

Significant increase in credit risk

The Group shall transfer credit exposures from Stage 1 to Stage 2 if the following significant increases in credit risk from initial recognition were identified:

1. Accounts adversely affected by recent typhoons, floods and other catastrophes that are beyond the control of the borrowers and of the Bank but the collaterals are not impaired.
2. Government imposed regulations due to outbreaks (bird flu, foot and mouth disease, etc.), lay-off of employees, war, importation, etc.,
3. Collateral securing the loans found to be impaired but not more than 60% of the collateral value.
4. Borrowers that have declared bankruptcy during the period under review but the collaterals are not impaired.

Staging assessment

As provided in BSP Circular No. 1011, Attachment 2 (Appendix 97), credit exposures of BSFIs shall be classified into three stages using the following time horizons in measuring ECL:

Stage of Credit Impairment	Characteristics	Time horizon in measuring ECL
Stage 1	Credit exposures that are considered “performing” and with no significant increase in credit risk since initial recognition or with low credit risk	Twelve (12) months
Stage 2	Credit exposures that are considered “under-performing” or not yet non-performing but with significant increase in credit risk since initial recognition	Lifetime
Stage 3	Credit exposures with objective evidence of impairment, thus, considered as “non-performing”	Lifetime

Collective assessment

Loans and other credit accommodations shall be assessed collectively if all loans not subjected to individual

The Group's loans and other credit accommodations shall be grouped with other loans that share similar credit risk characteristics for collective impairment evaluation based on or a combination of the following:

- a. Loan Type
- b. Collateral Type
- c. Market/Industry Segment
- d. Geographical Location
- e. Stage level/Status

The grouping of accounts for collective assessment shall be as follows:

- a. Farmers' Loan
- b. Corporate and SME loans
- c. Salary Loans
- d. Auto Loans
- e. Housing Loans

The said loans and other credit accommodations shall be classified and provided with ACL based on the expected credit loss rates of the Group with consideration of the future cash flow of the collateral securing the loan (for secured loans).

Components of ECL computation

- a. Probability of Default (PD) - the probability of the occurrence of a default events based on the Group's 3-year historical data, which are expected to result in credit losses. The flow rate percentage from one past due bucket to another ranging from 30 to 180 days shall be determined.
- b. Exposure at Default (EAD) - the expected outstanding exposure subject to credit risk at the period or cut-off date, when default is considered.
- c. Loss Given Default (LGD) - statistically calculated based on historical loan recovery data (including the future cash flow of the property securing the loan) and adjusted according to existing conditions and forward looking information.

Forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of a financial asset has increased significantly since its initial recognition and its measurement of ECL. A broad range of forward-looking information are considered as economic inputs, such as growth of the gross domestic product, inflation rates, unemployment rates, interest rates and BSP statistical indicators.

Policies applicable prior to January 1, 2018

The Group assesses at each statement of financial position date 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 deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(g) Financial Assets Carried at Amortized Cost and FVOCI

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. For individually assessed financial assets, 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 been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flow that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognized in “Reversal of (credit and impairment) losses” in the statement of income. Interest income continues to be recognized based on the original EIR of the asset. Financial assets at amortized cost, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to “Reversal of (credit and impairment) losses” in the statement of income.

If, in a subsequent year, 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 shall be reversed either directly or by adjusting an 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 the impairment is reversed. The amount of the reversal shall be recognized under “Reversal of (credit and impairment) losses” in the statement of income. Meanwhile, collections from defaulted customers not yet written-off are charged-off against “Allowance for credit and impairment losses” under “Loans and receivables - net” in the statement of financial position.

If a write-off is later recovered due to subsequent collections from the defaulted customer, any amounts formerly charged against operations are credited to “Recovery for charged - off asset” included under “Miscellaneous income” account in the statements of income.

If the Group determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed 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.

For the purpose of a collective assessment of impairment, financial assets are grouped on the basis of credit risk characteristics such as industry of the borrower, past due status, and term. Future cash flows on a group of financial assets that are collectively assessed for impairment are estimated on the basis of historical loss experience for the 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 on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(h) *Restructured Loans*

Where possible, the Group seeks to restructure loans rather than to take possession of the collateral. This may involve extending the payment arrangements and the agreements of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and the future payments are likely to occur. The loans continue to be subject to an individual impairment calculated using the original EIR or collective impairment.

The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized as “Reversal of (credit and impairment) losses” in the statement of income.

Derecognition of Financial Assets and Financial Liabilities

Financial Assets

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

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

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

Gain or loss on derecognition of financial asset is measured at the difference between the fair value of the consideration received over the carrying amount of the financial asset.

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

Fair Value Measurement

The Group measures financial instruments, such as financial assets at FVOCI and nonfinancial assets such as net retirement liability which is measured at present value of the defined benefit obligation less fair value of plan assets, at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

The fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

The Group determines the policies and procedures for recurring fair value measurement, such as financial assets at FVOCI.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained in Note 6.

“Day 1” Difference

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group recognizes the difference between the transaction price and fair value (a “Day 1” difference) as part of current operations in the period when the asset is acquired or the liability is incurred. In cases where the transaction price used is based on inputs which are not observable, the difference between the transaction price and model value is only recognized as part of current operations in the period when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the “Day 1” difference amount.

Offsetting

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

As at December 31, 2018 and 2017, the Group did not have any financial instrument that qualified for offsetting.

Income and expenses are presented on a net basis only when permitted by the accounting standards.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include COCI, amounts due from BSP and other banks with original maturities of three (3) months or less from dates of placement and that are subject to insignificant risk of changes in value.

COCI consist of cash on hand and checks and other cash items. Cash on hand refers to the total amount of cash in the Group's vault in the form of notes and coins under the custody of the cashier/cash custodian or treasurer, including notes in the possession of tellers and those kept in automated teller machines (ATMs).

Noncurrent Assets Held for Sale

Noncurrent assets held for sale include assets with or without improvements that are highly probable to be sold within one (1) year and are included in the sales auction program for the year. Assets held for sale are stated at the lower of its carrying amount and fair value less costs of disposal.

The Group measures a noncurrent asset that ceases to be classified as held for sale at the lower of:

- the carrying amount before the Non-current asset was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the noncurrent asset not been classified as held for sale; and
- the recoverable amount at the date of the subsequent decision not to sell.

The Group includes any required adjustment to the carrying amount of a non-current asset that ceases to be classified as held for sale in income from continuing operations in the year in which the asset ceases to be held for sale.

Property and Equipment

Property and equipment, except land, are stated at cost less accumulated depreciation and any impairment losses. Land is stated at cost less any impairment losses.

Initially, an item of property and equipment is measured at its cost, comprised of its purchase price and any directly attributable costs of bringing the asset to the location and condition for its intended use. Subsequent costs that can be reliably measured are added to the carrying amount of the asset when it is probable that future economic benefits associated with the asset will flow to the Group. The costs of repairs and maintenance of property and equipment are recognized in the statement of income in the period when these are incurred.

Depreciation is recognized in the statement of income on a straight-line basis based on the estimated useful lives (EUL) of the related depreciable assets. Leasehold rights and improvements are amortized on a straight-line basis over the EUL of the improvements or the terms of the leases, whichever is shorter. The EUL of property and equipment follows:

Property classificaion	Number of Years
Bank premises, furniture and fixtures	1 - 30
Equipment	1 - 5
Leasehold rights and improvements	1 - 10

An asset is depreciated when it is available for use until it is derecognized even if during that period the item is idle. Fully depreciated assets still in use are retained in the consolidated and separate financial statements.

The useful life and the depreciation and amortization methods are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefits from items of property and equipment.

When major parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

When an asset is disposed of, or is permanently withdrawn from use and no future economic benefits are expected from its disposal, the cost and accumulated depreciation and impairment losses, if any, are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is recognized in the statement of income.

The assets' residual values, useful lives and method of depreciation and amortization are reviewed, and adjusted if appropriate, at each reporting date.

Investment Properties

Investment properties are composed of assets acquired from foreclosure or *dacion en pago*, and are initially measured at cost including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of each asset cannot be measured, in which case the investment property acquired is measured at the carrying amount of the asset given up. Foreclosed properties are classified under investment properties from foreclosure date.

Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation for the improvement and any impairment in value in the land or improvement.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statements of income under "Gains (losses) on sale of nonfinancial assets - net" account in the period of derecognition.

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

Depreciation is calculated on a straight -line basis over the EUL of the investment properties of up to 10 years for buildings and improvements.

The useful life and the depreciation and amortization methods are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefits from items of investment properties.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner-occupation or the start of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by the start of owner-occupation or of development with a view to sell. For 2018, there were no transfers between investment property and owner-occupied property.

Business Combination

Business combination is accounted for using the acquisition method. The consideration transferred in a business combination is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interest issued by the Parent. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Parent recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportional share of the recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PFRS 9 either in the statement of income or as a change in OCI. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within capital funds.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the fair value of net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized as "Gain on bargain purchase" in the statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Investment in Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it has control if there are changes to one or more elements of control. This includes circumstances in which protective rights held become substantive and lead to the Group having power over an investee.

The financial statements of subsidiaries are included in the consolidated and separate financial statements from the date on which control commences until the date on which control ceases.

Intangible Assets

Intangible assets consist of software costs and goodwill. Intangible assets acquired separately, included under “Intangible assets - net” account in the statement of financial position, are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets are not capitalized but recognized in the statements of income in the period when the expenditure is incurred.

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

The amortization expense on intangible assets with finite lives is recognized in the statement of income under the expense category consistent with the function of the intangible asset. Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized under “Gains (losses) on sale of nonfinancial assets - net” in the statement of income in the period when the asset is derecognized.

Software Costs

Software is stated at cost less any impairment in value. The cost of acquired computer software license is capitalized on the basis of the costs incurred to acquire and install the specific software.

Costs associated with developing or maintaining computer software programs are recognized as expense when incurred.

The Group estimates the useful life of its software for 10 years.

Software costs are amortized on a straight-line basis over 10 years based on pro-rata basis i.e. actual number of customer licenses used divided by the customer licenses. Subsequent number of customer licenses used which is determined at the end of each year, shall be amortized on the same pro-rata basis for the remaining useful life following the year of acquisition. The software licenses are carried at cost less accumulated amortization and any impairment in value.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost net of impairment losses (see accounting policy on Impairment of Nonfinancial Assets).

Impairment of Nonfinancial Assets

Property and Equipment, Noncurrent Assets Held for Sale, Intangible Assets, Investment Properties and Goodwill

At each reporting date, the Group assesses whether there is any indication of impairment on property and equipment, Non-current assets held for sale, intangible assets, investment properties and goodwill or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of net recoverable amount.

The net recoverable amount is the higher of an asset's or Cash Generating Unit's (CGU) fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the net recoverable amount is assessed as part of the CGU to which it belongs. Value in use is the present value of future cash flows expected to be derived from an asset or CGU while fair value less costs of disposal is the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable and willing parties less any costs of disposal. Where the carrying amount of an asset (or CGU) exceeds its net recoverable amount, the asset (or CGU) is considered impaired and is written-down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or CGU).

An impairment loss is charged against operations in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged first to the revaluation increment of the said asset.

The impairment loss should be allocated to reduce the carrying amount of the assets of the CGU in the following order:

- first, to reduce the carrying amount of any goodwill allocated to the CGU; and
- then, to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the unit.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased.

If such indication exists, the net recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's net recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its net recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statements of income. Impairment loss with respect to goodwill is not reversed.

After such reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Equity

Capital Stock

Capital stock refers to the total amount of fully paid common stock, including stock dividends, for which the corresponding certificates have been issued. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity, net of any tax effects. Where the Parent purchases its own share capital (treasury stocks), the consideration paid is deducted from equity attributable to the Group's shareholders. Where such shares are subsequently sold, reissued or otherwise disposed of, any consideration received is included in equity attributable to the Parent's equity holders, net of any directly attributable incremental transaction costs and the related income tax effects.

Paid-in Surplus

Paid-in surplus refers to the premium received on the issuance of common stock.

Surplus

Surplus include accumulated results of operations as reported in the statement of income reduced by the amount of dividends declared. Surplus free refers to the unappropriated or free portion of the accumulated profits of the Group and the Parent while surplus reserves pertain to amounts set aside for possible or unforeseen losses or for undeterminable liabilities not otherwise recorded in the books.

Revenue and Expense Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the income can be reliably measured. Expense is recognized when a decrease in future economic benefit related to a decrease in an asset or an increase of a liability has arisen to the Group that can be measured reliably.

The following specific recognition criteria must also be met before income and expense are recognized:

Interest Income and Interest Expense

Interest income and interest expense are recognized in the statement of income for all financial instruments measured at amortized cost and interest-bearing financial instruments classified as financial assets at FVOCI and financial assets at FVPL as they accrue, using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all the contractual terms of the financial instruments including any fees or incremental costs that are directly attributable to the instrument and are integral part of the EIR, but not future credit losses. The EIR is established on initial recognition of the financial asset and liability and is not revised subsequently.

The carrying amount of the financial asset or liability is adjusted if the Group revises its estimates of payments or receipts. The change in carrying amount is recognized in statement of income as interest income or expense.

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

Trading and Investment Securities Gains or Losses

Trading and investment securities gains or losses represent results arising from disposal of financial assets at FVOCI and trading activities (realized gains and losses) and from the changes in fair value of financial assets and financial liabilities at FVPL (unrealized gains or losses).

Service Charges, Fees and Commissions

Fees and commission income is recognized to the extent that an inflow of economic benefits is probable and that the amount of revenue can be reliably measured. Fees and commission income is recognized at the fair value of the consideration received/receivable.

Fees and commission income and expenses that are integral to the EIR of a financial asset or liability are included in the measurement of the EIR. If the fees are received upfront, these are amortized over the term that the service is rendered. Commitment fees for facilities where a drawdown is not generally expected must be recognized over the facility period.

Service charges and penalties are recognized only upon collection or accrued when there is reasonable degree of certainty as to their collectability. Fees earned for the provision of services over a period of time are accrued over that period.

Fees and commission expenses are recognized when incurred.

Dividends

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

Employee Benefits

Short-term Employee Benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Retirement Benefits

The Parent has a funded, noncontributory defined benefit plan administered by a trustee. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive upon retirement, usually dependent on one or more factors such as age, years of service and compensation. The retirement cost is generally funded through payments to a trustee-administered fund, determined by annual actuarial calculations.

The retirement asset/liability recognized in the statement of financial position in respect of the defined benefits retirement plan is the present value of the defined benefits obligation at the valuation date less the fair value of plan assets. The defined benefits obligation is calculated annually by an independent actuary using the projected unit credit method. When the calculation results in a potential asset for the Parent, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

The present value of the defined benefits obligation is determined by discounting the estimated future cash outflows using interest rate on government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related retirement liability.

Remeasurement of the retirement asset/liability, which include actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OCI. The Parent determines the net interest expense (income) on the retirement benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the retirement benefit liability (asset), taking into account any changes in the retirement liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit plan are recognized under “Salaries and other employee benefits” in the statement of income.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in the statement of income.

The Parent recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Leases

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

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

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

Group as a Lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term.

Income Taxes

Current Tax

Current income tax is the expected tax payable on the taxable income for the year using the tax rates enacted at the reporting date.

Deferred Tax

Deferred tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized.

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current tax liabilities and deferred taxes related to the same taxable entity and the same taxation authority.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is charged to current operations, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Contingent Assets and Contingent Liabilities

Contingent liabilities are not recognized in the consolidated and separate financial statements but are disclosed in the notes to the consolidated and separate financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated and separate financial statements but are disclosed in the notes to the consolidated and separate financial statements when an inflow of economic benefits is probable.

Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individual or entities.

The definition of a “related party” is extended to include a management entity that provides key management personnel services to the company, either directly or through a group entity.

Events After the Reporting Date

Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the consolidated and separate financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated and separate financial statements when material.

Standards Issued but not yet Effective

Relevant new and amended PFRSs which are not yet effective for the year ended December 31, 2018 and have not been applied in preparing the consolidated and separate financial statements are summarized below.

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

PFRS 16, *Leases*

This standard will replace PAS 17, *Leases* and its related interpretations. The most significant change introduced by the new standard is that almost all leases will be brought onto lessees' statement of financial position under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance lease is retained.

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

The amendments allow entities to measure particular prepayable financial assets with negative compensation at amortized cost or at fair value through other comprehensive income (instead of at fair value through profit or loss) if a specified condition is met. It also clarifies the requirements in PFRS 9, *Financial Instruments* for adjusting the amortized cost of a financial liability when a modification or exchange does not result in its derecognition (as opposed to adjusting the effective interest rate).

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

The amendments clarify that long-term interests in an associate or joint venture that, in substance, form part of the entity's net investment but to which the equity method is not applied, are accounted for using PFRS 9, *Financial Instruments*.

Subject to Board of Accountancy's approval

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

The amendments specify how companies remeasure a defined benefit plan when a change - an amendment, curtailment or settlement - to a plan takes place during a reporting period. It requires entities to use the updated assumptions from this remeasurement to determine current service cost and net interest cost for the remainder of the reporting period after the change to the plan.

Amendments to PFRS 3, Business Combinations and PFRS 11, Joint Arrangements - Previously Held Interest in a Joint Operation

The amendments are part of the Annual Improvements to PFRS 2015-2017 Cycle. The amendment to PFRS 3, Business Combinations clarifies that when an entity obtains control of a business that is a joint operation, the acquirer applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the joint operation at its acquisition-date fair value. The amendment to PFRS 11, Joint Arrangements clarifies that when an entity obtains joint control of a business that is a joint operation, the previously held interests in that business are not remeasured.

Amendments to PAS 12, Income Taxes - Income Tax Consequences of Payments on Financial Instruments Classified as Equity

The amendments are part of the Annual Improvements to PFRS 2015-2017 Cycle and clarify that income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distribution to owners and thus, should be recognized in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

Amendments to PAS 23, Borrowing Costs - Borrowing Costs Eligible for Capitalization

The amendments are part of the Annual Improvements to PFRS 2015-2017 and clarify that in calculating the capitalization rate on general borrowings, if any specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally.

Effective for annual periods beginning on or after January 1, 2021:

PFRS 17, Insurance Contracts

This standard will replace PFRS 4, *Insurance Contracts*. It requires insurance liabilities to be measured at current fulfillment value and provides a more uniform measurement and presentation approach to achieve consistent, principle-based accounting for all insurance contracts. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued.

Deferred effectivity

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

The amendments address a current conflict between the two standards and clarify that a gain or loss should be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. The effective date of the amendments, initially set for annual periods beginning on or after January 1, 2016, was deferred indefinitely in December 2015 but earlier application is still permitted.

4. Critical Judgments and Estimates

The preparation of the consolidated and separate financial statements in conformity with PFRS require management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses, and disclosures of contingent assets and contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgments

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

(a) Functional Currency

PAS 21 requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Group considers the following:

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

(b) Provisions and Contingencies

The Group, in the ordinary course of business, sets up appropriate provisions for its present legal or constructive obligations in accordance with its policies on provisions and contingencies. Judgment is exercised by management to distinguish between provisions and contingencies (see Note 31).

(c) Operating leases

Group as Lessee

The Group has entered into operating lease agreements for the premises it uses for its operations. The Group has determined that all significant risks and rewards of ownership of the properties it leases on operating lease arrangements are not transferable to the Group.

In determining whether or not there is an indication of the operating lease treatment, the retention of ownership title to the leased property, period of lease contract relative to the estimated economic useful life of the leased property and bearer of executory costs, among others, are considered.

(d) Classification of Financial Instruments

With the Group's and the Parent's early adoption of PFRS 9 in 2013, it classifies financial asset beginning on the said transaction date based on its business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

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

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

The Group's and the Parent's business model allows for financial assets to be held to collect contractual cash flows even when sales of certain financial assets occur. PFRS 9, however, emphasizes that if more than an infrequent number of sales is made out of a portfolio of financial assets carried at amortized cost, the entity should assess whether and how sales are consistent with the objective of collecting contractual cash flows.

In making this judgment, the Group and the Parent considers the following:

- i. Sales of instrument which no longer meet the investment policy;
- ii. Sales of financial assets to reflect the change in expected timing of payouts;
- iii. Sales which are so close to maturity [e.g., less than three (3) months] or the security's call date that changes in market value of interest would not have a significant effect on the security's fair value;
- iv. Sales attributable to and in preparation for an isolated event that is beyond the Group's and the Parent's control, is non-recurring and could not have been reasonably anticipated by both;
- v. Sales attributable to a change in tax law that eliminates or significantly reduces the tax exempt status of the interest on the security;
- vi. Sales attributable to a major combination or major disposition that necessitates the sale of securities to maintain the Group's interest rate risk position or credit risk policy;
- vii. Sales attributable to a change in statutory or regulatory requirements significantly modifying either what constitutes a permissible investment or the maximum level of particular investments;
- viii. Sales attributable to a significant increase in regulatory capital requirements that causes the Group and the Parent to downsize by selling securities;
- ix. Sales attributable to a significant increase in risk weights of securities used for regulatory risk-based capital purposes; and
- x. Sales or derecognition attributable to the changes in the payment structure as initiated by the creditor.

(e) Determination of Acquisition Date for Business Combination

For each business combination, the Parent as acquirer identified the acquisition date which is the date on which control is obtained of the acquiree. The date on which the Parent obtains control is generally the date on which the Parent legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree - the closing date. However, the Parent might obtain control on a date that is either earlier or later than the closing date.

MORB Section X378, *Limits on Investment in the Equities of Financial Allied Undertakings*, provides guidelines in determining compliance with ceilings on equity investments in financial allied undertakings. For a thrift Group investor, the equity investment in a rural or thrift Group financial allied undertaking is limited to 49.00% subject to BSP approval. However, the BSP approval of the Parent's acquisition of up to 100.00% of the issued and outstanding common shares of the acquiree under the specific circumstance that the acquisition is a necessary first step towards merger. Thus, the Parent assesses that the acquisition is a transaction which is part of the merger and therefore should not be accounted for separately from the merger itself. Consequently, the date which constitutes the effectivity of the merger is the date on which the SEC approves the merger.

After considering all pertinent facts and circumstances, the Parent determined that the acquisition date for the business combination should be the date of the approval of the merger by the SEC.

Estimates

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

(a) Fair Value of Financial Instruments

Where the fair values of financial assets and financial liabilities recognized in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. These estimates may include consideration of liquidity, volatility and correlation. Changes in assumptions about these factors could affect the reported fair values of financial instruments.

(b) Impairment and Probable Losses on Loans and Receivables

PSBC through its Controllership Group ("CG") shall conduct quarterly aging of the Bank's loan portfolio to obtain accurate information as to the behavior of the accounts per type of loan/product/industry and to establish their significant increase in credit risk. Thus, the classification of accounts as to stage and loan loss provisioning shall also be established on a quarterly basis.

Refer to Note 3 for detailed discussions regarding the abovementioned significant estimates in relation to ECL estimation.

(c) Impairment of Nonfinancial Assets

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

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Group recognizes an impairment loss whenever the carrying amount of an asset exceeds its net recoverable amount. Net recoverable amounts are estimated for individual assets or, if it is not possible, for the CGU to which the asset belongs.

The carrying values of noncurrent assets held for sale, property and equipment, investment properties and intangible assets are disclosed in Notes 11, 12, 13 and 15, respectively.

(d) Impairment of Goodwill

The Group's management conducts an annual review for any impairment in the value of goodwill. Goodwill is written down for impairment where the net present value of the forecasted future cash flows from the business is insufficient to support its carrying value. The Group used its weighted average cost of capital in discounting the expected cash flows from specific CGUs. Future cash flows from the business are estimated based on the theoretical annual income of the CGUs. Average growth rate was derived from the average increase in annual income during the last five (5) years.

The recoverable amount of the CGUs has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. A pre-tax discount rate is applied to cash flow projections. Value in use calculation of CGUs is most sensitive to the following assumptions: a) interest margin; b) discount rates; and c) projected growth rates used to extrapolate cash flows beyond the budget period.

Consolidated goodwill amounted to ₱83.82 million in 2018, and the separate and individual goodwill amounted to ₱71.23 million ₱75.86 million in 2018 and 2017, respectively.

(e) Estimated Useful Lives of Property and Equipment, Software Costs and Investment Properties

The useful lives, and depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from property and equipment, computer software and investment properties.

The estimated useful lives of property and equipment and software costs are disclosed in Note 3.

(f) Realizability of Deferred Tax Assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that sufficient taxable income will be available against which the related tax benefits can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the forecasted timing and amount of future taxable income together with future tax planning strategies.

The estimates of future taxable income indicate that certain temporary differences will be realized in the future (see Note 30).

(g) Present Value of Retirement Benefits Obligation

The cost of retirement benefits and other post-employment benefits are determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases and mortality rates. Due to the long-term nature of the plan, such estimates are subject to significant uncertainty.

The assumed discount rates were determined using the prevailing market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as at reporting date. The present value of the Parent's retirement obligation and the fair value of plan assets are disclosed in Note 27.

(h) Contingencies

The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed by management in consultation with the legal counsels handling the Group's legal defense in these matters, and is based upon an analysis of potential results.

The Group's management currently does not believe that these proceedings will have a material adverse effect on its financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 31).

5. Financial Risk Management Objectives and Policies

To ensure that corporate goals and objectives, and business and risk strategies are achieved, the Group utilizes a risk management process that is applied throughout the Group in executing all business activities. The Group's activities are principally related to the use of financial instruments and are exposed to credit risk, liquidity risk and market risk. The BOD of the Parent has the overall responsibility for the Group's financial risk management, which includes establishment and approval of risk strategies, policies and limits. The BOD of the Parent created the Audit, Corporate Governance and Risk Management Committees to closely monitor and evaluate the financial risks in line with the strategies, policies and limits set by the BOD. The main objective of the financial risk management is to minimize the adverse impact of financial risks on the Group's financial performance and financial condition due to the unpredictability of financial markets.

The Group's principal financial instruments consist of COCI, due from BSP, due from other banks, investments at amortized cost, financial assets at FVOCI, loans and receivables, deposit liabilities and bills payable. The main purpose of these financial instruments is to generate income and raise finances for the Group's operations.

The Group maintains a CAR of 10.00% or better at all times.

The main risks arising from the Bank's use of financial instruments are summarized as follows:

- (a) Credit Risk and Concentration Limit,
- (b) Liquidity Risk, and
- (c) Market Risk.

Credit Risk and Concentration Limit

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Concentration limits for the Parent are set by types of borrowers and loan classifications. In setting the concentration limits, the Parent considers the BSP regulations.

To avoid significant concentrations of credit risk on the Parent's loans and receivables, it spreads out its risks by setting limits on loan amounts that are way below its allowable single borrower's limit and sets a limit on industry concentration. The Group's system of credit approval is such that the higher the credit exposure, the more approving bodies are required to review and approve the credit proposal.

To mitigate credit risk, the Parent has set a target of having at least 90.00% of total loan portfolio secured by tangible collateral, predominantly by registered mortgages on real properties. An independent unit in the Group validates property appraisal, title verification, credit investigation and credit evaluation done by the loan originating branch. Insurance coverage and assignment of the insurance policies in favor of the Group are required on these assets (e.g., improvements on real properties, motor vehicles, etc.). Further, the Parent requires that the borrowers be insured (e.g., life insurance, mortgage redemption insurance, etc.) and assign the insurance policies in favor of the Parent.

Credit Risk Exposures

The table below shows the Group's maximum exposure to credit risk for collateral held or other credit enhancements (net of unearned discount and allowance for probable losses), as at December 31, 2018 and 2017:

Consolidated	Consolidated December 31, 2018 Maximum Exposure		Separate December 31, 2018 Maximum Exposure		Individual December 31, 2017 Maximum Exposure	
	Before Collateral	After financial Effect of Collateral or Credit Enhancement	Before Collateral	After financial Effect of Collateral or Credit Enhancement	Before Collateral	After financial Effect of Collateral or Credit Enhancement
Due from BSP	P1,503,106,577	P1,503,106,577	P1,488,665,071	P1,488,665,071	P1,366,854,480	P1,366,854,480
Due from other banks	670,687,275	670,687,275	507,710,235	507,710,235	420,073,571	420,073,571
Investments at amortized cost	649,256,176	649,256,176	643,481,529	643,481,529	402,381,931	402,381,931
Financial assets at FVTOCI	387,260,836	387,260,835	387,260,836	387,260,835	110,663,900	387,260,835
Small and medium- sized entity	5,234,057,676	-	5,168,974,567	-	3,286,454,559	-
Agrarian reform	2,695,406,774	-	2,647,376,720	-	2,043,333,699	-
Housing	320,896,453	-	318,647,184	-	260,933,212	-
Salary	3,343,852,769	3,343,852,769	3,243,384,522	3,243,384,522	300,180,459	300,180,459
Auto	848,264,243	-	845,103,458	-	81,724,793	-
Loans to individuals for other purposes	240,103,266	240,103,266	207,823,472	207,823,472	107,467,140	107,467,140
Sinking fund	46,699,933	46,699,933	45,738,644	45,738,644	44,634,384	44,634,384
Security deposits	4,659,340	4,659,340	4,659,340	4,659,340	6,924,196	6,924,196
	P15,944,251,318	P6,845,626,171	P15,508,825,578	P6,528,723,648	P8,431,626,324	P3,035,776,996

The other financial assets, the carrying amounts represent the maximum exposure to credit risk as at December 31, 2018 and 2017.

Collateral and Other Credit Enhancements

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

The main types of collateral obtained are as follows:

- Due from other banks is insured by the Philippine Deposit Insurance Corporation (PDIC) up to a maximum of ₱500,000 for every depositor per grouping institution;
- The Parent has established a loan product to lend to small farmers who may have no access to formal credit institutions because the land they are tilling are small and are not covered by a guarantee or surety to be executed in favor of the Group by the Agricultural Guarantee Fund Pool (AGFP).

AGFP was established by virtue of Administrative Order No. 225-A issued by former President Gloria Arroyo on May 26, 2008 to mitigate the risk involved in agricultural lending thereby facilitating the provision of credit in the agriculture sector. The AGFP shall encourage private financial institutions and other credit conduits to expand their outreach to new small farmer and fisher folk (SFF) borrowers; and/or expanded lending to existing SFF borrowers by providing guarantee coverage to unsecured loans extended by the private financial institutions and other credit conduits to SFF borrowers engaged in palay and/or food production projects/activities.

- Agricultural and business loans are secured by real and chattel mortgages.

Borrower Risk Rating (BRR) Disclosure

The Parent also established an Internal Credit Risk Rating System (ICRRS), which is a loan review and loan loss provisioning system that clearly sets forth the criteria for uniformly classifying loans. ICRRS has three (3) components, namely:

- the BRR which requires an assessment of the creditworthiness of the borrower, focusing on the outlook for loan repayment without considering the type or amount of the facility, or its security arrangements. The criteria to be assessed here are those which have a direct bearing on the borrower's long-term chances of survival and the factors directly to these. Although the borrower's financial condition is evaluated on the basis of the past three (3) years' historical financial statements, this is primarily to determine any trend in the entity's financial condition going forward, and how it will impact the borrower's future solvency, or debt-service capabilities. The BRR is determined by focusing on the borrower's credit quality based on factors such as the borrower's: (a) stability, (b) access to financial markets, (c) ability to service debt, (d) financial position strength, and (e) external rating by agencies, where applicable;
- the Facility Risk Factor (FRF) which is determined for each individual facility, taking into account the different security arrangements, or risk influencing factors, to allow a more precise depiction of risk. FRF is determined based on security arrangements supporting the facility. Since the FRF focuses on the quality and quantity of the collateral cover applicable to the underlying facility, independent of borrower quality, the FRF can upgrade the BRR on the basis of the facility's collateral position, or can downgrade it due to risk-enhancing features; and

- the Adjusted Borrower Risk Rating (ABRR) which is the result of the combination of the BRR and FRF.

Risk Concentration

Credit risk can arise whenever a significant number of borrowers have similar characteristics and are affected similarly by changes in economic or other conditions. The Group and the Parent analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, geographic, internal rating buckets, currency, term and security. To mitigate risk concentration, the Group and the Parent constantly checks for breaches in regulatory and internal limits. Credit risk is managed through a continuing review of credit policies, systems and procedures.

Credit Quality Per Class of Financial Assets

The credit quality of the Group's Due from BSP and other Groups, investments at amortized cost, financial assets at FVOCI, sinking fund and security deposits are based on the nature of the counterparty and internal rating system.

Loans are secured either by real estate, chattel, or other assets (see Note 10).

The credit quality of the Group's financial assets that are neither past due nor impaired is considered to be of good quality and expected to be collectible without incurring any credit losses.

The Parent's bases in grading its financial assets are as follows:

- *High Grade*
These are receivables which have a high probability of collection (the counterparty has the apparent ability to satisfy its obligation and the security on the receivables is readily enforceable).
- *Standard Grade*
These are receivables where collections are probable due to the reputation and the financial ability of the counterparty to pay but have been outstanding for a certain period of time.
- *Substandard Grade*
These are receivables that can be collected provided a persistent effort to collect them is made.

The following tables show the credit quality of financial assets, net of unearned discount.

Consolidated

	December 31, 2018			
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Total
Neither past due nor impaired	P12,353,012,566	P2,173,793,852	P1,036,517,012	P15,563,323,430
Past due but not impaired	376,326,751	-	-	376,326,751
Impaired	435,585,036	-	-	435,585,036
Gross	13,164,924,353	2,173,793,852	1,036,517,012	16,375,235,217
Less allowance for probable losses	265,036,456	-	-	265,036,456
Net	P12,899,887,897	P2,173,793,852	P1,036,517,012	P16,110,198,761

* Comprised of Due from BSP and Due from other Banks

** Comprised of financial assets at FVOCI and investments at amortized cost

Separate

	December 31, 2018			
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Total
Neither past due nor impaired	P12,114,952,845	P1,996,375,306	P1,030,742,365	P15,142,070,516
Past due but not impaired	345,944,837	-	-	345,944,837
Impaired	435,585,036	-	-	435,585,036
Gross	12,896,482,718	1,996,375,306	1,030,742,365	15,923,600,389
Less allowance for probable losses	143,825,346	-	-	143,825,346
Net	P12,752,657,372	P1,996,375,306	P1,030,742,365	P15,779,775,043

* Comprised of Due from BSP and Due from other Banks

** Comprised of financial assets at FVOCI and investments at amortized cost

Individual

	December 31, 2017			
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Total
Neither past due nor impaired	P9,322,010,991	P2,951,844,873	P1,037,676,514	P13,311,532,378
Past due but not impaired	163,860,027	-	-	163,860,027
Impaired	349,012,390	-	-	349,012,390
Gross	9,834,883,408	2,951,844,873	1,037,676,514	13,824,404,795
Less allowance for probable losses	43,997,573	-	-	43,997,573
Net	P9,790,885,835	P2,951,844,873	P1,037,676,514	P13,780,407,222

* Comprised of Due from BSP and Due from other Banks

** Comprised of financial assets at FVOCI and investments at amortized cost

The tables below show the credit quality by class of financial assets (gross of credit and impairment losses and unearned discount) based on the Group's credit rating.

Consolidated

	December 31, 2018					
	Neither Past Due nor Individually Impaired				Past Due or Impaired	Total
	High Grade	Standard Grade	Substandard	Unrated		
Financial Assets						
Due from BSP	P1,503,106,577	P-	P-	P-	P-	P1,503,106,577
Due from other banks	670,687,275	-	-	-	-	670,687,275
Investments at amortized cost	649,256,176	-	-	-	-	649,256,176
Financial assets at FVOCI	387,260,836	-	-	-	-	387,260,836
Loans and receivables	12,380,816,538	-	-	-	811,911,787	13,192,728,325
Sinking fund	46,699,933	-	-	-	-	46,699,933
Security deposit*	4,659,340	-	-	-	-	4,659,340
	P15,642,486,675	P-	P-	P-	P811,911,787	P16,454,398,462

* Presented under Other Assets account

Separate

December 31, 2018						
	Neither Past Due nor Individually Impaired				Past Due or Impaired	Total
	High Grade	Standard Grade	Substandard	Unrated		
Financial Assets						
Due from BSP	P1,488,665,071	P-	P-	P-	P -	P1,488,665,071
Due from other banks	507,710,235	-	-	-	-	507,710,235
Investments at amortized cost	643,481,529	-	-	-	-	643,481,529
Financial assets at FVOCI	387,260,836	-	-	-	-	387,260,836
Loans and receivables	12,139,830,644	-	-	-	781,529,873	12,921,360,517
Sinking fund	45,738,644	-	-	-	-	45,738,644
Security deposit*	4,659,340	-	-	-	-	4,659,340
	P15,217,346,299	P-	P-	P-	P781,529,873	P15,998,876,172

* Presented under Other Assets account

Individual

December 31, 2017						
	Neither Past Due nor Individually Impaired				Past Due or Impaired	Total
	High Grade	Standard Grade	Substandard	Unrated		
Financial Assets						
Due from BSP	P2,672,191,276	P-	P-	P-	P-	P2,672,191,276
Due from other banks	279,653,597	-	-	-	-	279,653,597
Investments at amortized cost	635,926,394	-	-	-	-	635,926,394
Financial assets at FVOCI	401,750,120	-	-	-	-	401,750,120
Loans and receivables	9,350,295,787	-	-	-	512,872,416	9,863,168,203
Sinking fund	45,738,601	-	-	-	-	45,738,601
Security deposit*	10,421,533	-	-	-	-	10,421,533
	P13,395,977,308	P-	P-	P-	P512,872,416	P13,908,849,724

* Presented under Other Assets account

For financial assets such as amounts Due from BSP and other Groups, investments at amortized cost, and financial assets at FVOCI, the credit quality is assessed using external credit rating (such as Standard & Poor, Fitch, Moody's, etc.) of the respective counterparties, as follows:

Consolidated

			December 31, 2018
	AA - A	BBB or Unrated	Total
Loans and advances to Banks:			
Due from BSP	P-	P1,503,106,577	P1,503,106,577
Due from other Banks	-	670,687,275	670,687,275
	-	2,173,793,852	2,173,793,852
Investments at amortized cost:			
Quoted government securities	-	649,256,176	649,256,176
Financial assets at FVOCI:			
Quoted government securities	-	387,260,836	387,260,836
	-	1,036,517,012	1,036,517,012
	P-	P3,210,310,864	P3,210,310,864

Separate

			December 31, 2018
	AA - A	BBB or Unrated	Total
Loans and advances to Banks:			
Due from BSP	P-	P1,488,665,071	P1,488,665,071
Due from other Banks	-	507,710,235	507,710,235
	-	1,996,375,306	1,996,375,306
Investments at amortized cost:			
Quoted government securities	-	643,481,529	643,481,529
Financial assets at FVOCI:			
Quoted government securities	-	387,260,836	387,260,836
	-	1,030,742,365	1,030,742,365
	P-	P3,027,117,671	P3,027,117,671

Individual

			December 31, 2017
	AA - A	BBB or Unrated	Total
Loans and advances to Banks:			
Due from BSP	P-	P2,672,191,276	P2,672,191,276
Due from other Banks	-	279,653,597	279,653,597
	-	2,951,844,873	2,951,844,873
Investments at amortized cost:			
Quoted government securities	-	635,926,394	635,926,394
Financial assets at FVOCI:			
Quoted government securities	-	401,750,120	401,750,120
	-	1,037,676,514	1,037,676,514
	P-	P3,989,521,387	P3,989,521,387

Liquidity Risk

Liquidity risk is the risk from inability to meet obligations when they become due because of inability to liquidate assets or obtain adequate funding. The Group ensures that sufficient liquid assets are available to meet short-term funding and regulatory requirements.

Management of Liquidity Risk

The Parent mitigates liquidity risk through its Asset and Liability Committee (ALCO) and Treasury Management Unit, who ensure that sufficient liquid assets are available to meet short-term funding and regulatory requirements. The amount and the sources of funds (such as secondary liquidity reserves, unused credit lines and rediscounting lines) that are available to the Parent and the circumstances under which the Parent may use those funds are determined on a weekly basis. The Parent requires all branches to maintain liquid assets to total deposits/other liabilities ratio of at least 20% or 15% liquidity reserves, net of legal reserves.

The Parent's liquidity, cash and reserves positions are monitored on a daily basis. The Group maintains sufficient liquidity reserves in the form of high-yielding placements with the BSP, deposits with other banks and investments in government securities (GS). The Parent also has obtained sufficient liquidity lines from other banks and non-banking lending institutions that can relieve financial pressures in the event of an extraordinary demand for liquidity. Further, the Parent actively rediscounts loans with many entities that have given it more than sufficient rediscounting lines.

Analysis of Financial Liabilities by Remaining Contractual Maturities

The table below summarizes the maturity profile of the Group and the Parent's financial liabilities as at December 31, 2018 and 2017 based on contractual undiscounted repayment obligations.

Consolidated

	December 31, 2018					Total
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	
Deposit liabilities:						
Demand	P1,689,433,782	P-	P-	P-	P-	P1,689,433,782
Savings	5,947,061,372	-	-	-	-	5,947,061,372
Time	1,088,769,115	566,577,802	1,186,022,622	1,498,482,166	-	4,339,851,705
Bills payable	-	-	1,000,000,000	3,350,000,000	-	4,350,000,000
Accrued interest and other expenses*	-	165,556,245	-	-	-	165,556,245
Other liabilities**	2,266,956,832	-	-	-	-	90,511,176
Total undiscounted financial liabilities	P8,815,775,445	P732,134,047	P2,186,022,622	P4,848,482,166	P-	P16,582,414,280

Separate

	December 31, 2018					Total
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	
Deposit liabilities:						
Demand	P1,812,083,789	P-	P-	P-	P-	P1,812,083,789
Savings	5,655,320,235	-	-	-	-	5,655,320,235
Time	1,088,769,115	566,577,802	1,115,367,130	1,498,482,166	-	4,269,196,213
Bills payable	-	-	1,000,000,000	3,350,000,000	-	4,350,000,000
Accrued interest and other expenses*	-	159,563,464	-	-	-	159,563,464
Other liabilities**	79,698,548	-	-	-	-	79,698,548
Total undiscounted financial liabilities	P8,635,871,687	P726,141,266	P2,115,367,130	P4,848,482,166	P-	P16,325,862,249

Individual

	December 31, 2017					Total
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	
Deposit liabilities:						
Demand	P1,158,022,849	P-	P-	P-	P-	P1,158,022,849
Savings	4,613,055,431	-	-	-	-	4,613,055,431
Time	1,441,790,856	262,483,296	619,226,637	1,061,504,014	-	3,385,004,803
Bills payable	-	500,000,000	4,050,000,000	135,714,286	-	4,685,714,286
Accrued interest and other expenses*	-	75,058,588	-	-	-	75,058,588
Other liabilities**	95,931,614	-	-	-	-	95,931,614
Total undiscounted financial liabilities	P7,308,800,750	P837,541,884	P4,669,226,637	P1,197,218,300	P-	P14,012,787,571

*Amounts include accrued interest payable, accrued taxes and licenses and manager's check payable

**Amounts exclude withholding tax payable

The tables below show the contractual expiry by maturity of the Group's contingent liabilities:

Consolidated

	December 31, 2018				Total
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	
Contingent liabilities	P -	P3,334,791	P -	P-	P3,334,791

Separate

	December 31, 2018				Total
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	
Contingent liabilities	P-	P3,333,964	P-	P-	P3,333,964

Individual

	December 31, 2017				Total
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	
Contingent liabilities	P-	P838,463	P-	P-	P838,463

Market Risk

Market risk is the risk of loss of future earnings or future cash flows arising from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchange rates, equity prices and other market changes. The Parent's market risk is manageable within conservative bounds.

As at December 31, 2018 and 2017, the Group has not engaged in trading financial instruments.

BSP Regulatory Reporting - Market Risk

As at December 31, 2018 and 2017, the Group does not have market risk-weighted assets reported to the BSP.

Interest Rate Risk

Interest rate risk is the risk to earning or capital resulting from adverse movements in the interest rates. The economic perspective of interest rate risk focuses on the value of a financial instrument in the current interest environment and the sensitivity of that value to changes in interest rates.

The Parent mitigates interest rate risk (risk of loss or the risk of reduction in income due to changes in the interest rate environment) through the ALCO. The Parent also monitors and measures the interest rate risk using an interest rate gap analysis. The gap analysis measures, for any given period, any mismatch between the amounts of interest-bearing assets and interest-bearing liabilities, which would mature or reprice during the period.

Interest rate risk is also addressed by the Parent by setting prudential limits on short-term loans vis-à-vis medium-term loans (maximum limit of 30% of total outstanding loans receivable). Short-term loans allow the Group to adjust loan pricing quickly should interest rates move up with respect to its sources of funds. Medium-term loans, on the other hand, are generally repriced periodically. In cases of medium-term loan whose interest rates are fixed, the interest rate generally provides sufficient cushion in terms of spread over sourcing rates.

The Parent also maintains a very large portion of its deposit base in short-term deposits. The interest rates on savings and time deposits are set by reference to prevailing market rates being quoted by the commercial Groups. Demand deposits are generally non-interest bearing.

The Parent also makes an extensive use of rediscounting funds, the interest rates on which are generally fixed for the entire term, thus assuring that the interest spread of the Parent is maintained at all times.

The Parent closely monitors the movements of interest rates in the market and reviews its asset-liability structure to ensure that exposures to fluctuations in interest rates are kept within acceptable limits.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's results of operations:

<u>Consolidated</u>	December 31, 2018	
	Changes in Interest Rates (In Basis Points)	Sensitivity of Net Interest Income (In Millions)
Currency		
PHP	+ 100	P4.92
PHP	- 100	(4.92)
<u>Separate</u>	December 31, 2018	
	Changes in Interest Rates (In Basis Points)	Sensitivity of Net Interest Income (In Millions)
Currency		
PHP	+ 100	P2.02
PHP	- 100	(2.02)
<u>Individual</u>	December 31, 2017	
	Changes in Interest Rates (In Basis Points)	Sensitivity of Net Interest Income (In Millions)
Currency		
PHP	+ 100	P2.02
PHP	- 100	(2.02)

The sensitivity of the results of operations is measured as the effect of the assumed changes in interest rates on the net interest income for one year based on the floating rate of financial assets and financial liabilities held as at December 31, 2018 and 2017.

BSP Regulatory Reporting - Interest Rate Risk

The tables set forth the interest rate repricing gap as at December 31, 2018 and 2017, based on the reporting made to BSP.

Consolidated

In Millions	December 31, 2018							Total
	Up to 1 Month	1 - 3 Months	3 - 12 Months	1 - 3 Years	3 - 5 Years	Beyond 5 Years	Non-rate Sensitive	
Resources								
Due from BSP	P1,503	P-	P-	P-	P-	P-	P-	P1,503
Due from other Banks	671	-	-	-	-	-	-	671
Loans	7,636	248	1,233	368	2,071	1,229	-	12,785
Accrued interest income from financial assets	151	-	-	-	-	-	-	151
	9,961	248	1,233	368	2,071	1,229	-	15,110
Liabilities and Equity								
Deposit liabilities	6,984	567	1,115	-	1,498	-	1,812	11,976
Bills payable	-	-	1,000	3,350	-	-	-	4,350
Redeemable preferred shares	40	-	-	-	-	-	-	40
Accrued interest expense on financial liabilities	166	-	-	-	-	-	-	166
	7,190	567	2,115	3,350	1,498	-	1,812	16,532
Total periodic gap	P2,771	(P319)	(P882)	(P2,982)	P573	P1,229	(P1,812)	(P1,422)

Separate

In Millions	December 31, 2018							Total
	Up to 1 Month	1 - 3 Months	3 - 12 Months	1 - 3 Years	3 - 5 Years	Beyond 5 Years	Non-rate Sensitive	
Resources								
Due from BSP	P1,489	P-	P-	P-	P-	P-	P-	P1,489
Due from other Banks	508	-	-	-	-	-	-	508
Loans	7,636	-	1,233	362	2,070	1,229	-	12,530
Accrued interest income from financial assets	150	-	-	-	-	-	-	150
	9,783	-	1,233	362	2,070	1,229	-	14,677
Liabilities and Equity								
Deposit liabilities	6,744	567	1,115	-	1,498	-	1,812	11,736
Bills payable	-	-	1,000	3,350	-	-	-	4,350
Redeemable preferred shares	40	-	-	-	-	-	-	40
Accrued interest expense on financial liabilities	160	-	-	-	-	-	-	160
	6,944	567	2,115	3,350	1,498	-	1,812	16,286
Total periodic gap	P2,839	(P567)	(P882)	(P2,988)	P572	P1,229	(P1,812)	(P1,609)

Individual

In Millions	December 31, 2017							Total
	Up to 1 Month	1 - 3 Months	3 - 12 Months	1 - 3 Years	3 - 5 Years	Beyond 5 Years	Non-rate Sensitive	
Resources								
Due from BSP	P2,672	P-	P-	P-	P-	P-	P-	P2,672
Due from other								
Banks	280	-	-	-	-	-	-	280
Loans	746	424	1,984	-	4,885	1,423	-	9,462
Accrued interest income from financial assets	128	-	-	-	-	-	-	128
	3,826	424	1,984	-	4,885	1,423	-	12,542
Liabilities and Equity								
Deposit liabilities	7,241	228	621	-	1,066	-	-	9,156
Bills payable	500	500	3,550	-	136	-	-	4,686
Redeemable preferred shares	40	-	-	-	-	-	-	40
Accrued interest expense on financial liabilities	121	-	-	-	-	-	-	121
	7,902	728	4,171	-	1,202	-	-	14,003
Total periodic gap	(P4,076)	(P304)	(P2,187)	P-	P3,683	P1,423	P-	(P1,461)

Currency Risk

The Parent manages its exposure to the effects of fluctuations in the foreign currency exchanges by complying with existing regulatory guidelines on the FCDU and by limiting such exposure within the limits that management believes to be relatively conservative for the size of the Parent.

The Group's and the Parent's exposure to foreign exchange risk as at December 31, 2018 and 2017 is considered to be minimal as the Parent's functional currency for FCDU is also in USD. As at December 31, 2018 and 2017, the Parent's exposure amounted to \$0.02 million and \$0.01 million, respectively.

6. Categories and Fair Value Measurement

The methods and assumptions used by the Group in estimating the fair values of financial and nonfinancial assets and liabilities follow:

- *COCI, Due from BSP and Other Groups* - Fair values approximate carrying amounts given the short-term nature of the instruments.
- *Loans and Receivables* - The estimated fair value of receivables from customers is equivalent to the estimated future cash flows expected to be received which are discounted using current market rates. Fair value of sale contracts receivable, accounts receivable, and accrued interest receivable approximates carrying amounts given the short-term nature of the accounts.
- *Initial recognition of Investment Properties* - Fair value is determined using market data approach. The valuations performed by the appraisers are based on recent sales or market prices of similar properties in the same areas the properties are located, quoted from other appraisers and real estate brokers, and adjusted for any difference in the nature, location or condition of the specific property.

Inputs considered in determining fair values include the following:

Location	Location of comparable properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of the lot size differences on land value.
Shape	Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.
Corner influence	Bounded by 2 roads
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.
Time element	An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investor's perception of the market over time, in which case, the current data is superior to historic data.

- *Deposit Liabilities* - Fair values of time deposits are estimated using the discounted cash flow methodology, where future cash flows are discounted using the current market rate and with maturities consistent with those remaining for the liability being valued. For demand and savings deposits, carrying amounts approximate fair values considering that these are currently due and demandable.
- *Bills Payables* - Fair values are estimated using the discounted cash flow methodology, where future cash flows are discounted using the current market rate and with maturities consistent with those remaining for the liability being valued.
- *Manager's Checks and Accrued Interest and Other Expense* - Carrying amounts approximate fair values due to the short-term nature of the accounts.

Fair Value Hierarchy

All assets and liabilities for which fair value is measured or disclosed in the consolidated and separate financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

For assets and liabilities that are recognized in the consolidated and separate financial statements on a recurring basis, such as financial assets at FVOCI, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The following table provides the fair value hierarchy of the Group's assets and liabilities measured at fair value and those for which fair values should be disclosed:

Consolidated

	December 31, 2018				Total Fair Value
	Carrying Value	Level 1	Level 2	Level 3	
Assets Measured at Fair Value					
Financial Assets					
Financial assets at FVTOCI	P387,260,836	P387,260,836	P-	P-	P387,260,836
Assets for which Fair Values are disclosed					
Financial Assets:					
Loans and Receivables	P12,899,887,897	P-	P12,899,887,897	P	P12,899,887,897
Nonfinancial Assets:					
Investment properties	1,351,040,987	-	806,546,351	-	806,546,351
	P14,250,928,884	P-	P13,706,434,248	P-	P13,706,434,248

Separate

	December 31, 2018				Total Fair Value
	Carrying Value	Level 1	Level 2	Level 3	
Assets Measured at Fair Value					
Financial Assets					
Financial assets at FVOCI	P387,260,836	P387,260,836	P-	P-	P387,260,836
Assets for which Fair Values are disclosed					
Financial Assets					
Loans and Receivables:	P12,752,657,372	P-	P12,752,657,372	P-	P12,752,657,372
Nonfinancial Assets					
Investment properties	1,340,216,271	-	1,340,216,271	-	1,340,216,271
	P14,092,873,643	P-	P14,092,873,643	P-	P14,092,873,643

Individual

	December 31, 2017				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets Measured at Fair Value					
Financial Assets					
Financial assets at FVOCI	P401,750,120	P401,750,120	P-	P-	P401,750,120
Assets for which Fair Values are Disclosed					
Financial Assets					
Loan receivables	P9,790,885,835	P-	P9,408,858,200	P-	P9,408,858,200
Nonfinancial Assets					
Investment properties	1,269,710,671	-	1,490,972,107	-	1,490,972,107
	P11,060,596,506	P-	P10,899,830,307	P-	P10,899,830,307

For 2018 and 2017, there have been no transfers into and out of each of the levels of the fair value hierarchy.

As at December 31, 2018 and 2017, the carrying values of the Parent's financial assets and financial liabilities, not included in the table above, as reflected in the statements of financial position and related notes approximate their respective fair values.

7. Due from Bangko Sentral ng Pilipinas

This account represents the reverse repurchase agreements (RRP), demand deposit accounts (DDA), and overnight deposit facilities (ODF) and special deposit account (SDA) of the Group with the BSP maintained to meet the reserve requirements. This also serves as a clearing account for interbank claims. Details are as follow:

	Consolidated	Separate	Individual
	2018	2018	2017
RRP	P600,000,000	P600,000,000	P1,643,884,219
DDA	903,106,577	888,665,071	683,307,057
ODF and SDA	-	-	345,000,000
	P1,503,106,577	P1,488,665,071	P2,672,191,276

Demand deposit account represents the deposit maintained by the Group and the Parent with the BSP as reserve requirement against deposit liabilities.

ODF and SDA both bear annual interest rate of 3.50% in 2018 and 2.50% in 2017, respectively, while RRP bear annual interest rate of 4.00% in 2018 and 3.00% in 2017. Interest earned on ODF, SDA and RRP for the years ended December 31, 2018 and 2017 amounted to P16.18 million and P23.6 million, respectively.

The account also serves as the Parent's clearing account for its check clearing operations as a member of the Philippine Clearing House Corporation (PCHC).

8. Investments at Amortized Cost

The investments pertain to government securities that are held by the Bureau of Treasury under the Registry of Scripless Securities. Investments at amortized cost consists of:

	Consolidated	Separate	Individual
	2018	2018	2017
Government securities	₱646,513,614	₱640,738,967	₱633,696,544
Other debt securities	2,742,562	2,742,562	2,229,850
	₱649,256,176	₱643,481,529	₱440,473,373

In December 4, 2017, the Parent purchased government securities with a face value of ₱200.00 million.

Investments of the Group bear annual interest rates ranging from 1.70% to 4.90% in 2018 and from 1.80% to 4.66% in 2017.

Interest earned by the Parent on these investments amounted to ₱37.23 million in 2018 and ₱27.06 million in 2017, respectively. On the Group level, interest income amounted to ₱37.47 million in 2018.

9. Financial Assets at Fair Value through Other Comprehensive Income

This account consists of:

	Consolidated	Separate	Individual
	2018	2018	2017
Government securities	₱387,260,836	₱387,260,836	₱401,750,120

In April 2017, the Parent bought ₱400.00 million government shares with a coupon rate of 4.25% and term of three (3) years.

The Parent has sold its SMC Preferred shares in three (3) tranches during 2017 resulting to a realized gain on sale of the investment at ₱6.22 million. The total taxes and other charges incurred for all three sales amounted to ₱0.62 million.

Dividend income earned by the Group in 2017 for SMC shares amounted to ₱2.92 million.

10. Loans and Receivables - Net

This account consists of:

	<i>Note</i>	Consolidated 2018	Separate 2018	Individual 2017
Loans:				
Small and medium-sized entity loans		₱5,234,057,676	₱5,168,974,567	₱4,180,287,547
Agrarian reform loans		2,695,406,774	2,647,376,720	2,467,784,593
Salary loans		3,343,852,769	3,243,384,522	1,564,494,476
Housing loans		320,896,453	318,647,184	392,673,677
Loans to individuals for other purposes		240,103,266	207,823,472	139,535,851
Auto loans		848,264,243	845,103,458	718,072,389
		12,682,581,181	12,431,309,923	9,462,848,533
Less unearned discounts		27,803,972	24,877,799	28,284,795
		12,654,777,209	12,406,432,124	9,434,563,738
Other receivables:				
Accounts receivable		228,934,695	215,572,260	153,610,020
Sales contracts receivable		130,119,366	124,545,714	118,915,093
Accrued interest receivable		151,093,083	149,932,620	127,794,557
		510,147,144	490,050,594	400,319,670
Subtotal		13,164,924,353	12,896,482,718	9,834,883,408
Less allowance for credit losses	17	265,036,456	143,825,346	43,997,573
		₱12,899,887,897	₱12,752,657,372	₱9,790,885,835

Sales contracts receivable refers to the amortized cost of assets acquired in settlement of loans through foreclosure or dacion in payment and subsequently sold on installment basis whereby the title to the said properties is transferred to the buyer only upon full payment of the agreed selling price.

Regulatory Reporting

As at December 31, 2018 and 2017, the breakdown of loans as to collateral follows:

	Consolidated 2018		Separate 2018		Individual 2017	
	Amount	%	Amount	%	Amount	%
Loans secured by:						
Real estate	₱8,250,360,906	65.05%	₱8,134,998,471	65.44%	₱7,040,745,817	74.40%
Chattel	848,264,243	6.69%	845,103,458	6.80%	718,072,389	7.59%
Others	240,103,266	1.89%	207,823,472	1.67%	139,535,852	1.47%
	9,338,728,415	73.63%	9,187,925,401	73.91%	7,898,354,058	83.46%
Unsecured	3,343,852,766	26.37%	3,243,384,522	26.09%	1,564,494,476	16.53%
	₱12,682,581,181	100.00%	₱12,431,309,923	100.00%	₱9,462,848,534	100.00%

As at December 31, 2018 and 2017, information on the concentration of credit as to industry follows:

	Consolidated		Separate		Individual	
	2018		2018		2017	
	Amount	%	Amount	%	Amount	%
Other community, social and personal service activities	₱5,369,183,596	42.34%	₱4,636,692,791	37.30%	₱2,762,536,393	29.19%
Agriculture, Forestry and Fishing	2,461,809,570	19.41%	2,622,498,921	21.10%	2,439,499,799	25.78%
Wholesale and Retail Trade, Repair of Motor Vehicles, Motorcycles	2,118,409,425	16.70%	2,257,988,532	18.16%	1,826,095,528	19.30%
Real Estate Activities	749,866,294	5.91%	804,820,991	6.47%	785,855,397	8.30%
Accommodation and Food Service Activities	559,733,050	4.41%	599,454,136	4.82%	484,794,543	5.12%
Construction	404,567,412	3.19%	433,277,271	3.49%	350,402,881	3.70%
Education	285,557,277	2.25%	305,821,660	2.46%	247,326,130	2.61%
Manufacturing	201,415,207	1.59%	215,708,504	1.74%	174,449,219	1.84%
Private households with employed persons	207,823,472	1.64%	207,823,472	1.67%	111,079,627	1.17%
Human Health and Social Work Activities	100,551,455	0.79%	107,687,022	0.87%	87,089,366	0.92%
Transportation and Storage	95,333,999	0.75%	102,099,313	0.82%	82,570,437	0.87%
Electricity, Gas, Steam and Air-Conditioning Supply	71,716,032	0.57%	76,805,313	0.62%	62,114,504	0.66%
Financial and Insurance Activities	51,937,615	0.41%	55,623,333	0.45%	44,984,073	0.48%
Mining and Quarrying	4,676,777	0.04%	5,008,664	0.03%	4,050,639	0.06%
	₱12,682,581,181	100.00%	₱12,431,309,923	100.00%	₱9,462,848,536	100.00%

BSP considers that concentration of credit risk exists when the total loan exposure to a particular industry or economic sector exceeds 30.00% of total loan portfolio.

Under banking regulations, loan accounts shall be considered non-performing, even without any missed contractual payments, when they are considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal or interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement. Restructured loans shall be considered non-performing. However, if prior restructuring, the loans were categorized as performing, such classification shall be retained. Moreover, NPLs shall remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least six (6) months; or (b) written-off. Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after they have become past due.

As at December 31, 2018 and 2017, the NPLs of the Group as reported to the BSP follows:

	Consolidated 2018	Separate 2018	Individual 2017
Gross NPLs	P435,585,036	P369,105,717	P389,509,355
Less deductions as required by the BSP	116,223,436	11,489,964	99,203,058
Net NPLs	P319,361,600	P357,615,753	P290,306,297

Gross and net NPL ratios of the Group are 2.98% and 2.88%, respectively, as at December 31, 2018, and 4.12% and 3.07%, respectively, as at December 31, 2017.

Interest Income on Loans and Receivables

This account consists of:

	Consolidated 2018	Separate 2018	Individual 2017
Loans:			
Small and medium-sized entity loans	P471,590,250	P463,810,750	P425,208,534
Agrarian reform loans	283,075,801	278,531,422	264,390,503
Housing loans	34,347,243	34,347,243	46,495,958
Salary loans	158,868,404	140,323,429	57,590,896
Auto loans	84,048,542	83,974,391	29,409,310
Loans to individuals for other purposes	8,537,760	5,336,740	6,675,074
	1,040,468,000	1,006,323,975	829,770,275
Sales contracts receivable	6,919,721	6,295,664	6,584,544
	P1,047,387,721	P1,012,619,639	P836,354,819

11. Noncurrent Assets Held for Sale

As at December 31, 2018 and 2017, these non-current assets were stated at carrying amount and comprised the following:

	Consolidated 2018	Separate 2018	Individual 2017
Balance at beginning of year	P22,533,085	P22,533,085	P28,558,325
Additions	-	-	-
Reclassifications	-	-	10,409,400
Disposals	(13,228,782)	(13,228,782)	(16,434,640)
Balance at end of year	P9,304,303	P9,304,303	P22,533,085

12. Property and Equipment - Net

Details on the movement of this account follows:

Consolidated

	Bank Premises, Furniture and Fixtures	Equipment	Leasehold Improvements	Total
Cost				
Balance at January 1	₱343,042,585	₱256,488,648	₱194,217,749	₱793,748,982
Assets acquired from consolidation	10,867,081	11,057,756	-	21,924,838
Additions*	90,516,480	49,304,473	20,201,636	160,022,589
Disposals	-	-	(2,398,418)	(2,398,418)
Balance at December 31	444,426,146	316,850,877	212,020,967	975,696,409
Accumulated Depreciation and Amortization				
Balance at January 1	76,230,477	124,699,356	91,930,993	292,860,826
Depreciation and others	23,893,882	48,746,502	21,523,052	94,163,436
Balance at December 31	100,124,359	173,445,858	113,454,045	387,024,262
Net Book Value at December 31	₱344,301,787	₱143,405,019	₱98,566,922	₱588,672,147

*Amounts include transfers of property and equipment resulting from merger

Separate

	Bank Premises, Furniture and Fixtures	Equipment	Leasehold Improvements	Total
Cost				
Balance at January 1	₱314,367,859	₱250,964,866	₱191,280,724	₱756,613,449
Additions and others	90,516,480	49,304,473	20,201,636	160,022,589
Balance at December 31	404,884,339	300,269,339	211,482,360	916,636,038
Accumulated Depreciation and Amortization				
Balance at January 1	60,307,418	120,236,279	90,620,507	271,164,204
Depreciation and others	29,578,519	39,487,029	22,219,774	91,285,322
Balance at December 31	89,885,937	159,723,308	112,840,281	362,449,526
Net Book Value at December 31	₱314,998,402	₱140,546,031	₱98,642,079	₱554,186,512

*Amounts include transfers of property and equipment resulting from merger

Individual

	Bank Premises, Furniture and Fixtures	Equipment	Leasehold Improvements	Total
Cost				
Balance at January 1	P248,314,670	P181,226,148	P163,833,911	P593,374,729
Additions*	66,053,189	69,738,718	27,446,813	163,238,720
Balance at December 31	314,367,859	250,964,866	191,280,724	756,613,449
Accumulated Depreciation and Amortization				
Balance at January 1	47,705,385	91,550,272	74,238,768	213,494,425
Depreciation and amortization	12,602,033	28,686,007	16,381,739	57,669,779
Balance at December 31	60,307,418	120,236,279	90,620,507	271,164,204
Net Book Value at December 31	P254,060,441	P130,728,587	P100,660,217	P485,449,245

*Amounts include transfers of property and equipment resulting from merger

As at December 31, 2018 and 2017, the cost of fully depreciated property and equipment still in use amounted to P136.87 million and P96.97 million, respectively.

13. Investment Properties

The movement in investment properties follows:

Consolidated	2018		
	Land	Building	Total
Cost			
Balance at January 1	P940,799,089	P443,559,675	P1,384,358,764
Additions	81,646,663	25,843,303	107,489,966
Balance at December 31	1,022,445,752	469,402,978	1,491,848,730
Accumulated Depreciation			
Balance at January 1	-	79,284,912	79,284,912
Depreciation	-	29,890,723	29,890,723
Balance as at December 31	-	109,175,635	109,175,635
Less allowance for impairment losses	14,037,805	17,594,303	31,632,108
Net Carrying Amount	P1,008,407,947	P342,633,040	P1,351,040,986

<u>Separate</u>	2018		
	Land	Building	Total
Cost			
Balance at January 1	₱928,557,957	₱443,559,675	₱1,372,117,632
Additions	81,646,663	25,843,303	107,489,966
Balance at December 31	1,010,204,620	469,402,978	1,479,607,598
Accumulated Depreciation			
Balance at January 1	-	79,284,907	79,284,907
Depreciation	-	29,890,723	29,890,723
Balance as at December 31	-	109,175,630	109,175,630
Less allowance for impairment losses	12,621,395	17,594,302	30,215,697
Net Carrying Amount	₱997,583,225	₱342,633,046	₱1,340,216,271

<u>Individual</u>	2017		
	Land	Building	Total
Cost			
Balance at January 1	₱818,164,107	₱357,416,097	₱1,175,580,204
Additions	201,676,157	138,324,509	340,000,666
Reclassifications	(9,812,023)	(1,294,600)	(11,106,623)
Disposals	(81,470,284)	(50,072,177)	(131,542,461)
Balance at December 31	928,557,957	444,373,829	1,372,931,786
Accumulated Depreciation			
Balance at January 1	-	33,097,956	33,097,956
Depreciation	-	49,065,464	49,065,464
Reclassifications	-	(644,799)	(644,799)
Disposals and others	-	(2,233,714)	(2,233,714)
Balance as at December 31	-	79,284,907	79,284,907
Less allowance for impairment losses	12,621,395	11,314,813	23,936,208
Net Carrying Amount	₱915,936,562	₱353,774,109	₱1,269,710,671

The fair values of the Group's investment properties have been determined by BSP-accredited appraisers or in-house appraisers on the basis of recent sales of similar property in the same area as the investment property and are therefore within Level 2 of the fair value hierarchy. In compliance with pertinent BSP rules, the appraisal of an individual real estate property with a carrying amount of loan of more than ₱5.00 million was conducted by an independent appraiser acceptable to the BSP.

Gains and losses on foreclosure and sale of foreclosed assets consist of the following:

	Consolidated	Separate	Individual
	2018	2018	2017
Gain on foreclosure	₱91,411,752	₱89,612,176	₱105,665,663
Gain (loss) on assets sold	-	-	5,894,613

Direct operating expenses other than depreciation expense and impairment losses on investment properties amounting to ₱9.33 million and ₱14.46 million in 2018 and 2017, respectively, are recorded under the "Litigation and assets acquired expenses" account in the statements of income.

14. Sinking Fund

In 2007, the Group placed two (2) sinking fund accounts equivalent to the present value of its liability for the redemption of its issued Preferred “A” and Preferred “B” shares of stocks with Land Group of the Philippines Trust Grouping Group. These amounted to P46.70 million and P45.73 million as at December 31, 2018 and 2017, respectively.

Interest earned for the years ended December 31, 2018 and 2017 amounted to P0.01 million and P0.51 million, respectively, are included in “Miscellaneous income” account in the statements of income.

15. Intangible Assets - Net

The Group’s intangible assets consist of:

	Consolidated	Separate	Individual
	2018	2018	2017
Software costs	P72,718,688	P72,718,688	P80,449,073
Goodwill	83,825,000	71,229,441	75,862,522
	P156,543,688	P143,948,129	P156,311,595

Software Costs

Software costs include costs incurred relative to the acquisition of software licenses for the Group’s computerized Grouping services. The Finacle Core Grouping (Finacle) System which was acquired and implemented on January 1, 2015 to transform the Group’s core Grouping operations and accelerate its growth, in consonance with its 5-year strategic plan, replaced the old Integrated Computerized Grouping Account (ICBA) System. The implementation of the Finacle, which has several local Group-users in the country, was made possible through the acquisition of an initial license of 300,000 customers which is more economical and strategically suited to the Group’s plan to expand its branch net work to 250 branches for the next five (5) years.

The initial software license cost of the Finacle System is amortized on a straight-line basis over 10 years based on pro-rata basis i.e. actual number of customer licenses used divided by the initial customer licenses of 300,000 multiplied by the total software license implementation cost. Subsequent number of customer licenses used which is determined at the end of each year, shall be amortized on the same pro-rata basis for the remaining useful life following the year of acquisition. The software licenses are carried at cost less accumulated amortization and any impairment in value.

Movement in software costs follows:

	Consolidated	Separate	Individual
	2018	2018	2017
Cost			
Balance at January 1	₱103,309,635	₱103,309,635	₱95,590,198
Additions	4,244,122	4,244,122	6,119,437
Reclassification	-	-	(400,000)
Balance at end of year	105,553,757	105,553,757	101,309,635
Accumulated Amortization			
Balance at January 1	20,860,562	20,860,562	9,835,833
Amortization for the year	11,974,507	11,974,507	11,024,729
Balance at end of year	32,835,069	32,835,069	20,860,562
Net Book Value	₱72,718,688	₱72,718,688	₱80,449,073

Goodwill

The goodwill acquired from the consolidation represents the excess of the acquisition cost over the fair market value of the net identifiable assets, liabilities and contingent liabilities acquired.

- **RBSFI**

PSBC acquired 100% of the outstanding shares of RBSFI at a price of P43.48 per common share.

The following summarizes the recognized amounts of assets and liabilities at the acquisition date:

	2016
Assets	
Cash and other cash items	₱1,256,762
Due from BSP	1,260,672
Due from other banks	21,480,354
Loans and receivables - net	9,492,362
Property and equipment - net	1,285,995
Investment properties - net	1,835,323
Sinking fund	1,278,660
Other assets - net	144,778
Liabilities	
Deposit liabilities	33,463,734
Redeemable preference shares	45,400
Other liabilities	1,918,830
Total Identifiable Net Assets at Fair Value	₱2,606,942

The fair value of the loans and receivables amounted to ₱9.49 million. Gross contractual loans and receivables and allowance for probable losses amounted to ₱16.68 million and ₱7.19 million, respectively. The Bank believes that the allowance for probable losses provides the best estimate of the contractual cash flows not expected to be collected.

The loss of RBSFI for the current reporting period as though the acquisition date for business combination that occurred during the year had been as of the beginning of the annual reporting period amounted to ₱3.33 million.

Goodwill was recognized as a result of the acquisition as follows:

	2016
Total consideration transferred	P7,661,312
Total identifiable net assets at fair value	2,606,942
Goodwill	P5,054,370

The acquisition-date fair values of the total cash consideration transferred amounted to P5.35 million and P2.32 million for the initial acquisition and additional capital infusion, respectively.

Goodwill arising from the acquisition is attributable to the benefit of expected synergies from combining operations of PSBC and RBSFI. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

- TDBI

PSBC acquired 100% of the outstanding shares of TDBI at a price of P201.33 per common share.

The following summarizes the recognized amounts of assets and liabilities at the acquisition date:

	2016
Assets	
Cash and other cash items	P6,680,774
Due from BSP	26,502,568
Due from other banks	115,733,306
Loans and receivables - net	231,613,189
Property and equipment - net	2,386,321
Investment properties - net	16,169,750
Deferred tax assets - net	918,383
Other assets - net	320,777
Liabilities	
Deposit Liabilities	267,316,573
Accrued interest, taxes and other payable	2,918,123
Other liabilities	1,714,691
Total Identifiable Net Assets at Fair Value	P128,375,681

The fair value of the loans and receivables amounted to P231.61 million. Gross contractual loans and receivables and allowance for probable losses amounted to P239.00 million and P7.39 million, respectively. The Bank believes that the allowance for probable losses provides the best estimate of the contractual cash flows not expected to be collected.

The income of TDBI for the current reporting period as though the acquisition date for business combination that occurred during the year had been as of the beginning of the annual reporting period amounted to P0.12 million.

Goodwill was recognized as a result of the acquisition as follows:

	2016
Total consideration transferred	P133,538,506
Total identifiable net assets at fair value	(128,375,681)
Goodwill	P5,162,825

The total cash consideration transferred amounting to P133.54 million represents its acquisition date fair values.

Goodwill arising from the acquisition is attributable to the benefit of expected synergies from combining operations of PSBC and TDBI. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

- **TYBAS**

PSBC acquired 81.91% of the outstanding shares of TYBAS at a price of P151.60 per common share. PSBC also issued its common shares to the remaining 18.09% shares using a conversion ratio of 1.88:1.

The following summarizes the recognized amounts of assets and liabilities at the acquisition date:

	2016
Assets	
Cash and other cash items	P911,607
Due from BSP	1,999,836
Due from other banks	42,922,004
Financial assets at FVOCI	5,150,000
Loans and receivables - net	17,025,973
Property and equipment - net	12,027,183
Investment properties - net	37
Sinking fund	121,272
Deferred tax assets - net	81,425
Other assets - net	55,241
Liabilities	
Deposit liabilities	62,578,918
Accrued interest, taxes and other payable	2,315,919
Redeemable preference shares	55,400
Other liabilities	372,340
Total Identifiable Net Assets at Fair Value	P14,972,001

The fair value of the loans and receivables amounted to P17.03 million. Gross contractual loans and receivables and allowance for probable losses amounted to P25.77 million and P8.74 million, respectively. The Bank believes that the allowance for probable losses provides the best estimate of the contractual cash flows not expected to be collected.

The income of TYBAS for the current reporting period as though the acquisition date for business combination that occurred during the year had been as of the beginning of the annual reporting period amounted to P3.16 million.

Gain on bargain purchase was recognized as a result of the acquisition as follows:

	2018
Total consideration transferred	P12,128,000
Total identifiable net assets at fair value	(14,972,001)
Gain on Bargain Purchase	(P2,844,001)

The total consideration transferred i.e. cash and equity interest of PSBC amounted to P10.00 million and P2.12 million, respectively.

The fair value of the shares acquired - having a ready market evidenced by the agreement between PSBC and TYBAS that the former is open to acquire the shares of the latter's dissenting stockholders on the same terms and conditions set forth in the Memorandum of Agreement - is more readily available and reliably measurable. Thus, the fair values of the shares acquired approximates the purchase price per share of P151.60.

In 2017, PSBC recognized goodwill from the partial acquisition of RB Bustos amounting to P1.98 million for 72.74% of its outstanding shares. PSBC also recognized gain on bargain purchase amounting to P4.16 million from the acquisition of STONE.

	Consolidated	Separate	Individual
Goodwill	2018	2018	2017
Balance at January 1	P75,862,523	P75,862,523	P75,862,522
Additions:			
RB Pres. Quirino	3,951,277	-	-
RB Pamplona	(148,060)	-	-
RB Pasacao*	1,376,143	-	-
RB Magarao	(2,118,355)	-	-
RB San Fernando	(480,564)	-	-
RB Barotac	9,802,226	-	-
RB Sibalom	212,892	-	-
Merger entries	(4,633,082)	(4,633,082)	-
Balance at end of year	P83,825,000	P71,229,441	P75,862,522

- RB Bustos

PSBC acquired 72.74% of the outstanding shares of RB Bustos at a price of P100.00 per common share.

The following summarizes the recognized amounts of assets and liabilities at the acquisition date:

	2017
Assets	
Cash and other cash items	P1,936,386
Due from BSP	4,857,479
Due from other Groups	33,977,292
Investment in bond and other debt instruments	22,810,056
Loans and receivables - net	37,373,572
Property and equipment - net	2,740,160
Investment properties - net	8,584,533
Other assets - net	1,878,264
Liabilities	
Deposit liabilities	108,226,335
Other liabilities	698,181
Total Identifiable Net Assets at Fair Value	P5,233,226

The fair value of the loans and receivables amounted to P97.30 million. Gross contractual loans and receivables and allowance for probable losses amounted to P112.64 million and P15.33 million, respectively. The Group believes that the allowance for probable losses provides the best estimate of the contractual cash flows not expected to be collected.

The loss of RB Bustos for the current reporting period as though the acquisition date for business combination that occurred during the year had been as of the beginning of the annual reporting period amounted to P12.86 million.

As of December 31, 2017, PSBC incurred nil acquisition-related costs which have been included in the "Miscellaneous" account in the consolidated statements of income.

Goodwill was recognized as a result of the acquisition as follows:

	Provisionary Amounts
Consideration transferred	P6,255,500
Non-controlling interest measured at proportionate interest in identifiable net assets	2,344,500
Fair value of identifiable net assets	(5,233,226)
Goodwill	P3,366,774

The estimates above will be updated to their fair values as at the date of acquisition. Transaction is closed for purposes of recognizing the business combination and will involve identification and recognition of identifiable assets or intangible assets and will likely reduce the amount of initial goodwill above.

The total cash consideration transferred by PSBC amounted to P6.26 million.

Goodwill arising from the acquisition is attributable to the benefit of expected synergies from combining operations of PSBC and RB Bustos.

- **STONE**

PSBC acquired 100% of the outstanding shares of STONE at a price of P26.60 per common share.

The following summarizes the recognized amounts of assets and liabilities at the acquisition date:

	2017
Assets	
Cash and other cash items	P7,394,256
Due from BSP	6,182,733
Due from other Banks	42,836,617
Loans and receivables - net	91,285,784
Property and equipment - net	9,527,710
Investment properties - net	21,638,114
Other assets - net	6,374,964
Liabilities	
Deposit liabilities	167,511,063
Other liabilities	1,694,146
Provision for retirement benefit	5,456,524
Total Identifiable Net Assets at Fair Value	P8,878,445

The fair value of the loans and receivables amounted to P91.29 million. Gross contractual loans and receivables and allowance for probable losses amounted to P109.92 million and P18.63 million, respectively. The Group believes that the allowance for probable losses provides the best estimate of the contractual cash flows not expected to be collected.

The income of STONE for the current reporting period as though the acquisition date for business combination that occurred during the year had been as of the beginning of the annual reporting period amounted to P17.07 million.

As of December 31, 2017, PSBC incurred nil acquisition-related costs which have been included in the "Miscellaneous" account in the consolidated statements of income.

Goodwill was recognized as a result of the acquisition as follows:

	Provisionary Amounts
Total consideration transferred	P5,800,000
Total identifiable net assets at fair value	8,878,445
Gain on bargain purchase	(P3,078,445)

The total cash consideration transferred by PSBC amounted to P5.80 million.

Goodwill Impairment

The methods used in the annual impairment test of goodwill are complex and judgmental in nature, utilizing assumptions on future market and/or economic conditions. The assumptions used include future cash flow projections, growth rates, discount rates and sensitivity analyses, with a greater focus on more recent trends and current market interest rates, and less reliance on historical trends.

The Group assesses at each financial reporting date whether there is an indication that the goodwill is impaired and believes that there is no such indication as of December 31, 2018 and 2017 for the following acquired branches:

- Rural Bank of Rosales (Pangasinan), Inc. (RosGroup)

Rosales, Tayug, Urdaneta City, Villasis and Binalonan in Pangasinan, Baguio City and La Trinidad in Cordillera Autonomous Region, Dau and San Fernando City in Pampanga, Calabanga in Camarines Sur and Legaspi City in Albay, and branches that were opened because of the merger incentives, Sta. Barbara, Baler, Bambang, San Ildefonso, Plaridel, Santiago City, Iba, and Ortigas Center in Pasig City.

- NRBV

Bacolod City, Victorias City, San Carlos City, KaGroupalan City, Bago City and the OBO in Escalante City, all in the province of Negros Occidental; and Kalibo in Aklan.

- RBC

Antipolo, Binangonan, Cainta, Cogeo, Taytay, and Teresa;

- RB Bustos

Brgy. Bunga Menor and Poblacion, both in Bustos, Bulacan; and

- STONE

Sto. Domingo, Maharlika Highway, Poblacion, Anao, Ramos, San Miguel and Sta. Maria, all located in Nueva Ecija.

16. Other assets

This account consists of:

	Consolidated	Separate	Individual
	2018	2018	2017
Prepayments	₱2,810,634	₱2,781,939	₱24,082,628
Security deposits	4,659,340	4,659,340	10,421,533
Retirement benefit asset	6,526,587	10,016,019	15,749,718
Other investments	-	-	3,919,734
Stationery and supplies on hand	9,282,088	9,254,488	7,327,243
Petty cash fund	726,426	697,426	601,447
Deferred charges	7,038,290	-	-
Miscellaneous assets	73,695,853	135,665,229	71,967,752
	₱104,739,218	₱163,074,441	₱134,070,055

Prepayments include prepaid insurance, rent and taxes.

Other Investments include investments in club shares and membership in the Chamber of Thrift Banks (CTB). CTB is an institutional medium through which members assist one another in promoting and strengthening the role of thrift banks in the development of the country by sharing technologies, information and training among the member banks.

Miscellaneous assets include non-refundable fees paid in 2010 to PCHC which amounted to ₱9.79 million. PCHC provides, maintains and renders check clearing service to the participating Groups. The account also includes the acquisition price for RB Pamplona and RB Sultan Kudarat amounting to ₱30.1 million and ₱6.3 million, respectively. This account also includes security deposits.

17. Allowance for Probable Losses

Details on the movement of this account is summarized as follows:

Consolidated

		2018	
	Loans and Receivables (Note 10)	Investment Properties (Note 13)	Total
Balance at beginning of year	₱70,553,183	₱43,812,335	₱114,365,518
Provisions taken up to profit or loss*	135,875,855	(12,180,227)	123,695,628
Reclassification	92,523,399	-	92,523,399
Write-offs	(33,915,981)	-	(33,915,981)
Balance at end of year	₱265,036,456	₱31,632,108	₱296,668,564

* Net of reversal of impairment of investment properties

Separate

	2018		
	Loans and Receivables (Note 10)	Investment Properties (Note 13)	Total
Balance at beginning of year	₱43,997,573	₱23,936,208	₱67,933,781
Provisions taken up to profit or loss*	92,523,399	-	92,523,399
Write-offs	(33,915,981)	-	(33,915,981)
Reclassification	41,220,355	6,279,489	45,499,844
Balance at end of year	₱143,825,346	₱30,215,697	₱174,041,043

* Net of reversal of impairment of investment properties

Individual

	2017		
	Loans and Receivables (Note 10)	Investment Properties (Note 13)	Total
Balance at beginning of year	P194,734,549	P27,567,001	P222,301,550
Provisions taken up to profit or loss*	(123,723,993)	(3,220,724)	(126,944,717)
Write-offs	(27,012,983)	(357,643)	(27,370,626)
Reclassification	-	(52,426)	(52,426)
Balance at end of year	P43,997,573	P23,936,208	P67,933,781

* Net of reversal of impairment of investment properties

18. Deposit Liabilities

This account consists of:

	Consolidated 2018	Separate 2018	Individual 2017
Savings	P5,947,061,372	P5,655,320,235	P4,613,055,431
Time	4,339,851,705	4,269,196,213	3,385,110,186
Demand	1,689,433,782	1,812,083,789	1,158,022,849
	P11,976,346,859	P11,736,600,237	P9,156,188,466

Savings deposit liabilities bear annual fixed interest rate of 0.25% in 2018 and 2017. Time deposit liabilities bear fixed interest rates ranging from 0.50% to 6.00% in 2018 and 2017. Foreign currency-denominated deposits are subject to annual interest rates ranging 0.25% to 0.50% in 2018 and 2017.

In 2018, BSP Circular Nos. 997 and 1004 were issued reducing the reserve requirements against deposit and deposit substitute liabilities. The required reserves can be kept in the form of deposits maintained in the demand deposit accounts with the BSP and any government securities used as compliance until they mature. The rate of required reserves against demand, savings and time deposits in local currency of thrift groups remains at 8%.

The Group is in compliance with such regulations as at December 31, 2018 and 2017.

Overall, the Group's total deposit liabilities increased by P2.58 billion or 28.28% from last year. This increase is consistent with the Group's growth since it has recently acquired seven new rural banks in 2018 and its strategy of putting up additional branches nationwide has expanded its market reach, garnered thousands of new depositors and encouraged their existing clients to increase their deposits.

During 2018, savings and time deposits continue to be the primary sources of funds for the Group. SDA has likewise increased by 22.79% while TDA had an increase of 26.11% as various depositors whose TDA have matured have been shifted to DDA and SDA in order to have easier access to cash in preparation for the spending (harvest) season.

Interest expense on deposit liabilities consists of:

	Consolidated	Separate	Individual
	2018	2018	2017
Savings	P16,874,380	P12,411,691	P10,915,040
Time	110,591,028	107,014,158	81,617,869
	P127,465,408	P119,425,849	P92,532,909

19. Bills Payable

This account consists of borrowings from rediscounting facility availed by the Parent from banks amounting to P4.35 billion and P4.69 billion as at December 31, 2018 and 2017, respectively.

Interest expense incurred by the Parent on bills payable amounted to P141.28 million in 2018 and P68.22 million in 2017. At Group level, interest expense amounted to P141.31 million in 2018.

Bills payable are subject to annual interest rates ranging from 3.00% to 5.50% in 2018 and 2017.

20. Accrued Interest, Taxes and Other Payables

This account consists of:

	Consolidated	Separate	Individual
	2018	2018	2017
Accrued interest payable:			
Bills payable	P57,464,528	P57,464,528	P41,621,727
Deposit liabilities	25,729,193	23,597,118	6,567,649
	83,193,721	81,061,646	48,189,376
Accrued taxes and licenses payable	44,554,011	44,518,317	25,440,619
Manager's check payable	15,117,296	15,117,296	23,736,186
Income tax payable	26,563,723	26,228,144	20,680,038
Accrued other expenses	-	-	3,133,026
	P169,428,751	P166,925,403	P121,179,245

21. Other Liabilities

This account consists of:

	Consolidated	Separate	Individual
	2017	2017	2017
Accounts payable	₱74,898,126	₱73,673,763	₱60,582,119
Insurance payable	5,150,317	4,939,834	30,603,993
Documentary stamp payable	8,939,318	8,582,574	5,741,188
SSS and Medicare benefits payable	742,075	583,094	4,017,735
Withholding tax payable	4,969,316	4,487,403	-
Overages	504,571	501,857	1,636,081
Miscellaneous	9,216,087	-	412,154
	₱104,419,810	₱92,768,525	315,613
			₱103,308,883

Accounts payable include rent, Bancnet credits, janitorial, messengerial and various expenses attributable to the Group's operations.

22. Redeemable Preference Shares

The composition of the account follows:

	Consolidated	Separate	Individual
	2018	2018	2017
Authorized:			
Preferred A - 15,000,000 shares	₱150,000,000	₱150,000,000	₱150,000,000
Preferred B - 35,000,000 shares	350,000,000	350,000,000	350,000,000
	500,000,000	500,000,000	500,000,000
Issued and outstanding:			
Preferred A - 1,000,000 shares	10,000,000	10,000,000	10,000,000
Preferred B - 3,000,000 shares	30,000,000	30,000,000	30,000,000
	40,000,000	40,000,000	40,000,000
Assumed through merger	180,400	-	100,800
	₱40,180,400	₱40,000,000	₱40,100,800

The liability for the redeemable preferred shares was assumed from the consolidation of PSBC and ICDBank.

As stated in the Parent's Articles of Incorporation, preferred shares shall have preference over common shares in the assets of PSBC in the event of liquidation. The preferred shares shall consist of (a) preferred-series "A" share consisting of 15,000,000 shares and (b) preferred series "B" share consisting of 35,000,000 shares.

Preferred-series “A” Shares

Preferred-series “A” shares which was issued to the Land Bank of the Philippines (LBP) shall have the following rights, preferences, qualifications and limitations, all of which shall be incorporated in the certificates of stock evidencing the preferred shares:

Dividend Rights and Restrictions

The holders of the preferred-series “A” shares shall be entitled to receive, as and when declared by the BOD, an annual cumulative preferential dividend, payable commencing at the end of the year following the issue date and at the end of each year thereafter (the “Dividend Payment Date”) at a rate equivalent to the average 364-day Treasury Bill based on the latest weekly auction prior to the release of the equity or anniversary date plus one percent (1%) per annum.

Dividends accrued and unpaid, if any, on the preferred-series “A” shares shall be cumulative and no cash dividends shall be declared and paid to holders of common shares until after such accumulated, accrued and unpaid dividends on the preferred-series “A” shares shall have been paid or provision thereof made; Provided, that in no case shall dividends be paid on the preferred-series “A” shares in the absence of sufficient undivided profits, free surplus and without the approval of the BSP.

Redemption

The Parent shall be obligated to redeem any and all preferred-series “A” shares outstanding at the end of five (5) years from the date of issue of such preferred shares (the “Redemption Date”) at a price (the “Redemption Price”) equal to the par value thereof together with all accrued and unpaid dividends thereon, provided that:

- (a) redemption shall be allowed only upon prior approval of the BSP and only if the shares redeemed are replaced with at least an equivalent amount of newly paid-in shares so that the total paid-in share capital is maintained at the same level immediately prior to redemption; and
- (b) such redemption may not be made where the Group is insolvent or if such redemption will cause insolvency, impairment of capital or inability of the Group to meet its debts as they mature.

Sinking Fund

A sinking fund for the redemption of the preferred-series “A” shares shall be created upon the issuance thereof, to be effected by the transfer of free surplus to a restricted surplus account, which sinking fund shall not be available for dividends and without prior approval of the BSP. The preferred-series “A” shares shall be issued upon the further condition that the Parent shall not treat in any way the redeemable preferred stock as time deposit, deposit substitute or other forms of borrowing (see Note 14).

Voting Rights

The preferred-series “A” shares shall not have the right to vote, except only on matters where non-voting shares are expressly given the right to vote pursuant to the provisions of the Corporation Code.

Preference in Liquidation

In the event of liquidation, dissolution or winding up of the Parent (whether voluntary or involuntary), the holders of preferred-series “A” shares shall be entitled to receive out of the net assets of the Parent available for distribution to its shareholders and after satisfying all creditors, whether from capital or earnings, an amount equal to the par value of the preferred-series “A” shares, plus accrued and unpaid dividends if any, before any distribution of the assets of the Parent may be made to holders of common shares. The holders of preferred-series “A” shares shall be entitled to no other or further distribution, and any assets remaining after such distribution shall be distributed exclusively to holders of common shares.

Ranking

No amendment of the terms and conditions of issuance of the preferred-series “A” shares may be made without the affirmative vote of a majority of the holders of the preferred-series “A” shares.

Reissuance of Preferred-series “A” Shares Redeemed

All shares of preferred-series “A” redeemed may be reissued, at the option of the BOD, whether as common or preferred shares and of whatever class or series and with such features and under such terms as the BOD shall determine.

Convertibility

No convertibility to common shares upon maturity of the investment.

Other Terms

The BOD of the Parent may provide for such other terms and conditions for the issuance of the preferred-series “A” share, as may be consistent with the foregoing provisions.

Preferred-series “B” Shares

Preferred-series “B” shares shall have the following rights, preferences, qualifications and limitations, all of which shall be incorporated in the certificates of stock evidencing the preferred shares:

Dividend Rights and Restrictions

The holders of the preferred-series “B” shares shall be entitled to receive, as and when declared by the BOD, a quarterly cumulative preferential dividend, payable commencing 90 days after the issue date and dividend payment date at a rate equivalent to the average 91-day Treasury Bill rate for the last two weekly auctions preceding the immediately preceding Dividend Payment Date plus a premium equivalent to two percent (2%) per annum. Dividends accrued and unpaid, if any, on the preferred-series “B” shares shall be cumulative and no cash dividends shall be declared and paid to holders of common shares until after such accumulated, accrued and unpaid dividends on the preferred-series “B” shares shall have been paid or provision thereof made; Provided, that in no case shall dividends be paid on the preferred-series “B” shares in the absence of sufficient undivided profits, free surplus and without the approval of the BSP.

Redemption

The Parent shall be obligated to redeem any and all preferred -series “B” shares outstanding at the end of five (5) years from the redemption date at redemption price”) equal to the par value thereof together with all accrued and unpaid dividends thereon, provided that:

- (a) redemption shall be allowed only upon prior approval of the BSP and only if the shares redeemed are replaced with at least an equivalent amount of newly paid-in shares so that the total paid-in share capital is maintained at the same level immediately prior to redemption, and
- (b) such redemption may not be made where the Parent is insolvent or if such redemption will cause insolvency, impairment of capital or inability of the Parent to meet its debts as they mature.

Sinking Fund/Other conditions

A sinking fund for the redemption of the preferred-series “B” shares shall be created upon the issuance thereof, to be effected by the transfer of free surplus to a restricted surplus account, which sinking fund shall not be available for dividends and without prior approval of the BSP. The preferred-series “B” shares shall be issued upon the further condition that the Parent shall not treat in any way the redeemable preferred shares as time deposit, deposit substitute or other forms of borrowing.

Voting Rights

The preferred-series “B” shares shall not have the right to vote, except only on matters where non-voting shares are expressly given the right to vote pursuant to the provisions of the Corporation Code.

Preference in Liquidation

In the event of liquidation, dissolution or winding up of the Group (whether voluntary or involuntary), the holders of preferred-series “B” shares shall be entitled to receive out of the net assets of the Group available for distribution to its shareholders and after satisfying all creditors, whether from capital or earnings, an amount equal to the par value of the preferred-series “B” shares, plus accrued and unpaid dividends, if any, before any distribution of the assets of the Parent may be made to holders of common shares. The holders of preferred-series “B” shares shall be entitled to no other or further distribution, and any assets remaining after such distribution shall be distributed exclusively to holders of common shares.

Ranking

No amendment of the terms and conditions of issuance of the preferred-series “B” shares may be made without the affirmative vote of a majority of the holders of the preferred-series “B” shares.

Reissuance of Preferred-series “B” Shares Redeemed

All shares of preferred-series “B” shares redeemed may be reissued, at the option of the BOD, whether as common or preferred shares and of whatever class or series and with such features and under such terms as the BOD shall determine.

Convertibility

No convertibility to common shares upon maturity of the investment.

Other Terms

The BOD of the Parent may provide for such other terms and conditions for the issuance of the preferred-series “B” shares, as may be consistent with the foregoing provisions.

In January 2014, the BOD of the Parent approved the appropriation from surplus free of ₱40.00 million that will serve as a reserve for the redemption of the redeemable preferred shares.

The BOD of the Parent, in its meeting in January 2014, approved the declaration and payment of cash dividends amounting to ₱2,638,841, which comprised of ₱1,113,929 and ₱1,524,912 unpaid dividends for 2013 and 2012, respectively.

Also approved in the said BOD meeting is the appropriation from surplus free of the Parent Company a sum of ₱40.00 million that will serve as a reserve for the redemption of the redeemable preferred shares.

On April 15, 2014, the BSP approved the request of the Parent to pay cash dividends due to redeemable preferred shareholders as at December 31, 2013 and 2012, subject to the following conditions:

- (a) The liability for dividends declared shall be taken up in the books of PSBC upon receipt of the BSP approval;
- (b) The dividends shall not be treated as interest expense;
- (c) Cash dividends due on delinquent stocks, if any, shall first be applied to the unpaid balance on the subscription plus costs and expenses pursuant to Section 43 of Batas Pambansa Blg. 68; and
- (d) Payment of cash dividends shall not be made if the same will adversely affect PSBC's liquidity position.

23. Maturity Profile of Assets and Liabilities

The following tables present the maturity profile of the assets and liabilities of the Group:

	Consolidated			Separate		
	Within 1 year	Beyond 1 Year	Total	Within 1 year	Beyond 1 Year	Total
Financial Assets						
Cash and other cash items	P627,391,489	P-	P627,391,489	P610,557,594	P-	P610,557,594
Due from BSP	1,503,106,577	-	1,503,106,577	1,488,665,071	-	1,488,665,071
Due from other banks	670,687,275	-	670,687,275	507,710,235	-	507,710,235
Investments at amortized cost	-	649,256,176	649,256,176	-	643,481,529	643,481,529
Financial assets at FVTOCI	-	387,260,836	387,260,836	-	387,260,835	387,260,835
Loans and receivables - net	3,279,768,842	9,620,119,055	12,899,887,897	3,279,768,842	9,472,888,530	12,752,657,372
Sinking fund	-	46,699,933	46,699,933	-	45,738,644	45,738,644
Security deposits	-	4,659,340	4,659,340	-	4,659,340	4,659,340
	6,080,954,183	10,707,995,340	16,788,949,523	5,886,701,741	10,554,028,879	16,440,730,620
Non-financial Assets						
Non-current assets held for sale	9,304,303	-	9,304,303	9,304,303	-	9,304,303
Property and equipment - net	-	588,672,147	588,672,147	-	554,186,512	554,186,512
Investment properties - net	-	1,351,040,987	1,351,040,987	-	1,340,216,271	1,340,216,271
Intangible assets - net	-	156,543,688	156,543,688	-	143,948,129	143,948,129
Other assets - net	-	104,739,218	104,739,218	-	153,058,422	153,058,422
	9,304,303	2,200,996,040	2,210,300,343	9,304,303	2,098,000,515	2,107,304,818
Financial Liabilities						
Deposit liabilities	10,914,842,845	1,061,504,014	11,976,346,859	9,791,293,558	1,061,504,014	10,852,797,572
Bills payable	4,550,000,000	135,714,286	4,685,714,286	4,550,000,000	135,714,286	4,685,714,286
Accrued interest and other payables	169,428,751	-	169,428,751	159,563,464	-	159,563,464
Redeemable preferred shares	40,000,000	-	40,000,000	40,000,000	-	40,000,000
Deferred tax liabilities - net	-	115,014,891	115,014,891	-	93,408,818	93,408,818
Other liabilities	104,419,813	-	104,419,813	92,768,525	-	92,768,525
	15,778,691,409	1,312,233,191	17,090,924,600	11,530,450,060	4,848,482,166	16,378,932,226
Net assets (liabilities)	(P9,688,432,923)	P11,711,773,081	P1,853,911,407	(P5,794,007,480)	P7,990,364,864	P2,196,357,384

		December 31, 2017		
		Individual		
	Note	Within 1 Year	Beyond 1 Year	Total
Financial Assets				
Cash and other cash items		₱402,649,904	₱-	₱402,649,904
Due from BSP	7	2,672,191,276	-	2,672,191,276
Due from other Banks		279,653,597	-	279,653,597
Investments at amortized cost	8	8,297,996	627,628,398	635,926,394
Financial assets at FVOCI	9	-	401,750,120	401,750,120
Loans and receivables - net	10	9,607,709,643	183,176,192	9,790,885,835
Sinking fund	14	-	45,738,601	45,738,601
Investment in Subsidiary				12,055,500
Security deposits* (included in Miscellaneous Assets)	16	-	10,421,533	10,421,533
		12,970,502,416	1,280,770,344	14,251,272,760
Nonfinancial Assets				
Non-current assets held for sale	11	22,533,085	-	22,533,085
Property and equipment - net	12	-	485,449,246	485,449,246
Investment properties - net	13	-	1,269,710,671	1,269,710,671
Intangible assets - net	15	-	156,311,595	156,311,595
Deferred tax assets - net	30	-	-	-
Other assets - net	16	123,648,522	-	123,648,522
		146,181,607	1,911,471,512	2,057,653,119
Financial Liabilities				
Deposit liabilities	18	5,771,078,280	3,385,110,186	9,156,188,466
Bills payable	19	4,550,000,000	135,714,286	4,685,714,286
Accrued interest and other payables	20	121,179,245	-	121,179,245
Redeemable preferred shares	22	100,800	40,000,000	40,100,800
Other liabilities	21	102,581,116	-	102,581,116
		10,544,939,441	3,560,824,472	14,105,763,913
Nonfinancial Liabilities				
Accrued interest and other payables	20	-	118,889,829	118,889,829
Other liabilities	21	727,767	-	727,767
		727,767	118,889,829	119,617,596
Net Assets (Liabilities)		₱2,5871,016,815	(₱487,472,445)	₱2,083,544,370

24. Capital and Capital Management

The amount of the authorized common share of the Parent is ₱1.50 billion and is divided into 150,000,000 common shares with a par value of other payables 10 per share.

The Parent has total issued and outstanding shares of 125,471,911 and 95,451,841 as at December 31, 2018 and 2017, respectively.

Capital Management

The Parent's capital base, comprised of capital stock, paid-in surplus, surplus free and surplus reserves, is actively being managed to cover risks inherent in the Parent's operations.

The primary objective of the Parent's capital management is to ensure its ability to have sufficient capital to underpin its risk-taking activities, continue as a going concern, maintain a strong credit rating and quality CAR, ensure compliance with BSP regulations and provide reasonable returns and benefits to its shareholders.

The BOD of the Parent has the overall responsibility for monitoring the Parent's capital structure and making the necessary adjustments to address the risks and adapt to changes in economic conditions and regulatory requirements. The BOD and management of the Group ensure that all required ratios set by the BSP are being complied with and have set maximum limits on risk exposures.

The BSP, in its Circular 854 dated October 29, 2014 and effective November 13, 2014, increased the minimum capital requirement for all bank categories to ensure that banks stand on a strong capital base to support a threshold scale of operations to operate viably and service effectively the needs of clients. As provided by this circular, banks shall be allowed five (5) years from the effectivity to meet the required minimum capital requirements. Banks which are not meeting the minimum capital must submit to the BSP an acceptable capital build-up program for this purpose within one (1) year from the effectivity of this circular. The new minimum capital requirement for a thrift bank with more than 50 branches is ₱2.00 billion.

Failure to comply with the required minimum capital requirement may subject the Parent to appropriate actions and/or may be imposed with sanctions by the BSP.

As at December 31, 2018 and 2017, the reported unimpaired capital of ₱1.96 billion and ₱1.78 billion, respectively, have not exceeded the required minimum regulatory capital of ₱2.00 billion for thrift banks with more than 50 branches. However, the Parent is committed to build up the equity base to ₱3.00 billion to support the 5-year expansion plan and to comply with the new capital requirement of the BSP.

The Parent's overall strategy on capital management remains unchanged since prior financial year.

For 2017, the increase of ₱200M in the common stock of the Parent is attributed to the BOD's declaration of stock dividends on June 5, 2017 for shareholders on record as at June 5, 2017. This accounted for 27% of the previously held shares and was hence recorded at par. This was subsequently issued on July 31, 2017.

For 2018, the increase of ₱300M in the common stock of the Parent is attributed to the BOD's declaration of stock dividends on June 26, 2018 for shareholders on record as at June 26, 2017. This accounted for 27% of the previously held shares and was hence recorded at par. This was subsequently issued on July 31, 2018.

Regulatory Qualifying Capital

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

The BSP sets and monitors compliance with minimum capital requirements by banks. In implementing current capital requirements, the BSP has issued Circular No. 688 which implemented the Revised Risk Based Capital Adequacy Framework under Basel 1.5 effective on January 1, 2012. It requires the Parent to maintain a prescribed risk-based capital adequacy ratio (expressed as percentage of qualifying capital to risk weighted assets) of not less than 10.00%.

Qualifying capital consists of Tier 1 and Tier 2 capital elements, net of required deductions from capital. Tier 1 capital includes paid-up capital, retained earnings and current year profit. Deferred income tax and total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders, and related interests (DOSRI) are considered as deductions from the Tier 1 Capital. On the other hand, Tier 2 capital is comprised of general loan provision which is limited to 1.00% of credit risk-weighted assets.

The breakdown of the Parent's risk-weighted assets as at December 31, 2018 and 2017 as reported to the BSP follows (in millions):

	Consolidated	Separate	Individual
	2018	2018	2017
Credit risk-weighted assets	₱14,339	₱14,098	₱10,760
Operational risk-weighted assets	1,396	1,396	1,223
	₱15,735	₱15,494	₱11,983

The following table sets the capital adequacy ratio as reported to the BSP as of December 31, 2018 and 2017: (in millions)

	Consolidated	Separate	Individual
	2018	2018	2017
Tier 1 capital	₱1,875	₱1,894	₱1,669
Tier 2 capital	31	69	68
Total qualifying capital	1,906	1,963	1,737
Risk-weighted assets	₱15,735	₱15,494	₱11,983
Total capital ratio	12.11%	12.67%	14.50%

Certain adjustments are made to PFRSs results and reserves to calculate CAR which included the Group's accounting of the following transactions that require different accounting treatments under PFRSs:

- calculation of allowance for probable losses on loans and receivables; and
- accounting for investment properties.

The recognition of the Group for the abovementioned transactions are based on the accounting treatment approved by the BSP (see Notes 10, 13, and 17).

Financial Performance

The following basic ratios measure the financial performance of the Group:

	Consolidated	Separate	Individual
	2018	2018	2017
Return on average equity	12.62%	12.80%	11.54%
Return on average assets	1.46%	1.49%	1.58%
Net interest margin on average earning assets	7.58%	7.55%	7.75%

25. Surplus Reserves

This account consists of:

	Note	Consolidated	Separate	Individual
		2018	2018	2017
Reserve for redemption of preferred shares	22	₱40,000,000	₱40,000,000	₱40,000,000

26. Service Charges, Fees and Commissions

This account consists of:

	Consolidated	Separate	Individual
	2018	2018	2017
Bank commissions	₱293,570,520	₱287,678,266	₱171,313,498
Service fees	9,565,372	8,674,196	74,850,325
	₱303,135,892	₱296,352,462	₱246,163,823

27. Retirement Cost

The Parent has a partially funded, noncontributory defined benefit retirement plan covering substantially all of its employees. The actuarial present value of the retirement benefit liability under the plan is measured in terms of actuarial assumptions of mortality, investment yield and salary increase rates.

The Parent's retirement benefits are based on the employee's years of service and a percentage of his gross monthly salary. An employee shall be retired and shall be entitled to full retirement benefits upon his attainment of 65 years of age.

An employee, upon reaching the age of 55 years and with the completion of no less than 15 years of service as a regular employee may retire at his option and shall be entitled to the retirement benefits.

An employee who has at least 5 years of service as a regular employee, but who has not reached the age of 65 years, may retire at his option and shall be entitled to the retirement benefits but such retirement benefit shall be subject to the pertinent requirements of the Bureau of Internal Revenue (BIR).

The Group's retirement plan is registered with the BIR as a tax-qualified plan under R.A. No. 4917, as amended, and complies with the minimum retirement benefit specified under RA No. 7641, the "New Retirement Law".

Zalamea Actuarial Services, Inc., an SEC-accredited actuarial consulting firm, performed the latest valuation of the Parent's retirement benefit obligation which is as at December 31, 2017. The valuation results were computed using the projected unit credit method. The overall expected rate of return of plan assets is determined based on the market prices prevailing on that date, applicable to the period over which the retirement benefit liability is expected to be settled.

The management believes that there are no material changes in the assumptions, circumstances and transactions in 2018 that would significantly impact the retirement obligation.

The date of the latest actuarial valuation is December 31, 2017.

As at December 31, 2018 and 2017, the principal actuarial assumptions used in determining retirement benefits liability for the Group's retirement plan are shown below:

	Consolidated	Separate	Individual
	2018	2018	2017
Average working life	32.8 years	32.8 years	32.8 years
Discount rate	5.70%	5.70%	5.70%
Future salary increases	6.00%	6.00%	6.00%

The following table shows reconciliation from the opening balances to the closing balances for net retirement benefit liability and its components.

Consolidated and Parent

	Defined Benefits Obligation		Fair Value of Plan Assets		Net Retirement Benefit	
	2018	2017	2018	2017	2018	2017
Balance at January 1	P178,928,351	P191,825,183	P194,678,069	P167,044,443	(P15,749,718)	P24,780,740
Included in Profit or Loss						
Current service cost	5,000,000	18,192,948			5,000,000	18,192,948
Interest expense	-	9,380,251	(733,699)	8,744,045	733,699	636,206
	5,000,000	27,573,199	(733,699)	8,744,045	5,733,699	18,829,154
Included in OCI						
Remeasurement gain (loss) on DBO):						
Due to change in financial assumption	-	(63,803,898)	-	-	-	(63,803,898)
Due to change in demographic assumption	-	-	-	-	-	-
Due to experience	-	25,686,133	-	-	-	25,686,133
Remeasurement (loss) gain on plan assets	-	-	-	(4,651,190)	-	-
Remeasurement (gain) loss on effect of asset ceiling - OCI	-	897,734	-	-	-	897,734
	-	(37,220,031)	-	(4,651,190)	-	(32,568,841)
Others						
Contributions paid by the employer	-	-	-	26,790,771	-	26,790,771
Benefits paid	-	(3,250,000)	-	(3,250,000)	-	-
	-	(3,250,000)	-	23,540,771	-	(26,790,771)
Balance at December 31	P183,928,351	P178,928,351	P193,944,370	P194,678,069	(P10,016,019)	(P15,749,718)

The major categories of plan assets, at carrying values follow:

	Consolidated	Separate	Individual
	2018	2018	2017
Deposit in banks	0.02%	0.02%	0.02%
Due from BSP	0.00%	0.00%	0.00%
Financial assets at fair value through profit or loss	54.72%	54.72%	54.72%
Government securities	45.26%	45.26%	45.26%

Note: Only the parent company has an accredited retirement benefit plan.

Sensitivity Analysis

Reasonably possible changes to one of the relevant actuarial assumptions, with all other assumptions constant, would have affected the net retirement liability of the Group by the amounts shown below:

Consolidated and Parent

	Change in Assumption	Defined Benefit Obligation	
		2018	2017
Discount rate	+ 100 bps	P25,715,108	P25,715,108
	- 100 bps	33,093,194	33,093,194
Salary increase rate	+ 100 bps	30,674,230	30,674,230
	- 100 bps	24,422,434	24,422,434

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumption shown.

The defined benefit plans expose the Group to actuarial risks, such as longevity risk, interest risk, and market (investment risk).

The actuary determines the level of funding appropriate for the Group's retirement plan which takes into consideration the Group's employee data, retirement plan benefits and retirement fund balance. The Group expects to contribute P30.00 million to its defined benefits retirement plan in 2018.

The weighted average duration of the defined benefit obligations is equal to the expected average remaining working lives as at December 31, 2018 and 2017.

Compensation and Fringe Benefits

The details of the following accounts are as follow:

	Consolidated	Separate	Individual
	2018	2018	2017
Salaries and wages	P345,442,979	P334,893,986	P271,777,894
Fringe benefits	87,025,051	81,830,751	79,257,125
Other benefits	23,698,159	27,245,856	18,255,734
Director's fee	3,654,999	3,654,999	1,733,333
Retirement expense	6,424,275	5,000,000	18,829,154
	P466,245,463	P452,625,592	P389,853,240

28. Lease Contracts

Parent as Lessee

The Parent leases the premises occupied by most of its branches. The lease contracts are for periods ranging from 5 to 15 years and are renewable upon mutual agreement between the Parent and the lessors. Various lease contracts include payment of security deposits on the lease arrangements, pre-termination of the lease agreement at the option of the Parent, and non-payment for the unexpired portion of the lease term, if pre-terminated.

Consolidated and separate rent expense amounted to P71.15 million and P70.94 million in 2018, respectively, and the individual rent expense amounted to P64.20 million in 2017.

There are no contingent rentals and restrictions imposed by lease arrangements as at December 31, 2018 and 2017.

Future minimum rentals payable under non-cancellable operating leases follows:

	Consolidated	Separate	Individual
	2018	2018	2017
Within one year	P62,142,653	P61,585,653	P61,585,653
After one year but not more than 5 years	219,046,657	215,986,567	215,986,567
After 5 years	122,930,547	121,526,547	121,526,547

29. Miscellaneous Expenses

This account consists of:

	Consolidated	Separate	Individual
	2018	2018	2017
Fees and commission	₱16,527,011	₱15,633,714	₱11,867,343
Supervision fees	5,010,397	4,937,826	4,125,094
Marketing and advertising	4,177,505	4,148,271	1,951,580
Periodicals and magazines	447,454	447,429	470,210
Donations and charitable contributions	293,918	277,918	232,019
Fines, penalties and charges	345,998	23,919	283,897
Trainings and seminars	-	-	34,382
Others	25,285,442	24,446,961	14,634,786
	₱52,087,725	₱49,916,036	₱33,599,311

Other expenses include expenses which are not directly related to any specific expense accounts e.g., value gifts and treats distributed to clients, charity events and employees, and teller's allowance.

30. Income and Other Taxes

Income and other taxes are comprised of RBU and FCDU income taxes which are discussed as follows:

Regular Banking Unit

Under Philippine tax laws, the Group is subject to percentage and other taxes presented under "Taxes and licenses" account in the statements of income as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp taxes.

Income taxes include corporate income tax, as discussed below, and final taxes paid at the rate of 20.00%, which is a final withholding tax on gross interest income from GS and other deposit substitutes.

The corporate income tax rate is 30.00%. Interest allowed as a deductible expense is reduced by an amount equivalent to 33.00% of interest income subjected to final tax. It also provides for the change in GRT rate from 5.00% to 7.00%.

The regulations also provide for MCIT of 2.00% on modified gross income and allow NOLCO. The MCIT and NOLCO may be applied against the Group's income tax liability and taxable income, respectively, over a 3-year period from the year of incurrence.

In addition, Revenue Regulations (RR) No. 10-2002 provides for the ceiling on the amount of entertainment, amusement and representation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense for a service company like the Group is limited to the actual EAR paid or incurred but not to exceed 1.00% of net revenue. Nondeductible EAR expenses amounted to ₱4.49 million in 2018 and ₱5.51 million in 2017. EAR expense is included under "Representation and entertainment" account in the statements of income.

Foreign Currency Deposit Unit

RA No. 9294, the existing applicable tax regulation governing the taxation of FCDU provides, among others, the following:

Offshore income or the income derived by FCDUs from foreign currency transactions with nonresidents, Offshore Banking Units (OBUs) in the Philippines, local commercial Groups including branches of foreign Groups that may be authorized by the BSP to transact business with FCDUs and other depository Groups under the foreign currency deposit system shall be exempt from all taxes, except net income from such transactions as may be specified by the Secretary of Finance, upon recommendation by the MB to be subject to the regular income tax payable by banks.

- Gross onshore income or interest income from foreign currency loans granted by FCDUs to residents through offshore units in the Philippines or other depository Groups under the expanded system shall be subject to a final tax at a rate of 10.00%; and
- Interest income derived by resident individual or corporation on deposits with FCDUs and OBUs are subject to 7.50% final tax.

Income tax expense consists of:

	Consolidated	Separate	Individual
	2018	2018	2017
Current income tax expense	P42,722,460	P40,859,965	P38,755,425
Deferred tax (benefit) expense	(17,582,225)	(17,582,225)	167,814,441
	P25,140,235	P23,277,740	P206,569,866

The amount of deferred tax income relates to the origination and reversal of temporary differences.

The reconciliation of the income tax expense computed at the statutory tax rate to the effective income tax shown in the statement of income follows:

	Consolidated	Separate	Individual
	2018	2018	2017
Income before income tax	P244,147,702	P236,745,796	P432,825,839
Income tax at statutory rate	73,244,311	71,023,739	129,847,752
Additions to (reductions in) income taxes resulting from the tax effects of:			
Nontaxable income	(31,269,788)	(26,883,653)	(16,144,482)
Tax-exempt income	(21,086,030)	(23,793,653)	(877,455)
Tax-paid income	-	-	(15,066,893)
Nondeductible expense	14,376,537	13,106,101	122,247,459
FCDU net profit items	-	-	(1,454,237)
Others	-	-	(3,882,278)
Accounts written off	(10,174,794)	(10,174,794)	(8,100,000)
Provision for loss (unrecognized DTA)	-	-	-
Effective income tax	P25,140,235	P23,277,740	P206,569,866

The components of net deferred tax assets and deferred tax liabilities in the statement of financial position follow:

Consolidated

	2018	
	Tax Base	Deferred Tax Asset (Liability)
Deferred tax asset on:		
Allowance for credit losses	265,036,456	79,510,937
Allowance for credit losses as a result of merger and reclassification	-	-
Net Operating Loss Carry Over (NOLCO)	-	-
Minimum Corporate Income Tax (MCIT)	-	-
Unrealized loss on foreclosed properties	-	-
Loss on investment properties sold under installments	-	-
Accumulated depreciation on investment properties	-	-
Retirement liability (asset)	(409,996)	(122,999)
Remeasurement losses on retirement	25,593,098	7,677,929
Accrued expenses	-	-
	290,219,558	87,065,867
Deferred tax liability on:		
Net unrealized gain on financial assets at FVOCI	12,739,165	3,821,749
Unrealized gain on foreclosed properties	(496,599,771)	(148,979,931)
	(581,079,128)	(174,323,738)
Net deferred tax assets (liability)	(P290,859,570)	(P87,257,871)

Parent

	2018		2017	
	Tax Base	Deferred Tax Asset (Liability)	Tax Base	Deferred Tax Asset (Liability)
Deferred tax asset recognized in profit or loss and OCI:				
Allowance for probable losses	P143,825,346	P43,147,604	P67,933,781	P20,380,134
NOLCO	-	-	-	-
MCIT	-	-	-	-
Unrealized loss on foreclosed properties	-	-	-	-
Loss on investment properties sold under installments	-	-	-	-
Accumulated depreciation on investment properties	-	-	-	-
Retirement liability (asset)	10,016,019	3,004,806	24,376,527	7,312,958
Remeasurement losses on retirement	18,656,515	5,596,954	-	-
Accrued expenses	-	-	-	-
Unrealized foreign exchange loss	-	-	207,697	62,309
	172,497,880	51,749,364	92,518,005	27,755,401
Deferred tax liability recognized in profit or loss and OCI:				
Net unrealized gain on financial assets at FVOCI	12,739,165	3,821,749	-	-
Unrealized gain on foreclosed properties	(496,599,771)	(148,979,931)	(447,793,455)	(134,338,036)
Retirement liability	-	-	(41,023,979)	(12,307,194)
Gain on investment properties sold under installments	-	-	-	-
Unrealized foreign exchange gain	-	-	-	-
	(483,860,606)	(145,158,182)	(488,817,434)	(146,645,230)
Net deferred tax assets (liability)	(311,362,726)	93,408,818	(396,299,429)	(118,889,829)
Less amounts recognized in OCI:				
Remeasurement losses on retirement	-	-	(24,376,527)	(7,312,958)
Net unrealized gain on financial assets at FVOCI	-	-	-	-
	-	--	(24,376,527)	(7,312,958)
Amount Recognized in Profit or Loss	(P311,362,726)	(P93,408,818)	(P420,675,956)	(P126,202,787)

31. Commitments and Contingencies

In the normal course of operations, the Group makes various commitments, such as guarantees, commitments to extend credit, etc., which are not reflected in the accompanying consolidated and separate financial statements. The Group does not anticipate any material losses as a result of these transactions.

The following is a summary of the Group's contingencies at their peso equivalent contractual amounts arising from off-books accounts as at December 31, 2018 and 2017:

	Consolidated	Separate	Individual
	2018	2018	2017
Late deposit/payment received	P3,321,167	P3,321,167	P827,702
Items held for safekeeping	4,314	4,002	3,293
Items held as collateral	9,310	8,795	7,468
	P3,334,791	P3,333,964	P838,463

The above obligations are not recognized in the statement of financial position, however, these contain credit risk and are therefore part of the overall risk of the Group.

32. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subjected to common control or common significant influence. Related parties may be individuals or corporate entities.

In the ordinary course of business, the Group has various transactions with its related parties and with certain DOSRI. These transactions usually arise from normal Banking activities such as lending, borrowing, deposit arrangements and trading of securities, among others. Under existing policies of the Group, transactions with related parties are made substantially on the same terms as with other individuals and businesses of comparable risks.

Under current Banking regulations, the amount of individual loans to DOSRI, of which 70.00% must be secured, should not exceed the amount of their respective unencumbered deposits and book value of their respective investments in the Group. In the aggregate, loans to DOSRI generally should not exceed the lower of the Group's total regulatory capital or 15.00% of the total loan portfolio. On March 15, 2004, the BSP issued Circular No. 423 which provides for the amended definition of DOSRI accounts.

The following table shows information relating to DOSRI loans:

	Consolidated	Separate	Individual
	2018	2018	2017
Total outstanding DOSRI loans	P84,524,065	P84,524,065	P85,290,022
Percent of DOSRI loans to total loans	0.65%	0.65%	0.77%
Percent of unsecured DOSRI loans to total DOSRI loans	Nil	Nil	Nil
Percent of past due DOSRI loans to total DOSRI loans	Nil	Nil	Nil
Percent of nonperforming DOSRI loans to total DOSRI loans	Nil	Nil	Nil

On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding exposures to each of the Group's affiliates shall not exceed 10.00% of group's net worth, the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending Group. BSP Circular 560 took effect on February 15, 2007.

Separate and Individual

	December 31, 2018		December 31, 2017			
	Amount/ Volume	Outstanding Balance	Amount/ Volume	Outstanding Balance	Terms	Conditions
Key Management Personnel						
Demand deposit	P-	P387,143	P-	P546,859	0% interest rate	
Savings deposit		139,392,713	-	112,906,149		0.25% interest if the account reach the P10,000.00 maintaining balance
Time deposit		66,526,268	-	61,706,009	30 days to 1 year	3.00% - 4.00% interest rate
Other Related Parties						
Loans and receivables		-	-	-	3 years	19% based on diminishing balance for 3 years
Savings deposit		228,958	-	3,935,224		0.25% interest if the account reach the P10,000.00 maintaining balance
Total		P206,535,082	-	P230,581,490		

Details of deposit liabilities with related parties are not disclosed in compliance with R.A. No. 1405, *Law on the Secrecy of Group Deposits* and BSP Circular No. 895, *Guidelines on Related Party Transactions*.

The related party transactions shall be settled in cash. The outstanding balances of related party transactions are not impaired as at December 31, 2018 and 2017.

Compensation of Key Management Personnel of the Group

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of that Group.

The remuneration of directors and other members of key management included in the “Salaries and other employee benefits” account in the statement of income for the years ended December 31, 2018 and 2017 follows:

	Consolidated	Separate	Individual
	2018	2018	2017
Short-term employee benefits	₱39,576,774	₱38,256,784	₱35,674,149
Directors’ remuneration	4,145,363	3,654,999	1,733,333
	₱43,722,137	₱41,911,783	₱37,407,482

33. Events after Reporting Period

The Parent acquires controlling ownership stake in Rural Bank of San Quintin, Inc.

On February 18, 2019, the Parent entered into an agreement with Rural Bank of San Quintin, Inc., to purchase 100% of the latter’s outstanding common stock.

On February 18, 2019, the Parent and certain stockholders, through an execution of a deed of sale, purchased for a total of ₱38.00 million or ₱223.53 per stock 100% ownership or all 170,000 common stock.

34. Supplementary Information Required Under Revenue Regulations No. 15-2010

The BIR has issued RR No. 15-2010 which requires certain tax information to be disclosed in the notes to consolidated and separate financial statements. The Group reported and/or paid the following types of taxes for the year:

A. Other Taxes and Licenses

This includes all other taxes, local and national, including real estate taxes, licenses and permit fees lodged under the 'Taxes and Licenses' account in the Group's statement of income.

Details of taxes and licenses for the year consist of the following:

Documentary stamp tax	P81,711,272
Gross receipts tax	57,574,513
	P139,285,785

B. Withholding Taxes

Details of withholding taxes for the year follow:

Tax on compensation and benefits	P18,725,076
Final withholding taxes	9,057,561
Expanded withholding taxes	7,331,761
	P35,114,398

C. Deficiency Tax Assessments

As at December 31, 2018, the Group has no outstanding deficiency tax assessments.

D. Tax Cases

As at December 31, 2018, the Group has no outstanding tax cases.

