 million, and P46.8 million for the years ended December 31, 2017, 2016, and 2015, respectively, and are shown as part of Employee benefits under Other Operating Expenses account in the statements of profit or loss (see Note 20.2).

23. TAXES

23.1 Current and Deferred Taxes

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

	2017	2016	2015
Profit or loss			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	**P 439,314,743**	P204,563,130	P182,793,148
Final tax at 20% and 7.5%	**43,809,290**	46,636,606	36,728,721
	483,124,033	251,199,736	219,521,869
Deferred tax expense (income) relating to origination and reversal of temporary differences	**5,371,441**	(31,359,960)	(58,328,232)
	P 488,495,474	P 219,839,776	P161,193,637
Other comprehensive income			
Deferred tax expense relating to origination and reversal of temporary differences	**P 663,060**	P 824,220	P 1,117,980

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

	2017	2016	2015
Tax on pre-tax profit at 30%	**P 567,478,335**	P259,437,268	P166,241,902
Adjustments for income subjected to final tax	**(16,198,425)**	(21,190,979)	(15,164,310)
Tax effects of:			
Non-taxable income	**(82,818,564)**	(40,789,616)	(8,143,633)
Non-deductible expenses	**20,021,355**	22,383,103	18,259,678
	P488,495,474	P219,839,776	P161,193,637

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

	2017	2016
Allowance for impairment losses	**P 588,632,600**	P 590,627,997
Unrealized loss on repossession	**24,594,064**	31,167,530
Retirement benefit obligation	**14,293,050**	14,110,500
Depreciation of investment properties	**9,965,588**	7,496,537
Unamortized past service cost	**68,606**	185,845
	P 637,553,908	P 643,588,409

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

	2017	2016	2015
Profit or loss:			
Allowance for impairment losses	**P 1,995,397**	(P 64,867,007)	(P 67,470,127)
Unrealized loss on repossession	**6,573,466**	21,900,233	18,487,590
Retirement benefit obligation	**(845,610)**	12,187,230	(6,103,380)
Depreciation of investment properties	**(2,469,050)**	(2,197,652)	(1,859,553)
Accrued donations	**-**	1,500,000	(1,500,000)
Unamortized past service cost	**117,238**	117,238	117,238
Deferred tax expense (income)	**P 5,371,441**	(P 31,359,960)	(P 58,328,232)
Other comprehensive income:			
Retirement benefit obligation	**P 663,060**	P 824,220	P 1,117,980

The Bank is subject to the minimum corporate income tax (MCIT) which is computed at 2% of gross income, as defined under the tax regulations, or RCIT, whichever is higher. No MCIT was reported in 2017, 2016 and 2015 as the RCIT was higher than MCIT in both years.

The Bank opted to claim itemized deductions in 2017, 2016 and 2015 in the computation of its income tax due.

23.2 Gross Receipts Tax (GRT)

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

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

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

(b) On dividends and equity shares in the net income of subsidiaries 0%

(c) On royalties, rentals of property, real or personal, profits from exchange and all other items treated as gross income under Section 32 of the National Internal Revenue Code 7%

(d) On net trading within the taxable year on foreign currency, debt securities, derivatives, and other similar financial instruments 7%

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

23.3 Documentary Stamp Tax

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

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

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

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

(d) Bills of lading or receipt.

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

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

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

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

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

- Borrowings and lending of securities executed under the Securities Borrowing and Lending Program of a registered exchange, or in accordance with regulations prescribed by the appropriate regulatory authority;

- Loan agreements or promissory notes, the aggregate of which do not exceed P250 thousand or any such amount as may be determined by the Secretary of Finance, executed by an individual for his purchase on instalment for his personal use;

- Sale, barter or exchange of shares of stock listed and traded through the local stock exchange for a period of five years from the effectivity of RA No. 9243;

- Fixed income and other securities traded in the secondary market or through an exchange;
- Derivatives including repurchase agreements and reverse repurchase agreements;
- Bank deposit accounts without a fixed term or maturity; and,
- Interbank call loans with maturity of not more than seven days to cover deficiency in reserve against deposit liabilities.

24. SELECTED FINANCIAL PERFORMANCE INDICATORS

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

	2017	2016	2015
Return on average equity	**20.79%**	10.21%	6.64%
Return on average resources	**4.80%**	2.27%	1.47%
Net interest margin	**18.18%**	15.97%	16.89%
Qualifying capital to risk assets ratio	**17.30%**	17.31%	20.03%

25. EARNINGS PER SHARE

Basic and diluted EPS are computed as follows:

	2017	2016	2015
Net profit attributable to common shareholders	**P 1,403,098,975**	P 644,951,117	P 392,946,035
Divided by the weighted average number of outstanding common shares	**500,000,000**	300,000,000	300,000,000
Basic and diluted EPS	**P 2.81**	P 2.15	P 1.31

The calculation of basic and diluted EPS for all periods presented is adjusted retrospectively when the number of ordinary or potential ordinary shares outstanding increases as a result of a capitalization, bonus issue, or share split, or decreases as a result of a reverse share split. If such changes occur after the end of the reporting period but before the financial statements are authorized for issue, the EPS calculations for those and any prior period financial statements presented are based on the new number of shares.

The computation of the weighted average number of outstanding common shares is show below:

	2017	2016	2015
Issued and outstanding shares at end of year	**47,500,000**	30,000,000	27,628,258
Subsequent issuance of stock dividends following the year of declaration	**2,500,000**	-	2,371,742
Total outstanding shares after effecting the subsequent issuance of stock dividends	**50,000,000**	30,000,000	30,000,000
Multiplied by (stock split of 10:1)	**10**	10	10
Weighted average number of outstanding common shares	**500,000,000**	300,000,000	300,000,000

Following the increase in authorized capital stock of the Bank on January 5, 2018, the Bank proportionately issued the 25.0 million stock dividends declared in 2017 to its stockholders. Accordingly, the stock dividends were considered as part of the outstanding capital stock as of the beginning of 2017, the year on which it was declared in computing for weighted average number of outstanding common shares. Moreover, on the same date, a stock split of 10:1 was also approved resulting to retrospective application to the number of outstanding shares in all periods presented.

As of December 31, 2017, 2016 and 2015, the Bank has no outstanding potentially dilutive securities; hence, basic EPS is equal to diluted EPS.

26. COMMITMENTS AND CONTINGENCIES

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

26.1 Operating Lease Commitments – Bank as Lessee

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

	2017	2016
Within one year	**P 90,153,402**	P 68,353,369
After one year but not more than five years	**205,675,789**	130,622,662
More than five years	**3,038,766**	3,050,612
	P 298,867,957	P 202,026,643

The total rentals from these operating leases amounted to P89.0 million, P78.1 million and P74.8 million in 2017, 2016 and 2015, respectively, and are presented as Rent under Other Operating Expenses in the statements of profit or loss (see Note 20.2). Rental deposits amounting to P25.6 million and P18.8 million as of December 31, 2017 and 2016, respectively, are shown as part of Rental and utilities deposits under the Other Resources account in the statements of financial position (see Note 16).

26.2 Others

There are commitments and contingencies that arise in the normal course of the Bank's operations that are not reflected in the financial statements. As of December 31, 2017 and 2016, management is of the opinion that losses from these commitments and contingencies will not have a material effect on the Bank's financial statements.

27. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented below is the supplementary information which is required by the Bureau of Internal Revenue (BIR) under its existing revenue regulations to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

27.1 Requirements Under Revenue Regulations No. 15-2010

The information on taxes, duties and license fees paid or accrued during the taxable year required under Revenue Regulation (RR) No. 15-2010 are presented in the below and in the succeeding page.

(a) GRT

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

In 2017, the Bank reported total gross receipts tax amounting to P295,076,591 as shown under Taxes and Licenses account [see Note 27.1(d)], in which P265,765,713 was paid during the year.

The breakdown of the GRT is shown below.

	Gross Receipts	GRT
Income derived from lending activities	P 5,897,028,568	P 288,819,894
Other income	89,381,390	6,256,697
	P 5,986,409,858	**P 295,076,591**

(b) DST

The movements in unused documentary stamp tax are summarized below.

Balance at beginning of year	P	13,228,045
Purchased		58,250,000
Affixed		(65,509,967)
Balance at end of year	**P**	**5,968,078**

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

Of the total documentary stamp affixed, P32,396,412 was charged to clients, while the balance of P33,113,555 was for the account of the Bank and accordingly charged to profit or loss [see Note 27.1(d)].

(c) Withholding Taxes

The details of total withholding taxes for the year ended December 31, 2017 are shown below.

Final	P	90,267,558
Compensation and benefits		70,125,400
Expanded		58,813,216
	P	**219,206,174**

(d) Taxes and Licenses

The details of taxes and licenses in 2017 are as follows (see Note 20.2):

	Notes		
GRT	27.1(a)	P	295,076,591
DST	27.1(b)		33,113,555
Local taxes and business permits			18,465,161
Fringe benefits tax			3,204,920
Miscellaneous			187,848
		P	**350,048,075**

(e) Excise Taxes

The Bank did not have any transactions in 2017 subject to excise tax.

(f) Taxes on Importation

The Bank has not paid or accrued any customs duties and tariff fees as it has no importation for the year ended December 31, 2017.

(g) Deficiency Tax Assessment and Tax Cases

As of December 31, 2017, the Bank does not have any final deficiency tax assessments with the BIR or tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open taxable years.

27.2 Requirements Under RR No. 19-2011

RR No. 19-2011 requires schedules of taxable revenues and other non-operating income, costs of sales and services, itemized deductions and other significant tax information, to be disclosed in the notes to financial statements.

The amounts of taxable revenues and income, and deductible costs and expenses presented below are based on relevant tax regulations issued by the BIR; hence, may not be the same as the amounts of revenues reflected in the 2017 statement of profit or loss.

(a) Taxable Revenues

The composition of the Bank's taxable revenues subject to regular tax rate for the year ended December 31, 2017 amounted to P5,321,616,973, consisting of interest income on loans and receivables.

(b) Deductible Costs of Services

Deductible costs of services at regular tax rate for the year ended December 31, 2017 comprises the following:

Interest expense on deposit liabilities	P	790,490,053
Employee benefits		261,521,811
Insurance		44,283,588
Supervision and fees		8,907,993
	P	**1,105,203,445**

(c) Taxable Non-operating and Other Income

The details of taxable non-operating and other income in 2017 which are subject to regular tax rate are shown below.

Other interest charges	P	405,251,110
Processing fees		85,252,615
Recovery of written off accounts		66,809,118
Other service charges		17,953,359
Miscellaneous		6,179,486
	P	**581,445,688**

(d) Itemized Deductions

The amounts of itemized deductions under the regular tax rate for the year ended December 31, 2017 are as follows:

Bad debts	P	830,081,465
Outside services		625,550,768
Realized loss on sale of repossessed assets		398,828,449
Taxes and licences		350,048,075
Salaries and allowances		337,860,556
Fees and commission		228,291,788
Advertising and publicity		113,676,167
Depreciation and amortization		105,860,512
Rent		88,980,766
Communication, light and water		65,626,666
Security services		36,478,832
SSS, GSIS, Philheatlh, HDMF, and others		27,236,215
Transportation and travel		19,357,054
Supplies		17,611,222
Janitorial and messengerial		15,779,383
Donations		10,000,000
Training and seminars		9,276,802
Professional fees		8,773,063
Repairs and maintenance		7,653,423
Fuel		4,904,837
Representation and entertainment		4,179,296
Director's fees		1,895,000
Miscellaneous		25,526,400
	P	**3,333,476,739**

FEATURE Story

Client Success Stories: Diretso, asenso with Bank of Makati

For more than 60 years, Bank of Makati has been offering a range of easy-to-avail-of banking products, and personalized and accessible service to help countless Filipinos achieve their dreams.

In this annual report, we share the stories of two clients who were able to grow their businesses with the help of our Power Negosyo Loan and our straightforward, no-frills "Diretso. Asenso." brand of service.

Power Negosyo Loan

Jingle C. Pascual started her garden and landscaping business in Barangay Santisimo, Sta. Cruz, Laguna in 2011. She registered her business name, Jingle and Eddie's Garden, with the Department of Trade and Industry in 2014. It was around that time that she got acquainted with Bank of Makati, when a BMI representative spotted her at a Honda Prestige branch.

"Nakilala ko siya (BMI representative) dahil yung lahat ng aming sasakyan ay galing sa Honda Prestige. Nakita nila may business name, may tumawag sa akin at doon ko nakilala ang BMI," Jingle recalled. "Mula noon, naging katulong ko na ang BMI sa pagpapalakad ng aking negosyo , at sa capital."

Jingle also didn't have a hard time applying for the loan. "Hindi naman ako nahirapan. Yung mga dokumento na kailangan i-submit, simple lamang ang hinihingi ng Bank of Makati. Ilang beses na nga kami nakapag-renew, okay naman," she said.

Jingle was able to expand her business, setting up two branches in Calauan, Laguna. "Dire-diretso yung operation ng aking negosyo," she said. "Naranasan ko kung paano tumulong ang Bank of Makati. Kaya ire-rekumenda ko ang Bank of Makati sa aking mga kaibigan o aking mga kapwa may negosyo. At nairekumenda ko na ito."

HMO Collection

Among the more recently introduced services Bank of Makati offers is HMO Collection. Under this service, BMI delivers the statement of account and collects payment for HMO services availed of by its institutional clients.

One such client is the San Antonio Hospital and Best Health Medical and Diagnostic Corp., which has been operating for the past 10 years in Lipa City, Batangas.

According to Antonio Reyes, hospital administrator, San Antonio has been faced with increasing direct and indirect operational costs, including courier and messengerial services for HMO collections. "Back then, we were sending our billings through couriers, which entailed costs. We were also sending our messenger to Manila to follow up on payments and bring other documents as well."

San Antonio availed of BMI's HMO Collection service in early 2017. "We came to know of BMI through your Branch Manager who visited us for a proposal on HMO collection," Reyes said. Applying for the service was easy, he added. "We just provided the documentary requirements and we were able to open (an account) right away."

The HMO Collection service helped San Antonio manage its bottomline. "BMI helped us to lessen our costs and helped us improve our manpower efficiency. Instead of paying for couriers and sending our people to HMOs, BMI helped us address our concerns," said Reyes.

While the hospital has only been a client for barely two years, Reyes said he will recommend BMI to other businessmen. "BMI has helped us in our business."

"small borrowers are the best clients"

Bank of Makati (A Savings Bank) Inc. inaugurated its new offices on Ayala Avenue corner Metropolitan Avenue, Makati City on Friday, March 9, 2018. The 12-storey mixed-use Bank of Makati building also hosts the main branch of the Philippines' third-largest standalone savings bank in terms of assets. Bank of Makati Chairman Thomas C. Ongtenco, President Luis M. Chua and Managing Director Ramon B. Manzana led the ribbon-cutting ceremony with Chairman Emeritus Vicente Ongtenco and special guest, Bangko Sentral ng Pilipinas Assistant Governor Restituto Cruz. Also at the event were the Bank's valued clients, Board of Directors, managers and employees, and members of the media. "This building along Ayala Avenue in the financial district of Makati represents a significant milestone in Bank of Makati's existence over the past six decades, and the big plans we have for the future," said Mr. Chua. "This also marks our renewed commitment to the Filipino entrepreneur. Micro, small and medium enterprises play a critical role in our economy and are the primary engine for job generation in this country. This is the segment we wish to serve well through our diverse savings and loan products." During the reception, Chairman Ongtenco said Bank of Makati's focus on mSMEs is grounded on his father's strong belief in small borrowers. "He believed that even the lowly tricycle driver can pay his loans. To him, small borrowers are the best clients." While mSMEs account for 99.57% of business establishments in the country, only a small number have access to bank services. Bank of Makati continues to expand its microfinance services to reach a wider segment of a market that already contributes about 30% to its loan portfolio. By 2022, the bank expects mSME and commercial loans to account for half of its loan portfolio. "Our vision is to become the bank of choice of mSMEs. It is the focus of our business strategies and our main priority," said Mr. Manzana. Bank of Makati also benefits from a working arrangement with 703 affiliate outlets of Motortrade, which act as its sales network. The motorcycle dealership and Bank of Makati are both owned by the Ongtenco family. According to BSP data, Bank of Makati accounted for 96% of the banking industry's motorcycle loans at the end of the third quarter of 2017. The Bank of Makati building sits on a 1,121-square-meter lot owned by Transnational Properties, Inc. It was designed by Jose Siao Ling and Associates, and built by Monolith Construction and Development Corp.

2017

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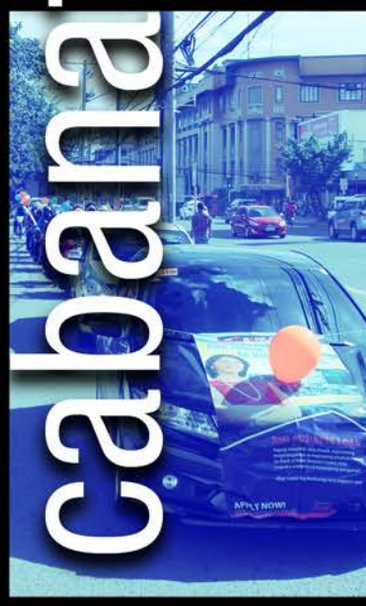

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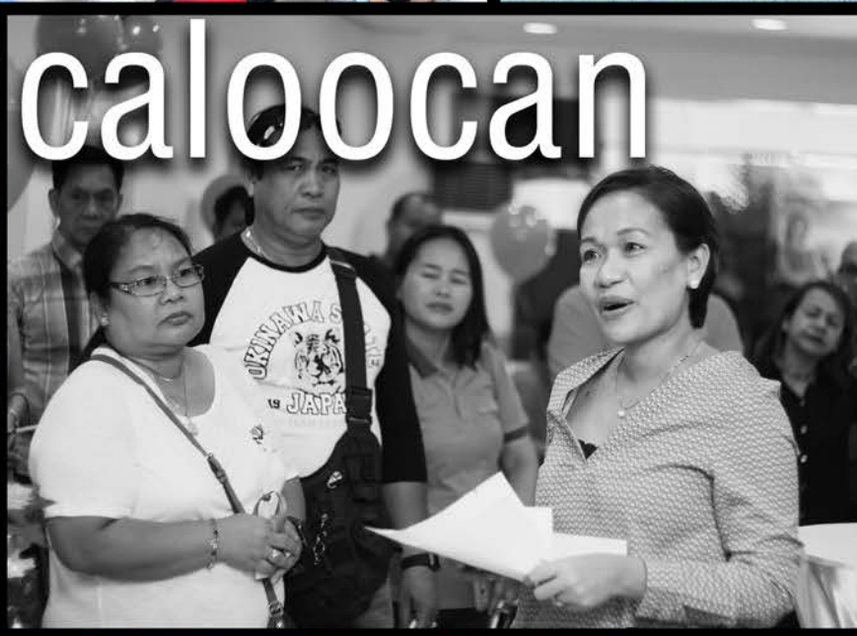


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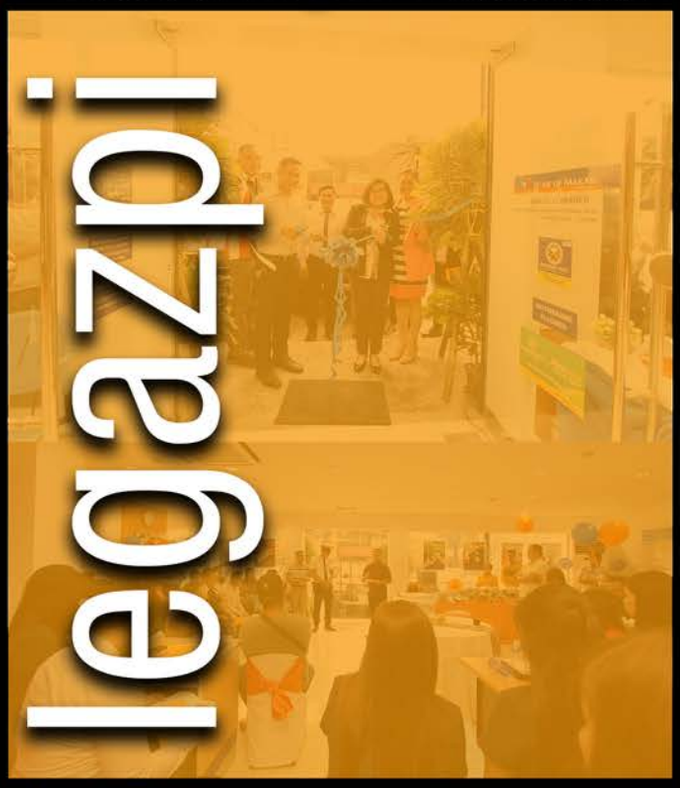
YOUR DEPOSIT & OTHER BANKING NEEDS!


legazpi


BANK OF MAKATI
LEGAZPI CITY
since 1956 BMI
A Savings Bank
RESERVED
PARKING
FOR CLIENTS

Knowledge Skills & Attitude

The Learning and Development Department's (L&DD) vision is to enable the BMI employee to gain knowledge, acquire skills and cultivate the right attitude. The L&DD's approach includes a range of offerings that include development programs, regular seminars, e-learning and e-testing through its internal portal and other channels.

Late last year, we started our one-on-one Coaching Program, which we see as a valuable tool in raising employee concerns to Management so that these would be properly and promptly addressed. More recently, we organized "Blitz" seminars, which are mini-seminars that allow participants to be trained in just a few hours so that they would not be away from their work for so long. We have also embarked on a "Learning Series," which are successive sessions that enable participants to learn concepts one at a time and maximize their training experience.

In collaboration with our Human Resources Department, L&DD is now working on mapping BMI employees' careers through its succession and advancement planning modules. L&DD envisions to not only to have every training experience become part of the Bank's culture, but also of every BMIer's professional life.

Blood letting June 22, 2017

DRRM Seminar

Blood letting June 22, 2017

Through BMI's tie-up with one of the reputable Medical Centers in the country today, and as part of the Bank's Corporate Social Responsibility initiatives, a blood-letting program was held at the 4th floor of BMI's Sen. Gil Puyat Ave. office on June 22, 2017. This has been an annual BMI project for several years now, aimed at making every BMIer more aware of the concerns of the people in the communities where we work.

Message from the **Audit and Compliance** Committee *Chairperson*

The Audit and Compliance Committee (ACC) assists the BMI's Board of Directors in ensuring the effectiveness and independence of the Bank's internal audit function. The ACC has three members, two of whom are independent directors. All the members of the ACC are qualified to discharge the funtions of the Committee.

The ACC is governed by a duly approved Charter which defines the Committee's duties and responsibilities for its oversight of the Bank's internal audit and compliance functions.

The Chief Audit Executive (CAE) who is appointed by the ACC directs the Bank's internal audit function, and is responsible for assessing the adequacy and effectiveness of controls over financial reporting, operations, and compliance with the Bank's Code of Conduct, rules, laws and regulations. The CAE is also responsible for the independent examination and evaluation of the Bank's risk management, governance, and internal control processes and provides counsel and recommendations for improvement whenever they are identified.

The CAE heads the Internal Audit Group which operates on the basis of a risk-based Annual Audit Plan encapsulating the audit priorities for the year. The ACC and the Board of Directors may also in addition to the Annual Audit Plan direct the CAE to undertake directed audits of identified units in the Bank.

In order to provide for the independence of the IAG, and the objectivity of its personnel, the IAG personnel directly report to the CAE.

An audit report is issued for each audit conducted highlighting the risks and control gaps both in the Bank's policies and operations, and reporting the responses from the auditees which include a set of actions to be taken within committed timelines.

The CAE presents the audit reports to the ACC which regularly meets every month or as necessary. The ACC reports to the Board of Directors its activities which include the significant risk observations arising from the audits conducted by IAG.

The CAE directs the operations of IAG and is guided by the standards as provided for in the International Standards for Professional Practice of Internal Auditing, and the internal audit standards as prescribed by the Bangko Sentral ng Pilipinas.

Message from the **Corporate Governance** Committee

Chairperson

Greetings to the stakeholders and friends of Bank of Makati (A Savings Bank), Inc. We hope that through this report, you will know our Bank more and be aware of its presence in the different regions of our country.

Just like the universal banks supervised by the Bangko Sentral Ng Pilipinas, BMI is also required to practice sound business principles of Good Corporate Governance.

We believe that for the sustainability of BMI as a frontline institution in this country for years to come, we should continue following the principles of Good Corporate Governance.

For this reason the BMI Board of Directors has appointed a Corporate Governance Committee composed of three Directors two of them, including the Chairman of the Committee, are Independent Directors.

Management implement our Good Corporate Governance policies in its day-to-day practices and Manuals of Operations.

We believe that Good Corporate Governance plays an important role in maintaining corporate integrity, helps in managing the risk of corporate fraud preventing management misconduct and corruption.

BMI gives you this assurance - we will adopt the principles of BEST PRACTICES to guide us in serving all the stakeholders and communities that we serve.

OVERALL CORPORATE GOVERNANCE STRUCTURE AND PRACTICES

The Board of Directors values the principles of good corporate governance. In carrying out its advocacy of good corporate governance, BMI implemented a structure consisting of: (1) Board of Directors and Board-level Committees as primarily responsible for approving and overseeing the implementation of the Bank's strategic objectives, risk strategies, organization, financial soundness and governance; (2) Executive Management and Operating Management, responsible for the implementation of the strategies and initiatives approved by the Board; (3) Internal Control Groups, responsible for the implementation of key control functions, such as risk management, compliance and internal audit.

The Bank's Board of Directors and Management, officers and staff consistently adhere to the best practices of good corporate governance principles of fairness, accountability, independence and transparency. The Bank adheres to the highest principle of good corporate governance as embodied in its Amended Articles of Incorporation, Amended By-Laws, Code of Conduct and Revised Corporate Governance Manual.

SELECTION PROCESS FOR BOARD AND SENIOR MANAGEMENT

The Corporate Governance Committee ensures the Board's effectiveness and due observance of good corporate governance principles and guidelines, and the selection of members of the Board and senior executives of the bank, as well as their appointment in respective board committees. The Corporate Governance Committee determines whether the nominees are fit and qualified to be appointed as members of the Board and Senior Management. The Committee reviews and evaluates the qualifications of all persons nominated to the Board by applying the Fit and Proper standards, Integrity, Technical expertise and experience in the institution's business as key considerations.

BOARD'S OVERALL RESPONSIBILITY

The Board of Directors is primarily responsible for the governance of the Bank, ensuring that it runs in a prudent and sound manner under high standards of honesty, integrity and best practice. The Board approves and oversees the Bank's implementation of strategies to achieve corporate objectives; its risk governance, sound corporate governance and corporate values, taking into account its vision and mission, long-term financial interest, its level of risk tolerance and its ability to manage risk effectively.

ROLE AND CONTRIBUTION OF EXECUTIVE, NON-EXECUTIVE AND INDEPENDENT DIRECTORS, AND OF THE CHAIRMAN OF THE BOARD

CHAIRMAN OF THE BOARD

The Chairman of the Board of Directors is responsible for ensuring the effective functioning of the Board, maintaining a relationship of trust with Board members. The Chairman makes sure that a sound decision making process is in place by encouraging critical discussions, with dissenting views expressed and discussed, and independent views given due respect and consideration. The Chairman is assised by a Corporate Secretary who is responsible for the safekeeping and preservation of the integrity of the minutes of meetings of the Board and its committees, as well as other official records of the corporation, and elevates issues arising from laws and industry developments that are relevant to the business.

INDEPENDENT DIRECTORS

The Bank's Independent Directors possess the highest level of integrity and broad collective range of expertise that are valuable in sustaining and upholding good corporate governance practices. The Independent Directors act in a prudent manner and exercise independent judgment while encouraging transparency and accountability.

NON-EXECUTIVE DIRECTORS

Non-executive directors are elected/appointed members of the Board who are not part of the executive committee or day-to-day management of banking operations.

BOARD OF DIRECTORS STOCKHOLDERS AND STOCKHOLDINGS

Board of Directors	No. of Direct & Inderect Shares Held	% of shares Held to Total Outstanding Shares of Bank
Thomas C. Ongtenco	4,747,146.00	9.99399158%
Ramon B. Manzana	2,386,147.00	5.02346737%
Ma. Rodora E. Banares	4.00	0.00000842%
Christine C. Ongtenco	4,746,394.00	9.99240842%
Corazon De Los Santos	3.00	0.00000632%
Luis M. Chua	1.00	0.00000211%
Imelda S. Singzon	1.00	0.00000211%

BOARD LEVEL COMMITTEES - MEMBERSHIP AND FUNCTIONS

To aid the Bank in complying with the principles of good governance, the five (5) Board-level committees have been involved in setting the tone for the corporate governance practices in the Bank, namely: Executive Committee, Corporate Governance Committee, Risk Oversight Committee, Audit and Compliance Committee, and Related Party Transactions Committee.

The authority, duties and responsibilities, as well as the frequency of the Board-level Committee meetings are stated in their respective charters. Each Board-level Committee has an appointed secretariat responsible for ensuring the preparation of the notice and agenda of the meetings, and that resource persons are informed and provided with presentation materials prior to meetings. The Committee secretariat prepares the minutes of the Board-level Committee meetings for endorsement and confirmation by BMI's Board, and records the attendance of the Board-level Committee members.

Board Level Committees	Membership as of Dec. 31, 2017	Functions
1) Executive Committee	Chairperson 1. Mr. Ramon B. Manzana Member: 2. Mr. Thomas C. Ongtenco 3. Ms. Ma. Rodora E. Bañares 4. Ms. Christine C. Ongtenco 5. Mr. Luis M. Chua	This Committee has been delegated by the Board of Directors with some of its power and responsibilities as provided for in the by-laws, including but not limited to the supervision of other board committees and subject to the limitations and restrictions as may be imposed by the Board of Directors.
2) Corporate Governance Committee (CGC)	Chairperson 1. Ms. Corazon S. de los Santos* Member: 2. Mr. Thomas C. Ongtenco 3. Ms. Imelda S. Singzon*	The Corporate Governance Committee is responsible for the development, implementation and review of the Bank's Corporate Governance Compliance Program, which shall include a set of effective corporate governance policies and procedures applicable to business. It assists the Board in fulfilling its corporate governance responsibility by reviewing and evaluating the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board of Directors.
3) Risk Oversight Committee (ROC)	Chairperson 1. Ms. Imelda S. Singzon * Member: 2. Ms. Ma. Rodora E. Bañares 3. Ms. Corazon S. de los Santos*	The Risk Oversight Committee is responsible for the development and oversight of the risk management program of the Bank. The ROC shall possess a range of expertise as well as adequate knowledge of the Institution's risk exposure to develop appropriate strategies for preventing losses and minimizing the impact of losses when they occur. It oversees the limits to discretionary authority that the Board delegates to management, ensures that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached.

Board Level Committees	Membership as of Dec. 31, 2017	Functions
4) Audit and Compliance Committee (ACC)	Chairperson 1. Ms. Imelda S. Singzon * Member: 2. Ms. Christine C. Ongtenco 3. Ms. Corazon S. de los Santos*	The Audit & Compliance Committee (the "AuditCom") is a sub-committee of the Board that plays a key role in corporate governance. The establishment of the AuditCom is an important/positive step toward providing assistance to the Board in the discharge of the latter's oversight responsibility, particularly in relation to financial reporting, integrity, internal control, risk management, and corporate standards of behavior.
5) Related Party Transaction Committee (RPTC)	Chairperson 1. Ms. Corazon S. de los Santos* Member: 2. Ms. Ma. Rodora E. Bañares 3. Ms. Imelda S. Singzon*	The Related Party Transactions Committee has been created to assist the Board in ensuring that transactions with related parties (including internal Group transactions) are reviewed to assess risks, are subject to appropriate restrictions to ensure that such are conducted at arm's-length terms and that corporate or business resources of the Bank are not misappropriated or misapplied. After appropriate review, the committee shall disclose all information and endorse to the Board with recommendations, the proposed related party transactions.

*Independent Director

DIRECTORS' ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

The members of the Board of Directors attend and actively participate in its regular meetings. For 2017, all Board of Directors participated in at least fifty percent (50%) of the meetings.

2017	BOARD COMMITTEE No. of meeting: 17		CORPORATE GOVERNANCE COMMITTEE No. of meeting: 13		EXECUTIVE COMMITTEE No. of meetings: 13		EXECUTIVE COMMITTEE 2 No. of meetings: 8		AUDIT AND COMPLIANCE COMMITTEE No. of meetings: 11		RISK OVERSIGHT COMMITTEE No. of meetings: 16		RELATED PARTY TRANSACTION COMMITTEE No. of meetings: 7	
Composition	Attendance	Percentage	Attendance	Percentage	Attendance	Percentage	Attendance	Percentage	Attendance	Percentage	Attendance	Percentage	Attendance	Percentage
Thomas C. Ongtenco	14	82%	10	77%	11	85%	7	88%						
Angelita L. Esguerra*	9	100%			6	100%	4	100%	5	100%	5	83%	1	100%
Ramon B. Manzana	13	76%			10	77%	7	88%						
Ma. Rodora E. Bañares	16	94%			13	100%	7	88%			10	100%	6	100%
Christine C. Ongtenco***	12	71%			8	62%	4	50%	3	50%				
Corazon De Los Santos	17	100%	12	92%					10	91%	14	88%	7	100%
Luis M. Chua**	8	100%			7	100%	4	100%						
Imelda S. Singzon**	8	100%	7	100%					8	100%	10	100%	6	100%

*Replaced as member in June 2017
**Appointed as member in June 2017
*** Appointed as ACC member in June 2017

PERFORMANCE ASSESSMENT PROGRAM

The Board has created an internal self-rating system and procedures to determine and measure compliance with good corporate governance principles and practices: (i) Each Director self–rates and collectively rates the Board, the President and the Chairman, (ii) Corporate Governance, Audit and Compliance, Risk Oversight, Related Party Transactions and other Board-level Committees respectively rate themselves, Bank of Makati believes that the right people are the most important resource in the Bank and that they have the capacity to excel in their performance.

The Performance Management System (PMS) is one support system that will enable them to excel in their performance, thus, consistently maintain a high level of productivity – a result of effort, motivation and a supportive environment. Bank of Makati expects always to increase productivity from people. Productivity is translated into profit results, a high level of motivation for excellent achievement and a people proud of their Bank.

RETIREMENT AND SUCCESSION POLICY

The BMI Succession Plan shall create a pool of future officers that will serve as successors of those who hold critical positions in the organization or officers who have reached their retirement age. It shall also identify and tap potential leaders in the organization and keep track of their career path while keeping them motivated at work.

The BMI Succession Plan provides procedures and guidelines in the assignment and development of potential successors to incumbent officers. The procedures and guidelines ensure a smooth and efficient process for preparing outstanding employees for transition to any temporary or vacant permanent officer – level post.

REMUNERATION POLICY

The levels of remuneration of the Bank should be reasonably or competitively sufficient to be able to attract and retain the services of qualified and competent directors and officers. A portion of the remuneration of executive directors may be structured or be based on corporate and individual performance. No Director should participate in deciding on his remuneration.

POLICIES AND PROCEDURES ON RELATED PARTY TRANSACTIONS

The Bank has adopted a policy on related party transactions where transactions with related parties are reviewed by the Related Party Transactions Committee, composed of independent directors, and require prior written approval of the members of the Board, with the exclusion of the director concerned in case the transaction involves him or his related interests.

The Committee ensures that transactions with related parties and DOSRI are handled in a sound and prudent manner, with integrity and in compliance with applicable laws and regulations to protect the interest of depositors, creditors and other stakeholders. In carrying out its function, the Committee evaluates, on an ongoing basis, existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPs are monitored, and subsequent changes in relationship are captured.

The Related Party Transaction Committee ensures that all RPT transactions are not undertaken on more favorable economic terms, taking into consideration at minimum the charge price/interest, commission to be earned, fees, tenor and collateral. The proposals, after thorough evaluation, will be endorsed to the Board for final approval for confirmation by the Stockholders at the annual stockholders meeting.

SELF ASSESSMENT FUNCTION

The Corporate Governance Committee, through the Compliance Office, conducts an annual performance assessment of the Board of Directors, as a collegial body, and individually as Directors, the different Board Committees and the Chief Executive Officer. Performance assessment guidelines are continuously enhanced to strengthen the review mechanism and ensure accuracy of performance evaluation. The Corporate Governance Committee reviews the current profile of the Board to ensure conformity with the set qualification standards and that appropriate skills are aligned with the strategic objectives of the Bank. The assessment covers full compliance with the provisions and requirements of the Bank's Manual of Corporate Governance. The Corporate Governance Committee oversees the periodic performance evaluation of the Board and its committees, reviews and evaluates the qualifications of the Board nominees, giving due consideration to their alignment with the Bank's long-term strategic objectives.

COMPLIANCE FUNCTION

The Compliance Charter primarily aims to describe the basic principles of promoting sound compliance practices in the Bank. It also establishes the compliance function's standing within the organization, responsibility, authority and independence. The adoption of this charter demonstrates the Bank's commitment to excellence by adhering to the highest ethical standards, as well as to applicable legal and regulatory requirements and professional standards.

The role of the Compliance Group is to assist Management in ensuring that activities of the Bank and its employees are in conformity with applicable laws and regulations, Code of Ethics, policies and procedures, and generally with sound banking practices.

The Compliance Group is independent from the business activities of the bank and is managed by the Chief Compliance Officer. It should be able to carry out its responsibility on its own initiative in all units or departments where compliance risk exists and must be provided with sufficient resources to carry out its responsibilities effectively.

It must be free to report to Senior Management, the Audit and Compliance Committee and the Board of Directors any irregularities or breach of laws, rules and standards, without fear of retaliation or disfavor from the management or other affected parties.

DIVIDEND POLICY

Consistent with existing practice, dividends shall be declared at such times and in such percentages as the Board may determine. Dividends are paid out of unrestricted retained earnings subject to prior approval of the BSP. Dividends shall be declared or paid in accordance with the law, regulations of the BSP, SEC, PSE and the pertinent policies of the Bank.

CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

It is the Corporate Social Responsibility (CSR) of the Bank to contribute to economic development and the upliftment and improvement of people's quality of life in communities that are in need of support in the areas of education, health, family life, child care, livelihood, sports development and environmental protection. The Bank shall undertake CSR activities, which it shall organize on its own or/and in partnership with a foundation or a non-governmental organization. The Bank will also consider undertaking activities and various projects, as long as they are related to its Corporate Social Responsibility objectives. The Bank seeks to make a meaningful presence in the various communities it supports through its Corporate Social Responsibility Program.

CONSUMER PROTECTION PRACTICES

1. ROLE AND RESPONSIBILITY OF THE BOARD AND SENIOR MANAGEMENT

The Board of Directors is responsible for developing the Bank's consumer protection strategy and establishing an effective oversight over the Bank's consumer protection programs. They are primarily responsible for approving and overseeing the implementation of the Bank's consumer protection policies, as well as the mechanism to ensure compliance with said policies. They are responsible for monitoring and overseeing the performance of Senior Management in the day-to-day consumer protection activities of the Bank. They may also delegate other duties and responsibilities to Senior Management and/or Committees created for the purpose, but not the function, of overseeing compliance with the BSP-prescribed Consumer Protection Framework, and BMI's own Consumer Protection Framework. The Board is responsible for developing and maintaining a sound CPRMS that is integrated into the overall framework for the entire product and service life-cycle, and approving Consumer Assistance policies and procedures, as well as Risk Assessment Strategies relating to Effective Recourse by the Consumer. The Board should ensure compliance

with Consumer Assistance policies and procedures and to provide adequate resources devoted to Consumer Assistance and review the Consumer Assistance policies at least annually.

The Board of Directors and Senior Management periodically review the effectiveness of the CPRMS, including how findings are reported and whether the audit mechanisms in place enable adequate oversight. They must also ensure that sufficient resources have been devoted to the program, and make certain that CPRMS weaknesses are addressed and corrective actions are taken in a timely manner. The Senior Management shall be responsible for the implementation of the Consumer Assistance policies and procedures.

2. CONSUMER PROTECTION RISK MANAGEMENT SYSTEM

An effective CPRMS includes consumer protection policies and procedures in place, approved by the Board. Comprehensive and fully implemented policies help to communicate the Board's and Senior Management's commitment to compliance as well as expectations. Overall policies and procedures a) are consistent with Consumer Protection policies approved by the Board, b) ensure that consumer protection practices are embedded in the Bank's business operations, c) address compliance with consumer protection laws, rules and regulations, and d) are reviewed periodically and kept-up-to-date as they serve as reference for employees in their day-to-day activities.

3. CONSUMER ASSISTANCE MANAGEMENT SYSTEM

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

This CAMS guideline on receiving, recording, evaluating, resolving, monitoring, reporting and giving feedback to consumers shall apply to all branches (regular and microfinance), loan centers and the Head Office.

The provisions of these guidelines shall, as far as practicable, also apply to all inquiries and requests received from clients and potential clients.

STOCKHOLDER'S RIGHTS AND PROTECTION OF STOCKHOLDER'S MINORITY INTEREST

The Bank, through its Board of Directors, strongly respects the rights of Stockholders as provided in the Corporation Code of the Philippines.

Message from the **Risk Oversight** Committee *Chairperson*

The Risk Oversight Committee (ROC) supports the Board of Directors in its risk management functions. The ROC is composed of three members, two of whom are Independent Directors. The ROC meets on a regular basis, and is assisted by the Bank's Chief Risk Officer. The Board of Directors sets the risk appetite of the Bank , and in consideration of the overarching nature of risk management in supporting the business strategy of BMI, the ROC endeavors to ensure that the oversight functions of the Board are effectively delivered.

The Chief Risk Officer heads the Risk Management Group (RMG) and under his supervision the RMG tackles all risk management issues and prepares the reports thereon for the consideration of the ROC. The ROC reviews on a regular basis the Bank's key risk indicators; credit and operational; market and liquidity; IT risk issues; and risk incidents that have occurred during the review period. Special studies on self - risk assessments and determination of risk thresholds are also presented to the ROC.

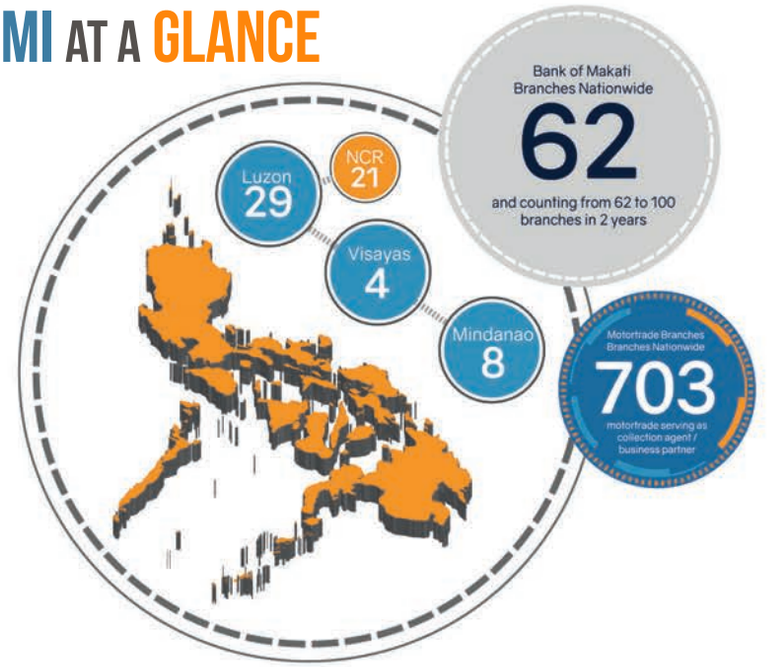
In pursuit of a robust oversight in risk management, the ROC impresses on Management the importance of the expedient resolution of identified residual risks, and in ensuring that risks are effectively managed and remain within acceptable limits.

In the exercise of its risk management functions, the Bank adheres to the Bangko Sentral ng Pilipinas' (BSP's) regulatory guidelines. In furtherance of this compliance, RMG coordinates with the Bank's Learning and Development Department to implement the required training needs that will strengthen BMI's risk management culture.

The Board approved the Bank's Business Continuity Plan (BCP). The RMG started to cascade the required processes to fulfill the Bank's desired recovery time objective during the occurrence of business disruption events. The BCP will continue to be validated as changes evolve arising from business process improvements and new technology applications.

The Board of Directors actively participates in risk management discussions and keenly observes the market environment for new and applicable risk management tools to support BMI's strategic business objectives.

BMI AT A GLANCE



A Leading Stand-Alone Savings Bank

Total Assets
TOP 3
PhP 29 Billion

Loan Portfolio
TOP 3
PhP 20 Billion

Deposit Liabilities
TOP 3
PhP 20 Billion

Share Holders Equity
TOP 2
PhP 19 Billion

Becoming the mSme Bank of Choice

Lending to the underserved mSME market is a major opportunity for thrift banks

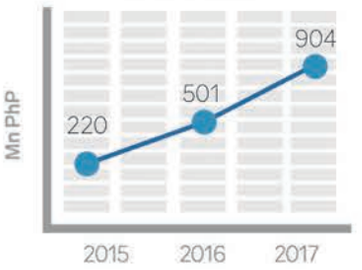
Enterprises in the Philippines more than

9 out of 10

business establishments in the Philippines are mSMEs

0.40% Small | 9.20% Medium | 0.50% Large

Bank of Makati



POWER NEGOSYO LOAN 300®

+ 102.71 % 2- Year CAGR more sMSEs are being served by BMI

Source: BSP published industry statistic (www.bsp.gov.ph)

Go-to Bank for Motorcycle Financing

Strong foothold in the motorcycle bank financing niche market

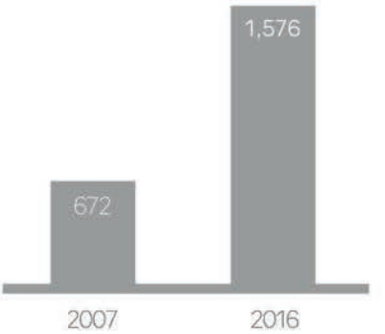
96%

of bank-financed motorcycles as of end of September 2017 came from Bank of Makati

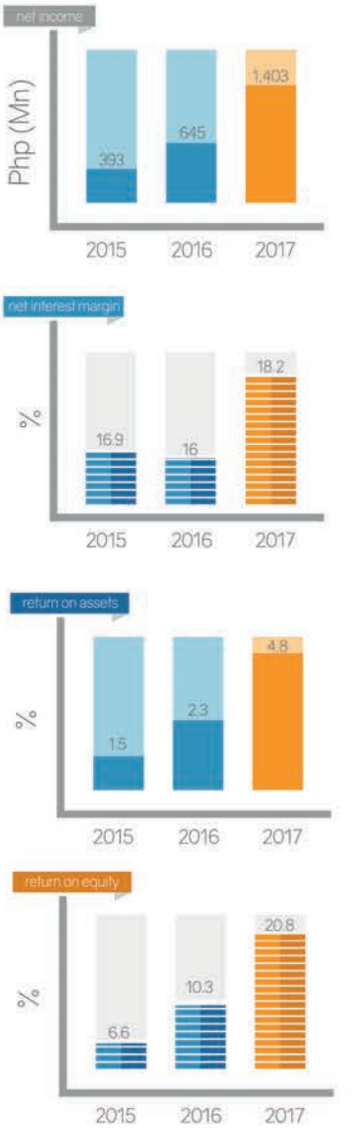
+9.93%

9- Year CAGR

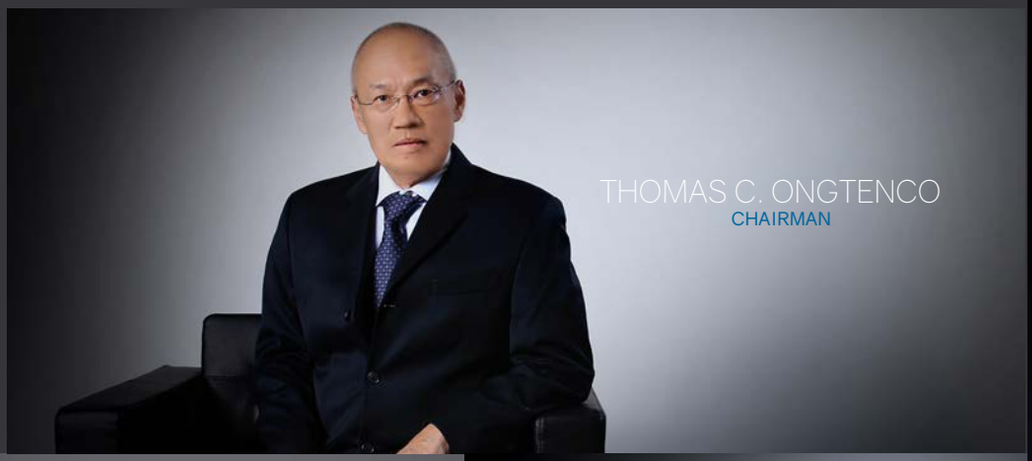
More motorcycles are registered with the LTO from year to year



Source: Philippine Land Transportation Office '000 units



Board of DIRECTORS



THOMAS C. ONGTENCO
CHAIRMAN

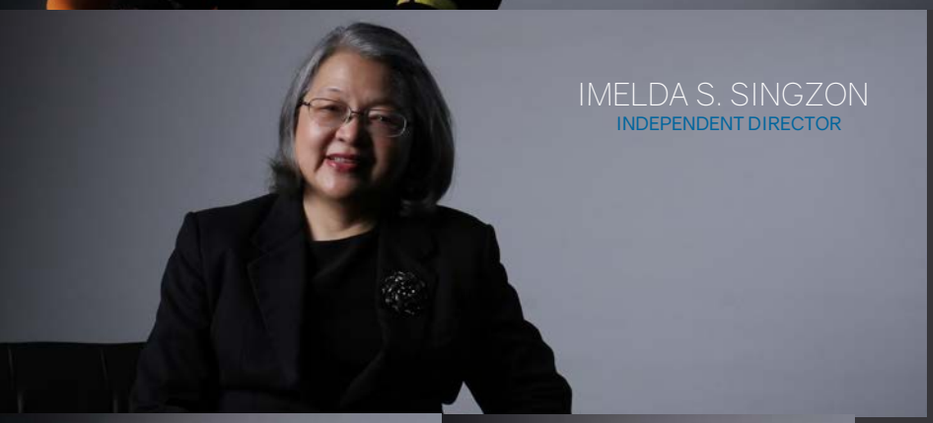
LUIS M. CHUA
PRESIDENT

RAMON B. MANZANA
MANAGING DIRECTOR

CHRISTINE C. ONGTENCO
DIRECTOR

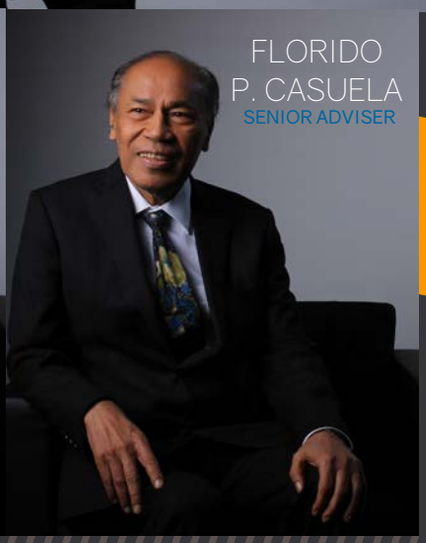
MA. RODORA E. BAÑARES
DIRECTOR

CORAZON S. DELOS SANTOS
INDEPENDENT DIRECTOR



IMELDA S. SINGZON
INDEPENDENT DIRECTOR

ATTY. GENEROSA R. JACINTO
CORPORATE SECRETARY



FLORIDO P. CASUELA
SENIOR ADVISER

Thomas C. Ongtenco is Chairman of the Board. He has served the Board since 2005. Mr. Ongtenco has an extensive background in merchandising and banking. Before joining Bank of Makati, he was a Director in various private institutions, including Intertrust Finance Corporation, Oiltech Resources, Inc., Intertrade Credit Corporation and Northpoint Development Bank.

Mr. Ongtenco has been the President of Motortrade Nationwide Corporation since 1979, Transnational Properties, Inc. since 1992, and Monacor Inc., since 2000. He is also the Director of various private institutions namely: Moneyline Lending Investors Inc., since 1991, Broadvue Traders, Inc. since 1996, Transnational Investors since 1992, Haodeng Holdings Inc. and Veradex Development Corporation; and has been Chairman/President of the Bank's affiliate – BMI Finance Corporation since 2015.

Mr. Ongtenco graduated from the University of the East with a degree in Bachelor of Science in Electronics and Communications Engineering.

He is a member of the Corporate Governance Committee and the Executive Committee. He brings to the Board 39 years of experience in business and executive leadership, particularly in business operations, technology, talent management and governance, emerging markets strategic planning and organizational development.

Christine C. Ongtenco finished her Bachelor of Science degree in Commerce from the Dela Salle University.

She was a member of the Board of Directors in 2001 to 2004 and was re-elected in 2012 up to the present. Concurrently, Ms. Ongtenco is a Director at Greenwealth Agrifarm, Inc. and Veradex Development Corporation. She is also Corporate Secretary of Motortrade Nationwide Corporation and Technoclan Management Corporation; and Treasurer of Broadvue Traders Corporation, Motortrade Topline, Inc., Technoclan Management Corporation, Kaakbay Kabuhay Lending, Inc. and OSM City Cars. She is the President of Townlinks Inc. and the Vice President of Fundline Finance Corporation, Intertrade Credit Corporation and Transnational Investors Corporation.

Ms. Ongtenco is a member of the Executive Committee, and the Audit and Compliance Committee. With her extensive experience in business, she lends the Board her expertise in financial and operational issues.

Ms. Corazon S. Delos Santos received her Bachelor's degree in Business Administration from the University of the East. Elected an Independent Director of BMI, she joined our bank in April 2015.

Prior to joining BMI, Ms. Delos Santos served as Chief Operating Officer of Sanvil Inc. in 2011 and Consultant of Pampanga Development Bank, since 2011. She was a Director at First Provincial Bank from 2002 to 2005; Millennium Bank, from 1992 to 2005; Second Bulacan Development Bank from 1998 to 2000; and

Director/President of the Land Bank Insurance Brokerage Ind., from 1998 to 2002. She also served as Director of the Money Market Association of the Philippines from 1996 to 1998 and as Director/Comptroller in Erpie's Garment from 1987 to 1994.

She also served as Undersecretary of Department of Finance from July 2005 to February 2006; and Senior Vice President of Landbank of the Philippines from 1993 through 2004.

Ms. Delos Santos is Chairman of the Corporate Governance Committee and Related Party Transaction Committee, and is a member of the Risk Oversight Committee and Audit and Compliance Committee. She has significant experience in financial reporting, accounting and finance, capital management and governance. With her background and expertise, she provides the board guidance on financial and operational issues.

Ramon B. Manzana finished his Bachelor's degree in Electronic and Communications Engineering from University of the East. Before joining the Banking industry, he was Sales Coordinator and Product Manager at Minitronics Incorporated from 1979 to 1983, and then moved to Motortrade Nationwide Corporation as Executive Assistant to the President from 1983 to 1992. He was also the trustee of the CCF Ministries Inc. and Christ Commission Foundation Inc. from 2006 to 2008 and the President of the Uplift Movement Foundation Inc. from 2008 to 2014.

Mr. Manzana started his banking career when he joined Bank of Makati as Vice President and Director from 2001 to 2005. He was promoted to Executive Vice President/Executive Vice President from in 2005 and in 2007, he became Managing Director, a position he holds until today. He was President of the Federation of Metro Manila Rural Banks from 2004 to 2005, and Treasurer of Rural Bank Association of the Philippines from 2005 to 2007.

Mr. Manzana also holds various positions in BMI affiliate and sister companies, including Director, President, Corporate Treasurer, Chairman of the Board and Vice Chairman.

Mr. Manzana is the Chairman of the Executive Committee. His present and past positions in various companies have gained him extensive expertise in financial and operational issues.

Ms. Imelda S. Singzon graduated from the University of the Philippines with the following degrees: Bachelor of Science in Statistics, Master of Arts in Demography (Candidate) and a Masteral Certificate in Development Economics, jointly with the University of Wisconsin.

Prior to her election as Independent Director of the Bank in June 2017, she was Executive Vice President of the Philippine Deposit Insurance Corporation (PDIC) until 2015.

She served a total of 21 years with the Philippine National Bank (PNB) in various capacities in the areas of planning and economic research, budget product development, loans evaluation, branch expansion studies, personnel and training, general services and administration, and public relations, retiring as First Senior Vice President in 2003. While in PNB, she worked as Economic Advisor to the First Philippine Fund thru PNB Investment Ltd. and then as Vice President of the former. On concurrent capacity, she was Senior Vice President of PNB Republic Bank and Economist in charge of policy coordination of the National Economic and Development Authority.

After her senior executive career, she served as Director in the Boards of National Food Authority (NFA), Livelihood Corporation, Fertilizer and Pesticides Authority, PNB Provident Fund Insurance Brokerage Co. and the PNB Retirement Fund. In 2008, she served as Independent Director in the Boards of United Coconut Planters Bank (UCPB), UCPB Savings Bank, UCPB Leasing and Finance Corporation, PBCOM and Export Industry Bank.

Ms. Singzon is the Chairman of the Risk Oversight Committee and Audit and Compliance Committee, and member of the Corporate Governance Committee and Related Party Transaction Committee. Ms. Singzon brings to the Board her operational and financial expertise in both banking and financial consulting, and in strategic planning and organizational change management.

Ma. Rodora E. Bañares is the former President of Bank of Makati (A Savings Bank), Inc. It was under her leadership that the bank converted from a rural bank to a savings bank in 2015.

Ms. Bañares started her career as a banker in Asiatrust Bank where she was Senior Vice President from July 1990 to June 1997. She then joined Federal Savings Bank where she was Executive Vice President – Chief Operating Officer from July 1997 to October 1999; Security Bank as Senior Vice President-Retail Banking Sector from November 1999 to December 20013; and back to Asiatrust as Senior Vice President – Retail Banking Sector from January 2004 to June 30, 2007.

She officially joined BMI as Executive Vice President on July 2, 2007 and was promoted to President/Director on June 19, 2010. She retired as President on June 23, 2017.

Ms. Bañares obtained her Bachelor of Science degree in Business Administration from the University of the Philippines – Diliman. She also finished her Master's degree in Business Administration from the De la Salle University in 1990.

Ms. Bañares is a member of the Executive Committee, Risk Oversight Committee and Related Party Transaction Committee. She has significant experience in banking for financial reporting, information technology, accounting, finance and capital management and investor relations. She brings to the Board her broad expertise in banking operations.

Mr. Luis M. Chua is the President of BMI. He graduated cum laude with a Bachelor of Science degree in Accountancy from the University of Santo Tomas in 1991. He became a Certified Public Accountant in May 1992. Mr. Chua started his career with UST where he was a faculty member from 1991 to 1992. He was also with the Saint Paul College of Manila Accountancy Department from 1999 to 2000. In between his career as a professor, he was an Accountant and Auditor at Sycip, Gorres, Velayo & Co. (SGV) and the Bangko Sentral ng Pilipinas.

From the BSP, he joined Security Diners International Corp. as a Manager for the Internal Audit Department; Security Bank Corp. as Manager of the Head Office Department; and the United Coconut Planters Bank's Program Development, Compliance Risk Management Training Bank-wide Compliance Division.

On August 1, 2005, Mr. Chua joined BMI as Head of the Audit and Compliance Group. In February 2012, he was appointed Support Sector Head with the rank of Senior Vice President, supervising the whole support group. He was promoted to the rank of Executive Vice President in December 2015, and then on June 23, 2017, he assumed the position of President/Director of BMI.

Mr. Chua is a member of the Executive Committee. He brings to the Board significant financial expertise with a deep understanding of financial markets, corporate finance, accounting and controls and governance.

the management

Treasury Group

ALDA R. BAÑEZ
Treasury Group

DIANA C. NG
Fund Management Department

SUSAN U. TAN
Treasury Marketing Department

Branch Banking Group

ANGEL D. MUYOT JR.
Branch Banking Group

SOCORRO R. YABUT
South Luzon Branches

ALVIN P. DEL PONSO
Metro Manila Branches

ANGELO MICHAEL C. PLATA
North Luzon Branches

CHARLIE V. MENDOZA
Microfinance Branches

CHONA G. SALUIB
VisMin Branches

FORTUNATA D. GAFFUD
Microfinance Department

Corporate and Retail Lending Group

ELENITA T. DELA CRUZ
Medium Enterprises and Specialized Lending Department

KARLEEN FAYE MARIE A. SANTIAGO
Medium Enterprises and Specialized Lending Department 2

ANA MARIA L. PARAS
Business Lending Division 2

RHODORA A. VILLPANDO
Consumer Lending Department

JOHN MARTIN T. VILLANUEVA
Business Center 2

EDWIN I. MAGHIRANG
Business Center 3

Controllership Group

RAMON CARLO T. QUINTERO
Financial Planning and Control Department

ROWELL A. UMALI
Controllership Group

RODOLFO B. MATI III
Loans Treasury and Accounting Department

Loans Operation Group

ELEANOR P. JAVIER
Loans Operations Group - Consumer

MARISA A. YAP
Reconciliation and Quality Assurance Department

ROSALIE L. SANDOVAL
Loans Operation Department 1

JOMILYN D. OBILLO
Credit Authorization Department

MARIA DOLOR D. REMOLACIO
Lending Center Department

CLARISSA V. BEREÑA
Credit Division

RYAN T. CONCEPCION
Micro Small Credit Department

IVAN REY B. TAGPIS
Credit Appraisal Department

Credit Division

REINA FILIPINA V. DEACOSTA
Consumer Credit Department

MARY POPS A. NUESTRO
Credit Investigation Department

Head Office Support Group

SEAN IVAN VERNIER W. VALENTIN
Head Office Support Group

KATHRYN JOY G. BAUTISTA
Institutional Borrowing Department

ATTY. GERARD M. SAYAS
Loans Operations Deparment II

LUZ G. VALLEJERA
CRLG Remedial and Disposal Department

Branch Operations Department

MARIA RAMONA C. FAJARDO
Branch Operations Department

JOSELITO S. MENDOZA
Deputy Head

ARSENIO V. PIAMONTE
Deputy Head

FREDELITO J. FERRER
Information Technology Group

ALEX S. OPIDA
Production Support Department

ALEN ROIE T. TATCO
Business Application Systems Support Department

Information Technology Group

EMMANUEL A. NAVARRO
Data Center Operations Department

ARTEMIO B. CALDERON
System Administration Department

Remedial Collection Division

RENE A. CENTENO
Remedial Collection Division

SHERWIN L. OPERIO
Remedial Collection Department

ABNER Y. FERRER
Legal and External Agency Department

Repo Management and Disposal Group

MA. JHOAN G. CRAME
Customer Center Management Department

DARIUS V. ALBARINA
Repo Management and Disposal Department

JO D. BORROMEO
Repo Management and Disposal Group

Corporate Affairs Division

HELEN S. PASCUA
Corporate Affairs Division

JOSE ENRICO T. SANDOVAL
Business Development and Marketing Services Department

DIOSDADO M. SUBA
Systems Development Department

DENNIS ACHILLES D.G. ARENO
Learning and Development Department

EXXON B. SALAS
Safety and Security Department

ANGELITO C. CHUA
Corporate Services Group and Human Resources Department

MYLA S. DELA PAZ
General Services Admin Department

MICHAEL L. ADAN
Facilities and Property Management Department

Corporate Services Group

ATTY. CARLO CALIXTO D. DUGAYO
Legal Group

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

Legal Group

Risk Management Group

MARCIAL A. BONGOLAN
Marketing and Liquidity Risk Department

REBECCA D. ANCANAN
Credit Risk Department

JAN ALBERT P. ALCANTARA
Operational Risk Management Department

JESTONI B. MENDOZA
Data Governance

MA. CRISTINA M. FAROL
Risk Management Group

Compliance Group

MA. VICTORIA M. SALVADOR
Compliance Group

DON LOUIE M. GALENO
AMLA Department

Internal Audit Group

MARIEL K. BERNABE
Quality Assurance Department

ROSA MARIA G. TUMANGDAY
Internal Audit Group

JAYMARK M. JANDOC
Head Office Audit Department

JAMES KENNETH V. LLAUDERES
Field Audit Department

GABRIEL Z. PUNSALAN
IT Audit Department

diretso. asenso.

power payday loan
expanded motorcycle loan
malalapitan loan

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bu

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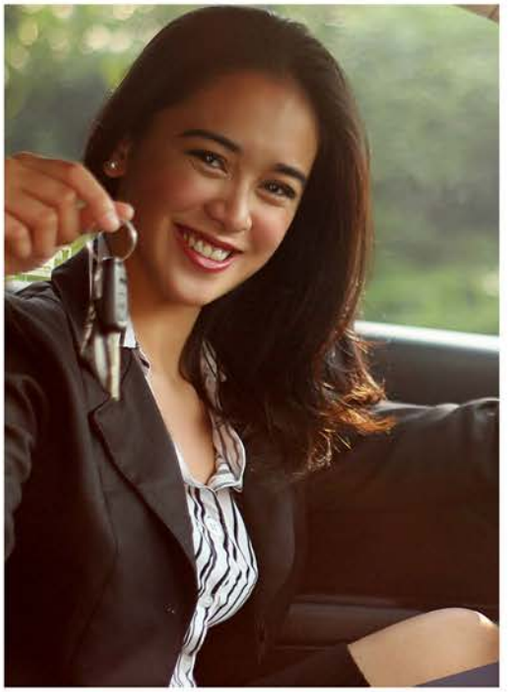
power negosyo loan
business loan



power build up savings account
checking account plus with atm
ctd time deposit
power cash atm

home loan
auto loan

Deposit Products

- Regular Savings Account
- BMI Checking Account
- BMI Checking Account Plus
- Kidz Saver Account
- Power Cash ATM
  - Regular ATM
  - Passbook with ATM
  - Current Account with ATM
- Power ATM Debit Card
- Power Build-up Savings Account
- CTD Peso Time Deposit

Loan Products

Motorcycle Loan

Malalapitan (Microfinance) Loans

Consumer Loans

- Power Payday Loan
- Housing Loan
- Auto Loan
- Rx Loan
- Seafarer's Salary Loan
- Luxury Bike
- Personal Loan

Real Estate Loans

- Bridge Financing Line
- CTS Financing Facility
- Purchase of CTS
- Real Estate Term Loan

Business Loans

- Loan Line
- Term Loan
- Back -to-Back Loan (Term or Line)
- Power Insta - Credit
- Power NegosyoTM 300 & 500

Cash Management Services

- ATM Payroll
- Courier Service
- Deposit Pick-up
- Bills Payment
- HMO Collection

our network

METRO MANILA

MAKATI CITY (Main Branch)
Ayala Avenue near corner
Metropolitan Avenue, Makati City
(02) 816.1381 / (0922) 876 6013

BACLARAN (Microfinance)
397 Quirino Avenue
Baclaran, Parañaque City
(02) 556.0066 / (0925) 610.0966

BLUMENTRITT (Microfinance)
One Albert Place
2557 P. Guevarra Street, corner
Tecson Street
Sta. Cruz, Manila
(02) 493.5949 / (0925) 525.9051

BUENDIA (Microfinance)
44 Sentor Gil Puyat Avenue
Barangay San Isidro, Makati City
(02) 886.3696 / (0932) 430.5412

CALOOCAN
231-233 EDSA Monumento
(near MCU)
Caloocan City,
(02) 288.3206 / (0999) 881.2160

CAMARIN (Microfinance)
Blk. 2 Lot 20 Almar Subdivision
Caloocan City
(02) 294.1768 / (0925) 525.9568

COMMONWEALTH (Microfinance)
Unit 3 & 4 Mount Sinai Heights Building
71-B Commonwealth Avenue
East Fairview, Quezon City
(02) 428.9299 / (0925) 525.7159

CUBAO-P. TUAZON (Microfinance)
Metrolane Complex
P. Tuazon Boulevard corner 20th Avenue
Cubao, Quezon City
(02) 438.3303 / (0925) 610.0957

GRACE PARK
VSP Condominium
1607-C Rizal Avenue Extension
Grace Park, Caloocan City
(02) 288.3206 / (0999) 881.2160

GREENHILLS (Microfinance)
222 Ortigas Avenue
Greenhills, San Juan City
(02) 997.3944 / (0925) 712.0010

GUADALUPE (Microfinance)
G/F Guadalupe Commercial Complex
No. 9 EDSA, Guadalupe, Makati City
(02) 478.1133 / (0925) 610.0963

KALENTONG (Microfinance)
576 New Panaderos Street
Barangay Pag-asa, Mandaluyong City
(02) 477.2591 / (0925) 610.0964

LAS PIÑAS
Unit 3 Star Arcade, CV Starr Avenue
Philamlife Pamplona, Las Piñas City
(02) 877.8129 / (0925) 714.7746

MAKATI - EVANGELISTA (Microfinance)
NSR Building
1837 Evangelista Street corner
Dallas Street
Barangay Pio del Pilar, Makati City
(02) 845.1201 / (0925) 525.6661

MUNTINLUPA
Presnedi Building
305 National Road,Putatan
Muntinlupa
(02) 777.3098 / (0925) 710.8401

PASAY - LIBERTAD (
Liberty Commercial C
Libertad Street corner
Street, Pasay City
(02) 804.2680 / (092

PASIG - RAYMUNDO
G/F JG Building
C. Raymundo Avenue
Rosario Pasig City
(02) 650.2970 / (092

RETIRO (Microfinance
270 Unit-C, N.S. Amo
Quezon City
(02) 415.0644 / (092

ROOSEVELT (Microfin
336 Roosevelt Avenue
Quezon City
(02) 415.1732 / (092

VALENZUELA
238 McArthur Highwa
Karuhatan, Valenzuel
(02) 285.0670 / 283.7

LUZO

ANTIPOLO
4 Senator Lorenzo Su
Memorial CircleBaran
Antipolo City Rizal
(02) 650.0649 / 697.

BALIUAG
Benigno S. Aquino Av
Poblacion, Baliuag, B
(044) 798.8281 / (09

RTAD (Microfinance)
ercial Complex
t corner F.B. Harrison
City
/ (0925) 525.6662

MUNDO (Microfinance)
g
Avenue, Barangay
City
/ (0925) 610.0958

finance)
S. Amoranto Street,

/ (0925) 610.0967

icrofinance)
Avenue,

/ (0925) 610.0965

Highway
lenzuela City
/ 283.7175

UZON

enzo Sumulong
eBarangay San Roque,
izal
/ 697.5356

uino Avenue
iuag, Bulacan
1 / (0932) 853.2671

BATAAN
G/F L&R Building
Don Manuel Banzon Avenue
Balanga City, Bataan
(047) 237.6625 / (0925) 714.7741

BATANGAS
Unit 4, Mayvel Center
Pallocan Avenue, Pallocan West
Batangas City
(043) 702.2384 / (0925) 321.2468

BIÑAN
A. Bonifacio Street
Biñan, Laguna
(049) 511.9299 / (0925) 713.6362

CABANATUAN
333 B-3 Burgos Street
Sangitan, Cabanatuan City
Nueva Ecija
(044) 463.3967 / (0922) 876.6044

CALAPAN
Unit 1 Roxas Drive, Lumangbayan
Calapan City, Oriental Mindoro
(043) 288.2228 / (0925) 714.7747

DAET
TPI Building, Vinzons Avenue
Barangay IV, Mantagbac
Daet, Camarines Sur
(054) 887.9997 / (0922) 850 5211

DAGUPAN
University of Luzon Building
Perez Boulevard, Dagupan City
Pangasinan
(075) 522.5072 / (0922) 876.6016

DASMARIÑAS
B55 L7 Golden Miles Molino
Paliparan Road, Barangay Salawag
Dasmariñas City, Cavite
(046) 438 1863 / (0925) 711 4359

LAOAG
Enrico's Building
General Luna Avenue corner General
Siazon Road, Laoag City, Ilocos Norte
(077) 771.5385 / (0925) 321.2374

LA UNION
Nera Building, Quezon Avenue
San Fernando, La Union
(072) 687.1519 / (0925) 711.0148

LEGAZPI
Imperial Shopping Plaza
Los Baños Avenue, Capantawan
Legazpi City, Albay
0933 400 8991

LIPA
C.M. Recto Avenue
(in front of Cathedral)
Barangay 9, Lipa City Batangas
(043) 756.3481 / (0922) 876.6050

LUCENA
G/F Emperor Building
Merchan Street corner Evangelista
Street Lucena City
(042) 710.9168 / (0925) 321.9742

MALOLOS
Lot 698-A. Paseo Del Congreso Road
Malolos City, Bulacan
(044) 791.7513 / (0922) 876.6015

MARCOS HIGHWAY
Units 3 & 4 Park Place Building
Marcos Highway corner Vermont
Park Main Gate Barangay Mayamot,
Antipolo City
(02) 212.2521 / (0922) 876.6069

MARIKINA
19 Bayan-Bayanan Avenue
Concepcion I, Marikina City
(02) 721.8238 / (0925) 711.4362

MEYCAUAYAN
G/F Mancon Building
MacArthur Highway Barangay Calvario
Meycauyan City, Bulacan
(044) 769.6064 / (0925) 396.5287

NAGA
89 Elias Angeles Street
Naga City, Camarines Sur
(054) 473.9898 / (0922) 876.6014

PAMPANGA
Diamond Build
MacArthur Hig
Dolores San Fe
(045) 961.135

PUERTO PRINS
Prime One Pro
Km.1 National
San Miguel Pue
Palawan
(048) 434.205

RODRIGUEZ
137 Rodriguez
Manggahan, R
(02) 470.3581

SAN PABLO
52 Colago Ave
San Pablo City
(049) 562.064

SANTIAGO
Villarica Buildi
Purok 4 City R
Street Centro
(078) 305.208

TARLAC
1048 F. Tañed
San Nicolas,Ta
(045) 982.140

TUGUEGARAO
Rizal corner Go
Tuguegarao Ci
(078) 844.857

URDANETA
National Highw
Urdaneta City,
(075) 653.084

VIGAN
VQR Building
Quezon Avenue
Vigan, Ilocos S
(077) 632.091

ANGA
nd Building
hur Highway
s San Fernando, Pampanga
061.1354 / (0925) 525.9167

D PRINSESA
One Properties Building
ational Highway Barangay
uel Puerto Prinsesa City,
n
434.2052 / (0995) 293 2317

UEZ
driguez Highway
ahan, Rodriguez Rizal
0.3581 / (0932) 659.7787

ABLO
ngo Avenue, Barangay VI-E
olo City, Laguna
562.0646 / (0922) 876.6019

AGO
a Building
4 City Road corner Quezon
Centro West, Santiago City
05.2082 / (0925) 321.2373

C
Tañedo Street
colas,Tarlac City Tarlac
982.1404 / (0922) 876.6036

GARAO
rner Gomez Street
arao City, Cagayan
44.8577 / (0922) 876.6017

ETA
l Highway, Nancayasan
ta City, Pangasinan
53.0847 / (0925) 321.5100

ilding
Avenue corner Mabini Street
locos Sur
32.0911 / (0922) 876.6018

ZAPOTE
Addio Building
Aguinaldo Highway
Talaba Bacoor, Cavite
(046) 417.7527 / 417.5617

VISAYAS

BACOLOD
Sun-in Building
Lacson Street
Bacolod City, Negros Occidental
(034) 434.9411 / (0925) 321.4503

CEBU
S & L Tanchan Building
51 Colon Street
Parian, Cebu City
(032) 255.6982 / (0922) 876.6037

ILOILO
John Tan Building
Iznart Street, Iloilo City
Iloilo
(033) 335.8853 / (0922) 876.6113

TACLOBAN
Oscar Dy Building
Real Street Sagkahan District
Tacloban City, Leyte
(053) 832.3064 / (0925) 525 7155

MINDANAO

BUTUAN
Lucibenino Building
JC Aquino Avenue
Butuan City, Agusan Del Norte
(054) 473.9898 / (0922) 876.6014

CAGAYAN DE ORO
J.V. Serena Street corner Vamenta Boulevard
Carmen, Cagayan De Oro City
Misamis Oriental
(088) 233.2159 / (0998) 964.0107

DAVAO
Quimpo Boulevard (Old Philhealth Building)
Matina, Davao City
(082) 285.2608 / (0922) 876.6049

GENERAL SANTOS
RD Building
Santiago Boulevard, General Santos City
South Cotabato
(083) 552.0876 / (0925) 321.5099

PAGADIAN
ZMS Building
Rizal Avenue
Pagadian City, Zamboanga Del Sur
(062) 925.2879 / (0925) 714.7742

TAGUM
Cacayorin Building
Circumferential Road New Public Market
Tagum City, Davao
(084) 216.3219 / (0925) 321.9739

VALENCIA
Larstel Building 2
1924 Fortich Street, Lavina Avenue
Barangay Poblacion, Valencia City, Bukidnon
(088) 828.5294 / (0925) 321.3729

ZAMBOANGA
G/F RHW Building
Mayor Jaldon Street, Barangay Cañelar
Zamboanga City, Zamboanga Del Sur
(062) 955.0655 / (0925) 800.1072