China Bank Savings

A subsidiary of China Banking Corporation

2018 Annual Report

SEC NO. 16962
FILE NO.

CHINA BANK SAVINGS, INC.
(COMPANY'S NAME)

CBS BUILDING
314 Sen. Gil J. Puyat Avenue, Makati City
(COMPANY'S ADDRESS)

988-95-55
(TELEPHONE NUMBER)

DECEMBER 31
(FISCAL YEAR ENDING MONTH AND DAY)

SEC FORM 17 – A
(FORM TYPE)

December 31, 2018
(PERIOD ENDED DATE)

N/A
(SECONDARY LICENSE TYPE AND FILE NUMBER)

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17 - A

ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SECTION 141 OF THE CORPORATION CODE OF THE PHILIPPINES

1.	For the fiscal year ended	:	**December 31, 2018**
2.	SEC Identification Number	:	**16962**
3.	BIR Tax Identification Code	:	**000-504-532**
4.	Exact name of registrant as specified in its charter	:	**China Bank Savings, Inc.**
5.	Province, country or other jurisdiction or organization	:	**Makati City, Philippines**
6.	Industry Classification Code	:	**(SEC Use only)**
7.	Address of principal office	:	**CBS Building, 314 Sen. Gil J. Puyat Avenue, Makati City**
8.	Registrant's telephone number, including area code	:	**(632) 988-95-55**
9.	Former name, former address and former fiscal year, if changed since last report	:	N/A

10. Securities registered pursuant to Section 8 and 12 of the SRC and Section 4 and 8 of the RSA

Title of Each Class	**Number of Shares Outstanding and Amount of Debt Outstanding**
Common stock - ₱100 par value	105,414,149
Preferred stock - ₱100 par value	21,642

11. Are any or all of the registrant's securities listed on a Stock Exchange?

    Yes [ ]   No [✓]

12. Check whether the issuer:

    (a) has filed all the reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports)

    Yes [✓]   No [ ]

    (b) has been subject to such filing requirements for the past ninety (90) days.

    Yes [✓]   No [ ]

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PART I. BUSINESS AND GENERAL INFORMATION

Item 1. DESCRIPTION OF BUSINESS

1. Business Development

Corporate Policy

China Bank Savings (CBS or the Bank) is the retail lending arm of China Banking Corporation (China Bank or the Parent Bank) and one of the largest thrift banks in the country today. CBS is also a member of the SM Group (SM Investments Corporation), one of the country's largest and most successful conglomerates with businesses spanning among retail, mall operations, property development (residential, commercial, resorts/hotels), and financial services.

CBS began operations on September 8, 2008 following the acquisition of Manila Bank by China Bank in 2007. Subsequent mergers with Unity Bank and Planters Development Bank (Plantersbank) have bolstered CBS' position as a leading thrift bank in the industry. With 162 branches nationwide and a strong platform for retail banking, auto, housing, teachers, and enterprise finance, CBS is dedicated to servicing the needs of entry-level customers, the broad consumer market, and the strategic Small and Medium Enterprise (SME) sector. CBS is committed to promoting financial inclusiveness, and uplifting the quality of consumers and entrepreneurs in line with its *Easy Banking for You* brand of service.

The Bank's ***Easy Banking for You*** corporate tagline, promises fast, efficient and friendly service for customers. It means that the whole CBS team is putting in more effort and going the extra mile to make banking easy for customers. The Bank is complementing its organizational capacity with the infrastructure to deliver on the promise of *Easy Banking for You* – up-to-date technology, robust employee training and development programs, wide distribution network, fast and efficient processes and competitive products and services.

The Bank's customer acquisition strategy involves sourcing new customers from the general borrowing public through its sales channels. China Bank and CBS cooperate to ensure wider market coverage through their internal referral and customer acquisition process. CBS focuses on the "emerging mass-market" sector of the consumer banking market. On the funding side, the Bank's principal source is the deposits from the general public.

The Bank's website www.cbs.com.ph/ has been enhanced to support the corporate branding campaign. The secure site was provided with a fresh look that reflects the Bank's vibrant image and authentic commitment to entry-level customers, families, young professionals, and entrepreneurs.

Vision
To be the leading savings bank preferred by the markets we serve.

Mission
As the leading savings bank, we deliver the best in banking, thus:

We provide wealth-building and practical products and services that fulfill the dreams and uplift the markets we serve.

We value our employees by nurturing, developing and rewarding them, as they are vital to our success.

We maintain the highest ethical standards through good corporate governance; deliver maximum and sustainable returns for our shareholders; and serve our communities to help promote better lives.

Core Values
In doing business, CBS is guided by these values:

- ***Integrity.*** Doing the right thing to everyone at all times.
- ***Teamwork.*** We work together in harmony and we respect each other to achieve our shared goals.
- ***Pursuit of Excellence.*** We have high performance standards that exceed expectations of our customers and shareholders.
- ***Customer Focus.*** We build and maintain solid and lasting relationships that result in customer loyalty.
- ***Concern for People.*** We provide an equitable, respectful, and safe working environment for all our employees.
- ***Fairness and Firmness.*** We make decisions free from discrimination and we are resolute in our decisions.

Form and Year of Organization

Manila Bank, the precursor of CBS, reopened to the public on June 26, 1999 as a thrift bank in accordance with the Monetary Board (MB) Resolution No. 512 dated April 21, 1999. Under MB Resolution No. 512, Manila Bank was allowed to reopen its seventy-two (72) branches as provided in the Bank's operating plan.

In 2007, China Bank acquired the majority shareholdings of Manila Bank. Following the change in its majority owners, the Bank—now known as China Bank Savings—continues to operate as a thrift bank. In 2008, the Bank transferred its other existing branches and unused branch licenses to China Bank to improve cost efficiency and branch networking. As of December 31, 2018, the Bank has one hundred sixty-two (162) branches.

The Bank's original Certificate of Incorporation was issued by the Philippine Securities and Exchange Commission (SEC) on May 23, 1960. On August 20, 2009, the Board of Directors approved the amendment of the Bank's Articles of Incorporation to extend its corporate term for another fifty (50) years, from and after May 23, 2010, the end of the original term of the Bank's corporate existence. The amendment to the Articles of Incorporation to extend the

Bank's corporate term was subsequently approved by the Stockholders of the Bank, who own/represent at least two thirds (2/3) of the outstanding capital stock, at the Annual Stockholders' meeting held in October 2009. The Amended Articles of Incorporation was approved by the SEC on March 25, 2010.

The registered office address of the Bank is at CBS Building, 314 Sen. Gil Puyat Avenue, Makati City.

Bankruptcy, Receivership or Similar Proceedings

The Bank is not subject to any bankruptcy, receivership or similar proceedings.

Material Reclassification Merger, Consolidation or Purchase or Sale of Assets

<u>Merger between the Bank and Unity Bank, A Rural Bank</u>
The Board of Directors of the Bank and Unity Bank, in their meetings held on June 6, 2013 and June 11, 2013, respectively, approved the proposed merger with Unity Bank, with the Bank as the surviving entity. The Plan of Merger was approved by the stockholders of both banks in their meetings held on July 18, 2013 and July 19, 2013, respectively. Unity Bank is 99.95% owned by China Bank, having acquired the former on November 20, 2012 under the Strengthening Program for Rural Banks (SPRB) Plus of the Bangko Sentral ng Pilipinas (BSP).

On December 10, 2013, the BSP approved the issuance of Certificate of Authority to register the approved Plan of Merger and Articles of Merger of the Bank and Unity Bank, with the Bank as the surviving entity. Thereafter, on January 20, 2014, the SEC formally issued the Certificate of the Filing of Articles and Plan of Merger by and between the Bank (surviving corporation) and Unity Bank (absorbed corporation). The merger was effected via a share-for-share exchange.

<u>Merger between the Bank and Planters Development Bank</u>
On June 26, 2014, the Board of Directors of both the Bank and Plantersbank approved the Plan and Articles of Merger of the Bank and Plantersbank, with the former as the surviving corporation. Plantersbank is a 99.85% owned subsidiary of China Bank. The stockholders of both Plantersbank and the Bank approved, ratified and confirmed the Plan and Articles of Merger on August 14, 2014. An amended Plan of Merger was approved by the Board of Directors of both Banks on January 29, 2015.

On August 19, 2015 and December 17, 2015, the MB of the BSP and the SEC approved the merger, respectively. The salient provisions of the Articles of the Merger are as follows:

a. Upon the effective date of the merger, Plantersbank shall be merged with and into the Bank. The separate and distinct existence of Plantersbank shall cease and terminate upon the effective date of merger.

b. The Bank shall be the surviving corporation.

c. As of the effective date, all common and preferred shares of Plantersbank shall be converted into fully paid China Bank Savings common shares totaling to 16.5 million shares.

Financial Highlights

	2018	2017
PROFITABILITY		
Total net interest income	**₱3,263,990,156**	₱3,326,556,699
Total non-interest income	**669,242,400**	547,257,506
Total non-interest expenses	**3,757,592,360**	3,326,825,644
Pre-provision profit	**280,289,292**	546,988,561
Provision for credit losses	**104,649,096**	295,680,313
Net income	**369,863,612**	501,542,217
SELECTED BALANCE SHEET DATA		
Liquid assets	**23,345,940,701**	17,393,364,204
Gross loans	**67,623,432,344**	65,482,624,682
Total assets	**95,779,709,292**	87,177,936,177
Deposits	**84,601,472,786**	76,437,082,620
Total equity	**9,089,222,262**	8,366,063,925
SELECTED RATIOS		
Return on equity	**4.24%**	6.19%
Return on assets	**0.40%**	0.60%
Capital adequacy ratio	**11.34%**	11.43%
OTHERS		
Headcount		
Officers	**1,096**	987
Staff	**1,420**	1,339

2. Business of Registrant

a. Products and Services

CBS offers a suite of products and services that cater to the different needs of its clientele, whether for business or personal finance. CBS' customer-centric and inclusive-finance approach ensures convenience, affordability, and ease-of-access in the way it delivers its products and services.

DEPOSITS

- Savings
  - **Easi-Save Basic** is an ideal starter, interest-earning savings account.
  - **Easi-Save ATM** is an interest-earning account with the convenience of a PIN-based automatic teller machine (ATM) card.
  - **Easi-Save Passbook** is an interest-earning savings account that comes with a passbook for easy monitoring.
  - **Easi-Save for Kids** is an interest-earning savings account designed for children aged at least 7 until 12 years old.
  - **US Dollar Savings Account** is a US Dollar-denominated savings account that comes with a passbook.

- Checking

    - **Easi-Checking Basic** is an entry-level checking account with low initial deposit requirement.
    - **Easi-Checking** is an interest-bearing checking account that comes with an Easi-Save ATM card.
    - **Easi-Checking Diary** is an interest-bearing checking account that comes with a passbook for easy tracking and monitoring of daily transactions. Ideal for medium-sized businesses that need to track collections and disbursements.

- Time Deposit

    - **Easi-Earn Time Deposit** is a peso-denominated, short-term deposit account with terms of less than one year. Interest is credited upon maturity.
    - **Easi-Earn High Five** is a peso-denominated, five-year term deposit account. It has a fixed interest rate and is tax-free, provided the term is completed.
    - **US Dollar Time Deposit Account** is a US Dollar-Denominated short-term deposit account with terms of less than one year. Interest is credited upon maturity.

LOANS AND CREDIT FACILITIES

- **SME Biz Loan**

    - **Term Loan.** A multipurpose credit source with a tenor of more than one year extended to business entities.
    - **Revolving Promissory Note Line.** This facility provides ready cash for purchasing, building up inventory, or as a bridge between receivables.
    - **Check Discounting Line.** This loan allows to get credit immediately every time it is needed. No more waiting time for customer's post-dated checks to clear.
    - **Invoice Financing.** A supervised and directed loan offered to business entities for the purpose of financing the purchase of their inventory goods from manufacturers, suppliers, or distributors.
    - **Floor Stock Financing.** Keeps inventory fully stocked while CBS handles the payments, oversees everything and making sure everything's paid on time.
    - **Domestic Standby Letter of Credit.** A standby credit line extended to businesses to guarantee financing for a project or particular business transaction with a specific/certified beneficiary.
    - **Project Financing / Development Loan.** A credit facility intended to finance the development of residential housing projects.
    - **CTS Receivables Financing with Recourse.** A credit facility that provides liquidity to real estate developers through purchase of receivables from individual home buyers covered with contract-to-sell (CTS) on accredited residential housing projects.
    - **Bus and Truck Financing.** A credit facility that provides liquidity to bus transport operators, i.e., commuter services (regular/P2P), shuttle services, tourist services, airport shuttle services, etc., and logistics/distributions transport operators (using trucks).

- **Small Biz Loan**

  - **Small Biz Term Loan** is for loans worth ₱10.0M and below, giving the power to use loan in multiple ways. All it takes is a real estate mortgage (REM) or a combo of REM and Deposit Assignment.
  - **Small Biz Revolving Promissory Note** is a loan facility for loans worth ₱10.0M and below. Interest is computed only for the amount used. A REM or a combo of REM and Deposit Assignment are needed.
  - **Small Biz Revolving Credit Line (Check Driven).** This standby credit line guarantees simple financing for product or specific recipient over time.

- **Consumer Loan**

  - **Easi-Drivin' Auto Loan** makes owning a first car a breeze. Whether buying a brand new car or a pre-owned vehicle, CBS has affordable amortization schemes and flexible terms.
  - **Easi-Livin' Home Loan** makes moving in to one's dream house a reality. It can be used for lot or home purchase, home construction, home improvement or to refinance an existing home loan.
  - **Easi-Funds Personal Loan** is a cash loan with no collateral. It gives one an access to cash quickly.
  - **Easi-Funds Salary Loan** is a multi-purpose loan facility offered to salaried individuals employed by CBS accredited companies.
  - **VROOM Motorcycle Loan** offers employees of CBS accredited companies the quickest way to vehicle ownership through flexible payment terms up to 36 monthly installments via automatic payroll deduction.

- **Easi-APDS Loan**

  - Easi-APDS is an Automatic Payroll Deduction Salary (APDS) Loan. It is a non-collateral loan facility offered to teaching and non-teaching personnel employed by the Department of Education (DepEd), State Universities and Colleges / Local Universities and Colleges (SUC/LUC) under the Commission on Higher Education (CHED), TESDA, Dept. Of Science and Technology (DOST) - Philippine Science High Schools and other APDS market segments covered by the Terms and Conditions of the Automatic Payroll Deduction System Accreditation for Loans (TCAA) and Memorandum of Agreement (MOA).

CASH MANAGEMENT SERVICES

- **Bills Payment System.** A tie-up arrangement with major and local utility providers, schools, insurance companies, credit card companies or charitable institutions.

- **Deposit Pick-Up Arrangement.** A special type of accommodation given to valued clients where the Bank sends a representative on an agreed schedule at the client's designated office or establishment to collect deposits.

- **Online Payroll Upload.** Credit employee's payroll accounts via uploading in CBS Online Corp or through the branch. Funds will be available on the same day.

- **Check Write Software.** Checking account which includes software for printing checks and monitoring disbursement electronically.

- **End to End Payroll Software.** Computes salary in an instant, including regular pay, overtime pay, salary adjustments, taxes, SSS, Pag-Ibig and PhilHealth contributions.

- **Direct Buyers Checking Account.** A special checking account designed to support the operation and collection efforts of the business.

- **Post Dated Check Warehousing.** A service for controlling and managing a client company's inventory of post-dated checks, using a stand-alone system to credit these checks to the client's account when the value date falls due.

- **SME Proposition.** Clients are provided with equipment, gadget, business machine, or cash management services that will help them manage and grow their business through technology.

- **Corporate Online Banking**. The Bank's electronic, interactive and automated channel which will give Company Name, a direct online access to enrolled corporate accounts through CBS Corp. Site: www.cbs.com.ph to enjoy the convenience of performing banking transactions online.

- **Point of Sale (POS) Debit Card Payment Facility.** Wireless EMV ready point of sale (POS) terminals for accredited merchants. Europay, MasterCard and Visa (EMV) is a global standard that uses computer chips to authenticate card transactions thereby providing more security. Increases utilization of Bancnet member ATM cards as payment tool for retail merchants.

Business Contribution

	December 31, 2018		December 31, 2017	
	%	**Amount**	%	Amount
INTEREST INCOME				
Loans and receivables		**₱4,723,862,839**		₱4,269,523,330
Investment securities		**282,094,661**		262,808,362
Interbank loans receivable and SPURA		**119,349,402**		91,952,398
Due from BSP and other banks		**25,347,885**		14,087,651
		5,150,654,787		4,638,371,741
INTEREST EXPENSE				
Deposit liabilities		**1,886,664,631**		1,311,815,042
NET INTEREST INCOME	**83.0%**	**3,263,990,156**	85.9%	3,326,556,699
Gain on asset exchange	**6.9%**	**270,140,580**	3.1%	120,530,783
Service charges, fees and commissions	**6.8%**	**268,037,238**	6.2%	239,452,223
Income from property rentals	**0.8%**	**31,184,292**	0.7%	27,847,995
Trading and securities gains (losses)	–	**(866,221)**	1.8%	68,871,922
Miscellaneous	**2.5%**	**100,746,511**	2.3%	90,554,583
TOTAL OPERATING INCOME	**100.0%**	**₱3,933,232,556**	100.0%	₱3,873,814,205

Distribution Methods of Products and Services

CBS products and services are made available across multiple distribution and delivery channels: 162 branch network; 167 ATM network (164 in-branch and 3 off-site ATMs nationwide); 9 in-branch cash accept machine; 4 business centers and 12 sales offices supporting the Bank's SME, and consumer lending business and 21 APDS loan centers supporting the Bank's APDS lending business.

The rapidly growing distribution network is enabled by a highly robust and integrated core banking platform FCBS by Infosys. The core banking systems allows real-time access to deposit and loan balances 24/7, general ledger and management of credit facilities.

NO	BRANCH	LOCATION/ADDRESS
1	ACACIA ESTATES - SAVEMORE	Acacia Taguig Town Center, Acacia Estates, Ususan, Taguig City
2	ADRIATICO - HYPERMARKET	M.H. Del Pilar, Adriatico, Malate, Manila
3	ALABANG HILLS	G/F Alabang Comm'l Citi Arcade, Don Jesus Blvd., Alabang, Muntinlupa City
4	AMANG RODRIGUEZ - SAVEMORE	G/F GBU Bldg. Amang Rodriguez Ave. Evangelista St., Santolan, Pasig City
5	AMORANTO AVENUE	Unit 101 R Place Building, 255 N.S. Amoranto Sr. Avenue, Quezon City
6	ANGELES - RIZAL	639 Rizal Street, Angeles City
7	ANGELES - SAN JOSE	Sto. Rosario Street, San Jose, Angeles City
8	ANGONO	Manila East Road corner Don Benito Street, Brgy. San Roque, Angono, Rizal
9	ANONAS - SAVEMORE	Maamo St., Road Lot 30, V. Luna & Anonas Extension, Sikatuna, Quezon City
10	ANTIPOLO	E.M.S. Bldg., GF L1 M.L. Quezon, corner F. Dimanlig St. Antipolo City
11	ARANETA CENTER COD - SAVEMORE	Gen. Romulo Street, Araneta Center, Cubao, Quezon City
12	ARAYAT	Cacutud, Arayat,Pampanga
13	AYALA AVENUE	6772 Ayala Avenue, Makati City
14	BACLARAN	3751 Quirino Avenue Corner Sta. Rita St., Baclaran, Parañaque City
15	BACOLOD	SKT Saturn Bldg., Lacson Cor. Rizal Streets, Bacolod City
16	BACOOR - MOLINO	Avon Building, 817 Molino Road, Molino III, Bacoor City, Cavite
17	BACOOR - TALABA	103 Bacoor Town Center - E. Aquinaldo Hi-Way Talaba VII, Bacoor City, Cavite
18	BAGUIO - SESSION	B 108 Lopez Bldg., Session Road corner Assumption Road, Baguio City
19	BALAGTAS	Ultra Mega Supermarket, McArthur Highway, Burol1st, Balagtas, Bulacan
20	BALANGA - DM BANZON	D.M. Banzon Ave. corner Sto. Domingo Street, Balanga, Bataan
21	BALIBAGO	MacArthur Highway,Balibago, Angeles City
22	BALIUAG	Plaza Naning, Baliuag, Bulacan
23	BANAWE	No. 247-249 Banawe Street, Sta. Mesa Heights, Brgy. Lourdes, Quezon City
24	BANGKAL	1661 Evangelista Street, Bangkal, Makati City
25	BATANGAS - P. BURGOS	4 Burgos Street, Batangas City
26	BIÑAN	Nepa Highway, San Vicente, Biñan, Laguna
27	BINONDO - JUAN LUNA	694-696 Juan Luna Street, Binondo, Manila
28	BLUMENTRITT	Blumentritt near Oroquieta Street, Sta. Cruz, Manila
29	BONI AVENUE	Raymond Tower Boni, 615 Boni Avenue, Plainview, Mandaluyong City
30	BUENDIA MAIN	CBS Building, 314 Sen. Gil Puyat Avenue, Makati City
31	CABANATUAN - BAYAN	Burgos Avenue, Cabanatuan City
32	CAGAYAN DE ORO	Sergio Osmeña Street, Cogon District, Cagayan De Oro City
33	CALAMBA	HK Building II, National Highway, Brgy. Halang, Calamba, Laguna
34	CAVITE CITY	485 P. Burgos St., Barangay 34, Caridad, Cavite City
35	CEBU - LAHUG	G/F Skyrise IT Building, Brgy. Apas, Lahug, Cebu City
36	CEBU - MANDAUE	A. Del Rosario Ave., Mantuyong, Mandaue City, Cebu City
37	CEBU - MANGO	JSP Mango Realty Bldg. corner General Maxilom Ave.&Echavez Sts. Cebu City
38	CEBU MANDAUE - BASAK	Cebu North Road, Basak, Mandaue City
39	COMMONWEALTH AVENUE	Unit 101, Jocfer Bldg., Commonwealth Avenue, Brgy. Holy Spirit, Quezon City
40	CUBAO	Fernandina 88, 222 P. Tuazon Ave, Araneta Center, Cubao, Quezon City
41	DAGUPAN	G/F Lyceum-Northwestern University, Tapuac District, Dagupan City
42	DARAGA	Rizal St., Brgy. San Roque, Daraga, Albay, Bicol
43	DASMARIÑAS	Veluz Plaza Building, Zone 1, Aguinaldo Highway, Dasmariñas, Cavite
44	DAU	MacArthur Highway, Dau, Mabalacat, Pampanga
45	DAVAO	Bry. 9-A Poblacion District, E. Quirino Avenue, Davao City
46	DAVAO - RECTO	C.Villa Abrille Building, C.M. Recto Avenue, Davao
47	DEL MONTE	392 Del Monte Avenue, Barangay Sienna, Quezon City
48	DIVISORIA	3F Dragon 8, CM Recto Ave.corner Dagupan St., Divisoria, Manila
49	DOLORES	STCI Bldg. MacArthur Highway, Brgy. San Agustin, San Fernando Pampanga
50	E. RODRIGUEZ SR. - HEMADY	Hemady Square, E. Rodriguez Avenue corner Dona Hemady St., Quezon City

NO	BRANCH	LOCATION/ADDRESS
51	ESPAÑA - SUN MALL	GF Sun Mall, Espana Blvd. corner Mayon St., Brgy. Sta. Teresita, Quezon City
52	FELIX HUERTAS - JT CENTRALE	103GF JT Centrale Mall, 1686 V. Fugoso St. corner Felix Huertas St., Manila
53	FILINVEST CORPORATE CITY	BC Group Bldg., East Asia Drive, Filinvest Corporate City, Alabang, Muntinlupa
54	FTI - TAGUIG - HYPERMARKET	DBP Avenue, Food Terminal Inc., Western Bicutan, Taguig City
55	G.ARANETA AVENUE	195 G. Araneta Avenue, Quezon City
56	GENERAL SANTOS	Santiago Boulevard, General Santos City
57	GIL PUYAT-BAUTISTA	Lot 25 Blk. 74 Bautista Street, Corner Buendia Avenue, Makati City
58	GREENHILLS - ORTIGAS AVE.	G/F VAG Building Ortigas Avenue,Greenhills, San Juan City
59	GREENHILLS - WILSON	219 Wilson Street, Greenhills, San Juan City
60	GUAGUA	Plaza Burgos, Guagua, Pampanga
61	GUIGUINTO-RIS	RIS-5 Industrial Complex, 68 Mercado Street, Tabe, Guiguinto, Bulacan
62	ILOILO - IZNART	Golden Commercial Building, Iznart, Iloilo City
63	ILOILO - JARO	Lopez Jaena corner El 98 Streets, Jaro, Iloilo City
64	IMUS - TANZANG LUMA	OLMA Building, Gen. Emilio Aguinaldo Highway, Tanzang Luma, Imus, Cavite
65	KALIBO - CITYMALL	F. Quimpo Street Connecting Mabini and Toting Reyes Streets, Kalibo, Aklan
66	KALOOKAN	Augusto Bldg., Rizal Avenue, Grace Park, Kalookan City
67	KALOOKAN - MABINI	AJ Building,353 A. Mabini Street, Kalookan City
68	KATIPUNAN AVENUE	One Burgundy Condominium, Katipunan Avenue, Quezon City
69	LA UNION	A.G. Zambrano Building Quezon Avenue San Fernando City, La Union
70	LAGRO	GF Bonanza Building Quirino Hi-Way,Greater Lagro, Novaliches, Quezon City
71	LAGUNA - STA. CRUZ	E&E Building, Pedro Guevarra Avenue, Sta. Cruz, Laguna
72	LAOAG CITY	G/F LC Square Bldg., J.P. Rizal cor. M.V. Farinas Sts., Laoag City, Ilocos Norte
73	LAS PINAS - ALMANZA UNO	Alabang Zapote Road, Almanza Uno, Las Piñas City
74	LEGAZPI BRANCH	F. Imperial Street, Barangay Bitano, Legazpi City
75	LINGAYEN	5-6 The Hub - Lingayen Bldg., National Road, Poblacion, Lingayen, Pangasinan
76	LIPA - CM RECTO	C.M. Recto Avenue, Lipa City
77	LOS BAÑOS - CROSSING	Batong Malake, Los Baños, Laguna
78	LUCENA	Merchan corner Evangelista Street, Lucena City
79	MACABEBE	Poblacion, Macabebe, Pampanga
80	MAKATI - CHINO ROCES	2176 Chino Roces Avenue, Makati City
81	MAKATI - J.P. RIZAL	882 J.P. Rizal Street, Makati City
82	MALABON - SAVEMORE	Francis Market, Governor Pascual corner M.H. Del Pilar Streets, Malabon
83	MALOLOS	Canlapan Street, Sto. Rosario, Malolos City, Bulacan
84	MALOLOS - CATMON	Paseo Del Congreso, Catmon, Malolos City, Bulacan
85	MANDALUYONG	New Panaderos Extension, Mandaluyong City
86	MANDALUYONG - SHAW BLVD.	G/F 500 Shaw Tower, 500 Shaw Boulevard, Mandaluyong City
87	MANILA - STA. ANA - SAVEMORE	Savemore, Pedro Gil Street, Sta. Ana, Manila
88	MARIKINA	33 Bayan-Bayanan Avenue, Brgy. Concepcion 1, Marikina City
89	MARIKINA - GIL FERNANDO AVENUE	CTP Building Gil Fernando Avenue,Marikina City
90	MCKINLEY HILL	U-B Commerce & Industry Plaza, Mckinley Towncenter, Ft. Bonifacio, Taguig
91	MEYCAUAYAN	Mancon Building, Calvario Meycauayan, Bulacan
92	MOUNT CARMEL	Km 78 MacArthur Highway Brgy. Saguin,San Fernando City, Pampanga
93	MUÑOZ - JACKMAN	Jackman Plaza, G/F UG14-UG18 EDSA Muñoz, R. Magsaysay, Quezon City
94	NAGA	Rl Building, Panganiban Street, Lerma, Naga City
95	NEPA - Q. MART - SAVEMORE	Rose Building, 770 St. EDSA And K-G Street, West Kamias, Quezon City
96	NINOY AQUINO AVE.	G/F Skyfreight Building Ninoy Aquino Ave., Cor. Pascor Drive, Paranaque City
97	NOVA PLAZA MALL - SAVEMORE	Nova Plaza Mall, Quirino Highway Cor. Ramirez St., Novaliches, Quezon City
98	OLONGAPO	G/F City View Hotel, 25 Magsaysay Drive, New Asinan, Olongapo City
99	ORANI	Brgy. Balut,Orani, Bataan
100	ORTIGAS - CITRA	Unit B1, OMM Citra Building, San Miguel Avenue, Ortigas Center, Pasig City
101	ORTIGAS CENTER	G/F Hanston Square, San Miguel Avenue, Ortigas Center, Pasig City
102	PARAÑAQUE - BETTER LIVING	90 Dona Soledad Avenue, Better Living Subd., Bicutan, Parañaque
103	PARAÑAQUE - BF HOMES	284 Aguirre Avenue, B.F. Homes, Parañaque
104	PARANAQUE - JAKA PLAZA	Jaka Plaza Center, Dr. A. Santos Avenue, Sucat,Parañaque
105	PARAÑAQUE - LA HUERTA	Quirino Avenue, La Huerta, Parañaque
106	PARAÑAQUE - MOONWALK	Kassel Residence Building, E. Rodriguez Avenue, Moonwalk, Parañaque
107	PASAY - LIBERTAD	533 Cementina Street, Libertad, Pasay City
108	PASIG - CANIOGAN	Unit A, KSN Building, C. Raymundo Avenue, Caniogan, Pasig City
109	PASIG - MUTYA	Richcrest Building, Caruncho corner Market Avenue, San Nicolas, Pasig City
110	PASIG - PADRE BURGOS	114 Padre Burgos Street, Kapasigan, Pasig City
111	PASO DE BLAS	Andoks Building, 629 Gen. Luis Street,Paso De Blas Valenzuela City
112	PATEROS	500 Elisco Road, Sto. Rosario, Pateros City
113	PATEROS - ALMEDA	120 M. Almeda Street, Pateros, Metro Manila
114	PEDRO GIL	LKE Building, Pedro Gil corner Pasaje Rosario, Paco, Manila
115	PLARIDEL	Banga, Plaridel, Bulacan
116	PLAZA - STA. CRUZ	MBI Building, Unit 103, Plaza Sta. Cruz, Sta. Cruz, Manila
117	PORAC	Cangatba, Porac, Pampanga

NO	BRANCH	LOCATION/ADDRESS
118	QUEZON AVENUE	G/F GJ Building, 385 Quezon Avenue, Quezon City
119	QUEZON AVENUE - PALIGSAHAN	1184-A Ben-Lor Building, Brgy. Paligsahan,Quezon City
120	QUIAPO - ECHAGUE	Carlos Palanca corner P. Gomez Streets, Quiapo, Manila
121	QUIAPO - QUEZON BOULEVARD	416 Quezon Boulevard, Quiapo, Manila
122	RADA	HRC Center, 104 Rada Street, Legaspi Village, Makati City
123	ROOSEVELT	342 Roosevelt Avenue, Quezon City
124	ROXAS AVE. CAPIZ - CITYMALL	CityMall - Roxas Avenue, Brgy VI, Roxas City, Capiz
125	SAN FERNANDO	KHY Trading Bldg., San Fernando-Gapan Rd., San Fernando City, Pampanga
126	SAN FERNANDO - BAYAN	JSL Building, Consunji Street, San Fernando, Pampanga
127	SAN ILDEFONSO - SAVEMORE	Savemore Building, San Ildefonso, Poblacion, Bulacan
128	SAN JOSE DEL MONTE	G/F Giron Bldg., Halili Ave., Tungkong Mangga, San Jose Del Monte, Bulacan
129	SAN JUAN	Madison Square, 264 N. Domingo Street, Barangay Pasadena, San Juan
130	SAN MIGUEL	Norberto Street, San Miguel, Bulacan
131	SAN NARCISO	Brgy. Libertad,San Narciso, Zambales
132	SAN PABLO - RIZAL AVE.	Rizal Avenue corner A. Fule Street, San Pablo City, Laguna
133	SAN PEDRO	Gen - Ber Building, National Highway, Landayan, San Pedro Laguna
134	SAN RAFAEL	Cagayan Valley corner Cruz Na Daan Roads,San Rafael,Bulacan
135	SANTIAGO - VICTORY NORTE	Maharlika Highway corner Quezon St., Victory Norte, Santiago City
136	SOUTH TRIANGLE	G/F Sunnymede IT Center, Brgy. South Triangle, Quezon Avenue, Quezon City
137	STA. ANA	Poblacion,Sta. Ana,Pampanga
138	STA. MARIA	Gen. Luna corner De Leon Street, Sta. Maria, Bulacan
139	STA. MESA	4128 Ramon Magsaysay Blvd., Sta. Mesa, Manila
140	STA. RITA	San Vicente, Sta. Rita, Pampanga
141	STA. ROSA	Sta. Rosa-Tagaytay Highway, Sta. Rosa, Laguna
142	STA. ROSA - BALIBAGO	Old National Highway corner Roque Lazaga Street, Sta. Rosa, Laguna
143	STO. TOMAS	The Lifestyle Strip, Maharlika Highway, San Antonio, Sto. Tomas, Batangas
144	SUBIC	Baraca,Subic, Zambales
145	TAFT - MASAGANA - SAVEMORE	Parkview Plaza, Trida Bldg., Taft Avenue corner T.M. Kalaw St., Ermita, Manila
146	TAGAYTAY - MENDEZ - SAVEMORE	Mendez Crossing West, Tagaytay-Nasugbu Highway, Tagaytay City
147	TAGUM - CITYMALL	Maharlika Highway Cor. Lapu-Lapu Extension, Brgy. Magugpo, Tagum City
148	TALISAY - NEGROS - SAVEMORE	Mabini Street, Zone 12, Paseo Mabini, Talisay City, Negros Occidental
149	TANAUAN CITY	National Highway Brgy. Darasa, Tanuan, Batangas
150	TANDANG SORA	Cecileville Bldg. III, 670 T. Sora Ave. corner General Ave, T. Sora, Quezon City
151	TARLAC - MAC ARTHUR	Mac Arthur Highway San Nicolas, Tarlac City
152	TAYTAY	C. Gonzaga Building II, Manila East Road, Taytay, Rizal
153	TAYUMAN	1925-1929 Rizal Avenue near corner Tayuman Street, Sta. Cruz, Manila
154	TIMOG	Jenkinsen Towers, 80 Timog Avenue, Quezon City
155	TUGUEGARAO	Metropolitan Cathedral Parish Rectory Complex Rizal Street, Tuguegarao City
156	TWO E-COM	Two E-Com Center Tower B, Ocean Drive, Mall Of Asia Complex, Pasay City
157	UN AVENUE	552 United Nations Avenue, Ermita, Manila
158	URDANETA	Brgy. Nancayasan, MacArthur Highway, Urdaneta City, Pangasinan
159	VALENZUELA - MARULAS	92-J Ong Juanco Building, MacArthur Highway, Marulas, Valenzuela City
160	VIGAN	Plaza Maestro Convention Center, Florentino corner Burgos Street, Vigan City
161	VISAYAS AVE.	Upper Ground Floor, Wilcon City Center Mall, Visayas Avenue, Quezon City
162	ZAMBOANGA - CITYMALL	City Mall, Don Alfaro Street, Tetuan, Zamboanga

NO	ATM OFF-SITE	LOCATION/ADDRESS
1	CALAMBA DOCTORS HOSPITAL	49 National Highway, Parian, Calamba City, Laguna
2	RIS DEVELOPMENT CORPORATION	168 Mercado Street, Tabe, Guiguinto, Bulacan 03015
3	ZAMECO	ZAMECO II Head Office Compound, Brgy. Magsaysay, Castillejos, Zambales

NO	BUSINESS CENTER	LOCATION/ADDRESS
1	Cebu Business Center	JSP Plaza Building, 2F, General Maxilom corner Echaves Street, Cebu City
2	Davao Business Center	Bry. 9-A Poblacion District, E. Quirino Avenue, Davao City
3	La Union Business Center	A.G. Zambrano Building, Quezon Avenue, San Fernando City, La Union
4	Pampanga Business Center	JSL Building, 2nd Floor, Consunji Street, City of San Fernando, Pampanga

NO	SALES OFFICE	LOCATION/ADDRESS
1	Baguio Sales Office	B108 Lopez Building, 2F Session Road corner Assumption Road, Baguio City
2	Balagtas Sales Office	China Bank Savings Building, Borol 1st McArthur Highway Balagtas, Bulacan
3	Cabanatuan Sales Office	Duran Building, Burgos Avenue, Cabanatuan City
4	Cagayan De Oro Sales Office	Sergio Osmeña Street, Cogon District, Cagayan De Oro City
5	General Santos Sales Office	Go Chay Ching Building, I. Santiago Boulevard, General Santos City
6	Iloilo Sales Office	MSL Building, Quezon Street, Iloilo City
7	Imus Sales Office	OLMA Building, Aguinaldo Highway, Tanzang Luma, Imus City, Cavite
8	Marikina Sales Office	CTP Building, 3rd Floor, Gil Fernando Avenue, Marikina City
9	Naga Sales Office	RL Building, 3rd Floor, Panganiban Street, Lerma, Naga City

NO	SALES OFFICE	LOCATION/ADDRESS
10	San Pablo Sales Office	China Bank Savings Building, 2F, Rizal Avenue corner A. Fule San Pablo City
11	Santiago Sales Office	Jeco Building, Maharlika Highway, Victory Norte, Santiago City
12	Urdaneta Sales Office	China Bank Savings, Nancayan, McArthur Highway, Urdaneta City, Pangasinan

NO	APDS LOAN CENTER	LOCATION/ADDRESS
1	National Capital Region Regional Lending Center	2nd Floor, G.J. Building, 385 Quezon Avenue, Quezon City
2	Cordillera Region Regional Lending Center	8990 B 108 Lopez Building, Session Road, Baguio City
3	Region 1 La Union Regional Lending Center	A.G. Zambrano Build, Quezon Avenue San Fernando City, La Union
4	Region 1 Vigan Lending Office	Quezon Avenue corner Mabini Street, Vigan City
5	Region 2 Tuguegarao Regional Lending Center	G/F Metropolitan Cathedral Parish Rectory Complex, Tuguegarao City
6	Region 3 San Fernando Regional Lending Center	JSL Building, Consunji Street, San Fernando, Pampanga
7	Region 4a Taytay Regional Lending Center	2nd Floor, C. Gonzaga Building II, Manila East Road, Taytay, Rizal
8	Region 4a San Pablo Lending Office	Rizal Avenue corner A. Fule Street, San Pablo City, Laguna
9	Region 4a Lucena Lending Office	Merchan corner Evangelista Street, Lucena City
10	Region 5 Naga Lending Office	2F RL Building, Panganiban Drive, Naga City, Camarines Sur
11	Region 6 Iloilo Regional Lending Center	G/F 132 Quezon Street, Iloilo City
12	Region 7 Cebu Regional Lending Center	G/F Skyrise IT Building, Bgy. Apas, Lahug, Cebu City
13	Region 10 CDO Regional Lending Center	Sergio Osmeña Street, Cogon District, Cagayan De Oro City
14	Region 11 Davao Regional Lending Center	Bry. 9-A Poblacion District, E. Quirino Avenue, Davao City
15	Region 11 Tagum Lending Office	City Mall Maharlika Highway, Barangay Magugpo, Tagum City
16	Region 12 Gen. Santos Regional Lending Center	GF Santiago Boulevard, General Santos City.
17	Region 18 Bacolod Regional Lending Center	SKT Saturn Building, Lacson corner Rizal Street, Bacolod City
18	Business Center - Legazpi City	F. Imperial Street, Sol's Subdivision, 37 Bitano, Legazpi City
19	Business Center – Lingayen	The Hub - Lingayen Building, Poblacion, Lingayen, Pangasinan
20	Business Center - Roxas City	CityMall - Roxas City, Roxas Avenue Barangay VI, Roxas City, Capiz
21	Business Center - Tanauan City	Jose P. Laurel National Highway, Darasa, Tanauan City, Batangas

Status of Publicly Announced New Products and Services

PRODUCTS AND SERVICES	DATE LAUNCHED
CBS Mobile Banking App	April 18, 2018
Easi-APD Salary Loan with Free Life Insurance	May 9, 2018
Easi-Buyout Program for APD Salary Loans	August 3, 2018
VROOM Motorcycle Loan	September 10, 2018

- The CBS Mobile App was launched for customers to enjoy ease, accessibility and convenience, on top of portable, secure and functional service from the Bank that offers *Easing Banking for You*.

- CBS together with its strategic partner and affiliate, Manulife China Bank Life Assurance Corporation (MCBLife) strengthened their commitment to providing innovative financial products to customers with Easi-APDS loan. An industry first, the product allows DepEd employees to apply for salary that come with free life insurance protection. This will allow DepEd teaching and non-teaching personnel to manage their salary loans while protecting their families from uncertain financial burden.

- CBS also announced the roll out of Easi-Buyout, the Bank's latest program for faculty and non-academic staff of the DepEd. Easi-Buyout is the Bank's response to recent DepEd reforms to promote accountability and streamline financial services to their employees nationwide. Under the Easi-Buyout program, customers automatically earn 1% cash back based on outstanding balance by transferring their existing APD salary loans with other private lending institutions (PLIs) to CBS.

- CBS launched VROOM Motorcycle Loan - another innovation for companies accredited under the Easi-Funds Salary Loans program to reward their employees.

VROOM offers employees of these companies the quickest route to boosting personal mobility. The loan facility provides wage-earners a hassle-free entry-point to vehicle ownership by financing brand-new motorcycles with displacement of 100-cc upwards.

Competition

The Philippine economy continued its upward trend, with sound macroeconomic fundamentals driving personal consumption and business expansion, including the growth of the strategic SME sector. While the Philippine banks' credit growth slowed in 2018 due to higher inflation, a weaker peso and a 175-basis point rise in BSP monetary policy rates, it remained resilient as assets and deposits continue to expand.

Total deposits of the thrift bank (TB) sector further increased in 2018, giving the industry a buffer against the impact of negative developments outside the country. Savings and demand deposits remained the primary sources of funds for the banking system. Because of this, the Philippine banking system continues to be resilient in supporting the economy's long-term growth. This strength was evident in banks' balance sheets that are marked by steady growth in assets and deposits. The total deposits of the TB industry rose by about ₱46.1 billion or 4.9% to ₱991.5 billion.

As of end-December 2018, outstanding loans of TB increased by more than ₱57.2 billion or 6.9% to ₱890.6 billion. Motor vehicle loans and residential real estate loans sustained growth while salary loans remained on the uptrend.

CBS is majority-owned by the China Bank Group, which is one of the largest Philippine universal banks in terms of assets and deposits. China Bank and CBS serve distinct core markets and coordinate on market segmentation.

As of December 2018, there were 54 thrift banks operating domestically including microfinance-oriented banks. CBS believes that local players would maintain a solid foothold in the domestic market despite the tougher competition. Based on the published Statement of Condition (SOC) submitted with the BSP which differs from Philippine Financial Reporting Standards (PFRS) in some respects as of December 2018, CBS recorded a ₱8.4 billion expansion in assets to ₱96.8 billion, making it the country's fourth largest thrift bank. In terms of loans and deposits, the Bank ranked fifth and fourth, respectively.

Sources and Availability of Raw Materials and the Names of Principal Suppliers

Not applicable

Customer/Clients

There is no single customer that accounts for 20% or more of the Bank's deposits and loans.

Transaction With and/or Dependence on Related Parties

In the ordinary course of business, the Bank has loans and other transactions with its subsidiaries and affiliates, and with certain directors, officers, stockholders and their related interest (DOSRI). These loans and other transactions are in accordance with the Bank's policy and are regularly reviewed by the Related Party Transaction Committee to ensure that they are conducted at arm's length basis, at fair market prices and upon terms not less favorable to Bank than those offered to others and in compliance with all regulatory requirements. Related party transactions are presented to the stockholders during the annual stockholders' meeting for ratification.

Transactions with related parties and with certain DOSRI are discussed in Note 24 of the Audited Financial Statements (**Exhibit 2**).

Trademarks, Licenses, Franchises, etc.

CBS is operating under a thrift banking license obtained in 1999. Over the years, CBS has registered its corporate brand, slogan and product trademarks with the Intellectual Property Office (IPO) of the Philippines – Bureau of Trademarks, as follows:

- The Bank is operating under a thrift banking license per MB Resolution No. 512 dated April 21, 1999.
- The Bank is the registered owner of the logo of CBS and the trademarks: *Easi-Save, Easi-Checking, Easi-Earn, Easi-Funds, Easi-Drivin', Easi-Livin', Easi-Financin' and CBS Easi-Padala*.
- In 2015, the Bank obtained a bancassurance license from BSP.
- The Bank launched its new tagline, "Easy Banking For You" in 2017 and submitted with the IPO the trademark application for "Easy Banking For You" and Easi-APDS Loan.
- The Bank also filed applications for tradenames *'Plantersbank'* and *'Planters Development Bank'*.

Need for Any Government Approval of Principal Products or Services

The Bank's business activities are regulated by the government agencies such as BSP, Philippine Deposit Insurance Corporation (PDIC) and SEC. Existing products and services are within the scope allowed under the Bank's regulatory licenses.

Effects of Existing or Probable Governmental Regulations

The Bank has strictly complied with the BSP requirements in terms of reserve, liquidity position, capital adequacy, limits on loans exposure, provision for losses and other reportorial requirements.

Amount spent on research and development activities

There are no major expenses on research and development activities. Expenses incurred related to these activities are included into the regular business expense of the Bank.

Costs and effects of compliance with environmental laws

Not applicable

Total Number of Employees

Below is the breakdown of the manpower complement in 2018 as well as the projected headcount for 2019:

	2018 Actual			2019 Projected		
	Officers	**Staff**	**Total**	**Officers**	**Staff**	**Total**
Marketing	405	89	494	440	99	539
Operations	404	841	1,245	409	842	1,251
Support	262	469	731	262	469	731
Technical	25	21	46	30	26	56
Grand Total	**1,096**	**1,420**	**2,516**	**1,141**	**1,436**	**2,577**

CBS ended the year 2018 with a total manpower of 2,516 employees. The number increased by 8.2% from the previous year (2017 manpower: 2,326). Of the total headcount, 43.6% are officers and 56.4% are staff. The expansion of ADPS' business largely contributed to the increase.

The Bank has a CBS Training Academy – the central facility for training and development of the Bank's professionals in line with the *Easy Banking for You* service promise of the Bank. CBS Academy boasts a full-scale mock-up CBS branch, a lecture hall and several conference rooms. This provides employees with key courses and training programs to match various stages of their careers, including refresher courses and advanced skills training, based on their specific areas of expertise. These courses are aimed at giving CBS officers and staff a sound grounding in core banking, as well as the development of soft skills. These include various aspects of financial services procedures, legal, compliance and risk management, leadership and team development, among other areas.

As part of the Bank's institutional-building program, the Human Resources Division has also unveiled the CBS Employee Recognition Program, to motivate, recognize and reward the movers and performers among its junior officers and staff, especially those who provide the valuable back office support to the marketing frontline.

The China Bank Savings Employees Union has an existing Collective Bargaining Agreement for the period 01 November 2014 to 31 October 2019.

Risk Management Framework

The Bank is exposed to all business risks that confront all banks in general, such as credit, market, interest rate, liquidity, legal, regulatory and operational risk. The Bank's risk management structure and process that serve as mechanism to identify, assess and manage these risks are further discussed in Note 5 of the Audited Financial Statements (**Exhibit 2**).

Disclosure on Capital Structure and Capital Adequacy

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

Capital Fundamentals
The Bank can only achieve sustainable growth by maintaining strong capital fundamentals. Major business initiatives with the appropriate capital planning were undertaken in coordination with the Parent Bank which also took into consideration constraints and changes in the regulatory environment. This was necessary to ensure that the Bank's commercial objectives are equally aligned with its ability to maintain an adequate capital position. The Board of Directors and Senior Management recognize that a balance should be achieved with respect to the Bank's earnings outlook vis-à-vis capital fundamentals that can take advantage of growth opportunities while increasing the Bank's ability to absorb shocks.

Risk-based capital components, including deductions for 2018 and 2017 are shown below:

	2018	2017
Common Equity Tier (CET) 1 Capital:		
Paid-up common stock	**₱10,541,414,900**	₱10,041,414,900
Additional paid-in capital	**485,349,012**	490,349,012
Retained earnings	**(1,498,527,617)**	(1,363,146,143)
Undivided profits	**110,566,997**	(78,311,990)
Other comprehensive income	**(181,054,439)**	(130,966,080)
Unsecured DOSRI	**(7,579,743)**	(16,481,453)
Deferred tax assets	**(774,746,619)**	(473,746,619)
Goodwill	**(119,621,347)**	(119,621,347)
Other intangible assets	**(824,883,167)**	(834,987,992)
Other equity investment	**(2,192,208)**	(2,192,208)
Other capital adjustments	**(224,890,258)**	–
Defined benefit pension fund liabilities	**94,177,510**	–
Total CET 1 Capital	**7,598,013,021**	7,512,310,080
Additional Tier 1 Capital	**2,164,200**	2,164,200
Total Tier 1 Capital	**7,600,177,221**	7,514,474,280
Tier 2 Capital:		
Appraisal increment reserve	**122,691,160**	140,429,164
General loan Loss provision	**556,286,617**	560,374,699
Total Tier 2 Capital	**678,977,777**	700,803,863
Total Qualifying Capital	**₱8,279,154,998**	₱8,215,278,143

Risk-based capital ratios:

	2018	2017
CET 1 Capital	**₱9,457,748,853**	₱8,959,339,700
Less regulatory adjustments	**(1,859,735,832)**	(1,447,029,620)
Total CET 1 Capital	**7,598,013,021**	7,512,310,080
Additional Tier 1 Capital	**2,164,200**	2,164,200
Total Tier 1 Capital	**7,600,177,221**	7,514,474,280
Tier 2 Capital	**678,977,777**	700,803,863
Total Qualifying Capital	**8,279,154,998**	8,215,278,143
Risk Weighted Assets	**₱73,010,289,143**	₱71,852,728,016
CET 1 Capital Ratio	**10.41%**	10.46%
Capital Conservation Buffer	***4.41%***	*4.46%*
Tier 1 Capital Ratio	**10.41%**	10.46%
Total Capital Adequacy Ratio	**11.34%**	11.43%

The regulatory Basel III qualifying capital of the Bank consists of Common Equity Tier 1 capital (going concern capital), which comprises paid-up common stock, additional paid-in capital, deposit for common stock subscription, retained earnings, undivided profits and other comprehensive income less required deductions such as unsecured credit accommodations to DOSRI, deferred tax assets, goodwill, other intangible assets, and other equity investment. The other component of regulatory capital is Tier 2 capital (gone-concern capital), which includes general loan loss provision and appraisal increment reserve. A capital conservation buffer of 2.50% comprised of CET 1 capital is likewise imposed in the Basel III capital ratios.

The capital requirements for Credit, Market and Operational Risk are listed below:

	2018	2017
Credit Risk	**₱66,325,081,525**	₱65,659,735,979
Market Risk	**144,400,501**	108,709,044
Operational Risk	**6,540,807,117**	6,084,282,993
Total Capital Requirements	**₱73,010,289,143**	₱71,852,728,016

Credit Risk-Weighted Assets

On-balance sheet exposures, net of specific provisions and not covered by CRM:

	As of December 31, 2018		As of December 31, 2017	
	Exposures, net of Specific Provisions	**Exposures not Covered by CRM**	Exposures, net of Specific Provisions	Exposures not Covered by CRM
Cash on Hand	**₱1,811,652,091**	**₱1,811,652,091**	₱1,482,164,687	₱1,482,164,687
Checks and Other Cash Items	**4,323,154**	**4,323,154**	19,008,155	19,008,155
Due from BSP	**6,796,829,056**	**6,796,829,056**	6,772,976,958	6,772,976,958
Due from Other Banks	**1,927,413,699**	**1,927,413,699**	1,856,049,625	1,856,049,625
Available-for-Sale Financial Assets	**1,094,646,205**	**1,094,646,205**	2,201,334,071	2,201,334,071
Held-to-Maturity Financial Assets	**8,788,706,247**	**8,788,706,247**	3,544,971,776	3,544,971,776
Unquoted Debt Securities Classified as Loans	**–**	**–**	105,100,581	105,100,581
Loans and Receivables	**64,303,231,754**	**58,041,052,436**	62,237,031,657	57,325,518,423
Loans and Receivables arising from Repurchase Agreements	**3,001,266,667**	**3,001,266,667**	1,404,604,067	1,404,604,067
Sales Contract Receivables	**851,756,198**	**851,756,198**	744,225,294	744,225,294
Real and Other Properties Acquired	**2,818,569,165**	**2,818,569,165**	2,920,242,082	2,920,242,082
Other Assets	**4,064,243,502**	**4,064,243,502**	4,072,269,198	4,072,269,198
Total On-Balance Sheet Assets	**₱95,462,637,738**	**₱89,200,458,420**	₱87,359,978,151	₱82,448,464,917

Credit equivalent amount for off-balance sheet items, broken down by type of exposures, are as follows:

	As of December 31, 2018		As of December 31, 2017	
	Notional Principal	**Credit Equivalent**	Notional Principal	Credit Equivalent
Direct credit substitutes	**₱–**	**₱–**	₱–	₱–
Transaction-related contingencies	**148,988,582**	**74,494,291**	212,977,965	106,488,983
Trade-related contingencies arising from movement of goods	**26,558,000**	**5,311,600**	164,204,000	32,840,800
Other commitments (which can be unconditionally cancelled at any time by the bank without prior notice)	**536,351,819**	**–**	2,420,117,424	–
Total Notional Principal and Credit Equivalent Amount	**₱711,898,401**	**₱79,805,891**	₱2,797,299,389	₱139,329,783

There is no credit equivalent amount for counterparty credit risk in the trading books as the Bank has no derivative exposures.

The following credit risk mitigants are used in the December 2018 capital adequacy ratio (CAR) report:

- Guarantees by Government Owned and Controlled Corporation (GOCC), which guarantees are counter-guaranteed by the Philippine National Government;
- Holdout vs. Peso deposit / Deposit substitute;
- Holdout vs. FCDU deposit; and
- Assignment / Pledge of Government Securities.

Total credit exposure after risk mitigation, broken down by type of exposures, risk buckets, as well as those that are deducted from capital:

	As of December 31, 2018		
	On-balance sheet	Off-balance sheet	Total
Below 100 %	**₱36,006,541,823**	**₱–**	**₱36,006,541,823**
100% and above	**53,193,916,598**	**79,805,891**	**53,273,722,489**
Total	**₱89,200,458,421**	**₱79,805,891**	**₱89,280,264,312**

	As of December 31, 2017		
	On-balance sheet	Off-balance sheet	Total
Below 100 %	₱29,872,652,810	₱–	₱29,872,652,810
100% and above	52,575,812,107	139,329,783	52,715,141,890
Total	₱82,448,464,917	₱139,329,783	₱82,587,794,700

Total credit risk-weighted assets, broken down by type of exposures, are as follows:

	As of December 31, 2018		
	On-balance sheet	Off-balance sheet	Total
Below 100 %	**₱10,679,463,161**	**₱–**	**₱10,679,463,161**
100% and above	**55,565,812,472**	**79,805,891**	**55,645,618,363**
Covered by CRM	**–**	**–**	**–**
Excess GLLP	**–**	**–**	**–**
Total	**₱66,245,275,633**	**₱79,805,891**	**₱66,325,081,524**

	As of December 31, 2017		
	On-balance sheet	Off-balance sheet	Total
Below 100 %	₱10,643,772,404	₱–	₱10,643,772,404
100% and above	54,876,633,792	139,329,783	55,015,963,575
Covered by CRM	–	–	–
Excess GLLP	–	–	–
Total	₱65,520,406,196	₱139,329,783	₱65,659,735,979

Standardized credit risk weights were used in the credit assessment of asset exposures. Third party credit assessments were based on ratings by Standard & Poor's, Moody's and Fitch, while PhilRatings were used on peso-denominated exposures to Corporates.

Market Risk-Weighted Assets
The Standardized Approach is used in the Bank's market risk-weighted assets.

	2018	2017
Interest Rate Exposures		
Specific Risk	**₱–**	₱557,219
General Market Risk		
PhP	**–**	631,112
USD	**–**	1,305,982
Total Capital Charge	**–**	2,494,313
Adjusted Capital Charge	**–**	3,117,891
Risk-Weighted Interest Rate Exposures	**–**	31,178,908
Risk-Weighted Equity Exposures	**–**	–
Foreign Exchange Exposures		
Total Capital Charge	**11,552,040**	6,202,411
Adjusted Capital Charge	**14,440,050**	7,753,014
Risk-Weighted Foreign Exchange Exposures	**144,400,501**	77,530,136
Risk-Weighted Options	**–**	–
Total Market Risk-Weighted Assets	**₱144,400,501**	₱108,709,044

Operational, Legal, and Other Risks
For Operational Risk, the exposure of the Bank is profiled using a number of methodologies which also include a scenario analysis exercise as part of the internal capital adequacy assessment process (ICAAP) to validate if the computed capital requirement using the Basic Indicator Approach (BIA) is enough to cover the assessed exposure under plausible scenario and worst case scenario. For the 2019 ICAAP submission with the BSP, the Bank allocated the amount of about ₱654.1 million as capital for Operational Risk which is more than adequate to cover the exposure from its scenario analysis exercise. The result of the operational risk scenario assessment is estimated at ₱35.6 million under plausible scenario and ₱423.0 million in a worst-case scenario.

Tools such as the Risks and Controls Self-Assessment (RCSA), the analysis of historical Loss Reports and the monitoring of Key Risk Indicators (KRI) further allow Risk Management to identify high risk areas, loss drivers, and trends which can be acted upon by Management to prevent material failures in its processes, people, systems, and resiliency measures against external events. These results are periodically reported to

Management and cover all aspects of the business from core operating capabilities of the units, all products and services, outstanding legal cases, and even its sales and marketing practices.

For legal risk, the Bank assessed the status of pending legal cases with the objective of identifying those subject to final resolution in the next twelve months and with high probability for the Bank to lose the legal proceedings.

Operational Risk-Weighted Assets
The Bank's Operational Risk Weighted Assets under the Basic Indicator Approach is ₱6.5 billion and ₱6.1 billion in December 2018 and 2017, respectively.

Internal measurement of interest rate risk in the banking book
The Bank's interest rate risk (IRR) originates from its holdings of interest rate sensitive assets and interest rate sensitive liabilities. Internally, the Earnings-at-Risk (EaR) method is used to determine the effects of adverse interest rate change on the Bank's interest earnings. The Bank's loans is assumed affected by interest rate movements on its repricing date for floating rates and on its maturity for fixed rates. Demand and savings deposits, on the other hand, are generally not interest rate sensitive. Provided in the table below are the approximate reduction in annualized interest income of a 100bps adverse change across the PhP and USD yield curves.

Earnings-at-Risk In ₱ millions	**2018**	2017
PhP IRR Exposures	**(₱185)**	(₱116)
USD IRR Exposures	**(17)**	(14)

Item 2. PROPERTIES

CBS whose principal office is located at CBS Building, 314 Sen. Gil Puyat Avenue, Makati City, owns several properties situated in various locations in Metro Manila and provinces.

The Bank owns various properties which are used in its banking business and acquires, by way of foreclosure, dacion en pago and other lawful means, various properties to satisfy unpaid obligations due to it and disposes of these properties on a regular basis. Moreover, it leases several properties principally for the use of its expanded branch network.

a. Bank-Owned Properties

NO	DESCRIPTION	LOCATION
1	Angeles City Branch Land & Building - CBS Branch	Rizal Street, Brgy. Lourdes Sur, Angeles City, Pampanga
2	Angeles City Property Land & Building - Warehouse	Asuncion Street corner Miranda Street Extension Brgy. San Nicholas, Angeles City, Pampanga
3	Balibago Sta. Rosa Land & Building - CBS Branch	National Highway corner R. Lazaga Street, Brgy. Balibago, Sta. Rosa City, Laguna
4	Batangas Branch Land & Building - CBS Branch	P. Burgos Street, Poblacion, Batangas City
5	BF Resort Property - Leased to China Bank Branch	BF Resort Drive corner Gloria Diaz Avenue, BF Resort Village, Brgy. Pamplona, Las Piñas City

NO	DESCRIPTION	LOCATION
6	Biñan Branch Land & Building - CBS Branch and Warehouse	National Road, Brgy. San Vincente, Biñan City, Laguna
7	Cagayan De Oro Property - Leased to China Bank Branch	R.N. Abejuela Street, Brgy. 5, South Divisoria, Cagayan de Oro City
8	Calamba Property - Vacant	No. 5-A-1, Brgy. I Poblacion Crossing, Calamba City, Laguna
9	Caloocan Property - Leased to China Bank Branch	MacArthur Highway, Brgy. 78, Kalookan City
10	CBS Buendia Land & Building - Head Office	314 Sen. Gil Puyat Avenue, Brgy. Bel Air, Makati City
11	Dau Branch Land & Building - CBS Branch and On Lease	MacArthur Highway, Brgy. Dau, Mabalacat City, Pampanga
12	España Property - Leased to China Bank Branch	España Boulevard corner Valencia Street, Sampaloc District, Manila
13	General Santos Property - Leased to China Bank Branch	M. Roxas Avenue corner Lapu-Lapu Street, Brgy. Dadiangas East, General Santos City
14	Las Piñas Manuela Property - Leased to China Bank Branch	Alabang Zapote Road corner Philamlife Avenue, Brgy. Pamplona Dos, Las Piñas City
15	Masantol Branch Land & Building - CBS Branch	Apalit-Macabebe-Masantol Road, Brgy. Poblacion, Pampanga
16	Orani Branch Land & Building - CBS Branch and On Lease	National Highway corner Torres Bugallon St., Brgy. Balut, Orani, Bataan
17	Orani Branch Land & Building - Vacant	National Road, Brgy. Tenejero, Poblacion, Orani, Bataan
18	Ortigas Property - Leased to China Bank Branch	Unit A Padilla Building, Ortigas Center, Brgy. San Antonio, Pasig City
19	Philam Property - Leased to China Bank Branch	No. 8 East Lawin Drive, Philam Homes, Brgy. Philam, Quezon City
20	Urdaneta Property - On Lease	Alexander Street corner Belmonte Street, Brgy. Poblacion, Urdaneta City, Pangasinan
21	VGP Building (Ground, Mezzanine, 2nd, 3rd, 7th & 8th Floor) - CBS Office and Leased to China Bank Office	VGP Center, No. 6772 Ayala Avenue, Makati City

All bank-owned properties are free from any and all liens and encumbrances. There are no restrictions on titles and the Bank does not have any contractual commitments for acquisition of properties.

b. Leased Properties

NO	BRANCH	Location	TERM (in years)	CONTRACT PERIOD	
				FROM	TO
1	ACACIA ESTATES - SAVEMORE	Acacia Taguig Town Center, Acacia Estates, Ususan, Taguig City	2	27-Dec-17	26-Dec-19
2	ADRIATICO - HYPERMARKET	M.H. Del Pilar, Adriatico, Malate, Manila	2	1-Aug-17	31-Jul-19
3	ALABANG HILLS	G/F Alabang Comm'l Citi Arcade, Don Jesus Boulevard, Alabang, Muntinlupa City	5	16-Aug-17	15-Aug-22
4	AMANG RODRIGUEZ - SAVEMORE	Savemore Market G/F GBU Building, Amang Rodriguez Avenue corner Evangelista Street, Santolan, Pasig City	2	27-Dec-17	26-Dec-19

NO	BRANCH	Location	TERM (in years)	CONTRACT PERIOD	
				FROM	TO
5	AMORANTO AVENUE	Unit 101 R Place Building, 255 N.S. Amoranto Sr. Avenue, Quezon City	5	15-Nov-16	14-Nov-21
6	ANGELES - SAN JOSE	Sto. Rosario Street, San Jose, Angeles City	10	4-Jan-10	4-Jan-20
7	ANGONO	Manila East Road corner Don Benito Street, Brgy. San Roque, Angono, Rizal	7	1-Jun-16	31-May-23
8	ANONAS - SAVEMORE	Maamo Street, Road Lot 30, V. Luna and Anonas Extension, Sikatuna Village, Quezon City	2	30-Jul-17	29-Jul-19
9	ANTIPOLO	E.M.S. Building, Ground Floor L1 M.L. Quezon, Corner F. Dimanlig Street, Antipolo City	10	1-May-15	30-Apr-25
10	ARANETA CENTER COD - SAVEMORE	Gen. Romulo Street, Araneta Center, Cubao, Quezon City	1	24-May-18	23-May-19
11	ARAYAT	Cacutud, Arayat, Pampanga	5	16-Nov-16	15-Nov-21
12	BACLARAN	3751 Quirino Avenue corner Sta. Rita Street, Baclaran, Parañaque City	7	5-Apr-16	4-Apr-23
13	BACOLOD	SKT Saturn Building, Lacson corner Rizal Street, Bacolod City	10	1-Aug-10	31-Jul-20
14	BACOOR - MOLINO	Avon Building, 817 Molino Road, Molino III, Bacoor, Cavite	7	1-Oct-14	30-Sep-21
15	BACOOR - TALABA	Unit 103 Bacoor Town Center, E. Aguinaldo Highway, Talaba VII, Bacoor City, Cavite	10	1-Feb-17	31-Jan-27
16	BAGUIO - SESSION AND SALES OFFICE	B 108 Lopez Building, Session Road Corner Assumption Road, Baguio City	5	17-Jun-16	16-Jun-21
17	BALAGTAS	Ultra Mega Supermarket, MacArthur Highway, Burol 1st, Balagtas, Bulacan	5	6-Mar-17	5-Mar-22
18	BALANGA - DM BANZON	D.M. Banzon Avenue corner Sto. Domingo Street,Balanga, Bataan	5	15-Oct-17	14-Oct-22
19	BALIBAGO	MacArthur Highway, Balibago, Angeles City	7	1-Jan-16	31-Dec-22
20	BALIUAG	Plaza Naning, Baliuag, Bulacan	3	26-May-16	25-May-19
21	BANAWE	No. 247-249 Banawe Street, Sta. Mesa Heights, Barangay Lourdes, Quezon City	10	22-Nov-12	21-Nov-22
22	BANGKAL	1661 Evangelista Street, Bangkal, Makati City	10	21-Jun-12	21-Jun-22
23	BINONDO - JUAN LUNA	694-696 Juan Luna Street, Binondo, Manila	10	16-Sep-13	15-Sep-23
24	BLUMENTRITT	Blumentritt near Oroquieta Street , Sta. Cruz Manila	10	28-Mar-17	27-Mar-27
25	BONI AVENUE	Raymond Tower Boni, 615 Boni Avenue, Plainview, Mandaluyong City	10	1-Sep-17	31-Aug-27
26	CABANATUAN - BAYAN	Burgos Avenue, Cabanatuan City	7	1-Mar-15	28-Feb-22
27	CAGAYAN DE ORO	Sergio Osmeña Street, Cogon District, Cagayan De Oro City	12	1-Nov-10	31-Oct-22
28	CALAMBA	Hk Bldg II, National Highway, Brgy. Halang, Calamba, Laguna	5	1-Nov-17	31-Oct-22
29	CAVITE CITY	485 P. Burgos Street, Barangay 34, Caridad, Cavite City	7	31-Oct-14	30-Oct-21
30	CEBU - LAHUG	G/F Skyrise IT Building, Brgy. Apas, Lahug, Cebu City	8	1-Jun-17	31-May-25
31	CEBU - MANDAUE	A. Del Rosario Avenue, Mantuyong, Mandaue City, Cebu	10	1-Aug-11	31-Jul-21
32	CEBU - MANGO	JSP Mango Realty Building corner General Maxilom Avenue And Echavez Street, Cebu City	5	1-Jan-18	31-Dec-22
33	CEBU MANDAUE - BASAK	Cebu North Road, Basak, Mandaue City	5	1-Aug-18	31-Jul-23

NO	BRANCH	Location	TERM (in years)	CONTRACT PERIOD	
				FROM	TO
34	COMMONWEALTH AVENUE	Unit 101, Jocfer Building, Commonwealth Avenue, Brgy. Holy Spirit, Quezon City	7	16-Apr-16	15-Apr-23
35	CUBAO	Fernandina 88 Condominium 222 P. Tuazon Avenue, Araneta Center, Cubao, Quezon City	7	1-Jul-15	30-Jun-22
36	DAGUPAN	G/F Lyceum-Northwestern University, Tapuac District, Dagupan City	10	2-Nov-10	1-Nov-20
37	DARAGA	Rizal Street, Brgy. San Roque, Daraga, Albay, Bicol	10	16-Jun-11	15-Jun-21
38	DASMARIÑAS	Veluz Plaza Building, Zone 1 Aguinaldo Highway, Dasmarinas, Cavite	10	1-Apr-16	31-Mar-26
39	DAVAO	Bry. 9-A Poblacion District, E. Quirino Avenue, Davao City	10	1-Jan-11	31-Dec-20
40	DAVAO - RECTO	C.Villa Abrille Building, C.M. Recto Avenue, Davao	5	1-Aug-18	31-Jul-23
41	DEL MONTE	392 Del Monte Avenue, Barangay Sienna, Quezon City	10	1-Apr-18	31-Mar-28
42	DIVISORIA	3/F Dragon 8 Shopping Center, C.M. Recto Avenue corner Dagupan Street, Divisoria, Manila	10	17-Mar-16	16-Mar-26
43	DOLORES	STCI Building, MacArthur Highway, Brgy. San Agustin,City Of San Fernando, Pampanga	10	1-Jul-15	30-Jun-25
44	E. RODRIGUEZ SR. - HEMADY	Hemady Square, E. Rodriguez Avenue Corner Dona Hemady Street, Quezon City	7	1-Sep-14	31-Aug-21
45	ESPAÑA - SUN MALL	G/F Sun Mall, Espana Boulevard Corner Mayon St., Brgy. Sta. Teresita, Quezon City	5	1-Sep-14	31-Oct-19
46	FELIX HUERTAS - JT CENTRALE	Unit 103, Ground Floor, JT Centrale Mall, No. 1686 V. Fugoso St. Corner Felix Huertas St., Sta. Cruz, Manila	7	16-Dec-16	15-Dec-23
47	FILINVEST CORPORATE CITY	BC Group Building, East Asia Drive, near corner Commerce Avenue, Filinvest Corporate City, Alabang, Muntinlupa City	5	1-Aug-17	31-Jul-22
48	FTI - TAGUIG - HYPERMARKET	Dbp Avenue, Food Terminal Inc., Western Bicutan, Taguig	5	2-May-14	1-May-19
49	G.ARANETA AVENUE	195 G. Araneta Avenue, Quezon City	7	15-Mar-17	14-Mar-24
50	GENERAL SANTOS AND SALES OFFICE	Go Chay Ching Building, I.Santiago Boulevard, General Santos City	7	1-Apr-13	21-Mar-20
51	GIL PUYAT-BAUTISTA	Lot 25 Blk.74 Bautista Street corner Buendia Avenue, Makati City	7	1-Jul-17	30-Jun-24
52	GREENHILLS - ORTIGAS AVE.	G/F VAG Building Ortigas Avenue, Greenhills, San Juan City	5	1-Dec-15	30-Nov-20
53	GREENHILLS - WILSON	219 Wilson Street, Greenhills, San Juan City	8	16-Oct-17	15-Oct-22
54	GUAGUA	Plaza Burgos, Guagua, Pampanga	10	1-Jan-13	31-Dec-23
55	GUIGUINTO-RIS	RIS-5 Industrial Complex, 68 Mercado Street, Tabe, Guiguinto, Bulacan	10	25-Sep-17	24-Sep-27
56	ILOILO - JARO	Lopez Jaena corner EL 98 Streets, Jaro, Iloilo	10	1-May-13	30-Apr-23
57	ILOILO - IZNART	Golden Commercial Building, Iznart, Iloilo City	10	1-Feb-18	31-Jan-28
58	IMUS - TANZANG LUMA & Sales Office	OLMA Building, Gen. Emilio Aguinaldo Highway, Tanzang Luma, Imus, Cavite	7	26-Nov-13	25-Nov-20
59	KALIBO - CITYMALL	F. Quimpo Street connecting Mabini and Toting Reyes Streets, Kalibo, Aklan	5	1-Jan-17	31-Dec-22
60	KALOOKAN	Augusto Building, Rizal Avenue, Grace Park, Kalookan City	8	16-Aug-17	15-Aug-25
61	KALOOKAN - MABINI	AJ Building, 353 A. Mabini Street, Kalookan City	7	1-Jan-17	31-Dec-23

NO	BRANCH	Location	TERM (in years)	CONTRACT PERIOD	
				FROM	TO
62	KATIPUNAN AVENUE	One Burgundy Condominium, Katipunan Avenue, Quezon City	7	16-Feb-16	15-Feb-23
63	LAGRO	Ground Floor Bonanza Building, Quirino Highway, Greater Lagro, Novaliches, Quezon City	7	9-Sep-16	8-Sep-23
64	LAGUNA - STA. CRUZ	E & E Building, Pedro Guevarra Avenue, Sta. Cruz, Laguna	7	8-Nov-14	7-Nov-21
65	LAOAG CITY	G/F LC Square Building, J.P. Rizal corner M.V. Farinas Streets., Laoag City, Ilocos Norte	7	1-Jul-15	30-Jun-22
66	LAS PINAS - ALMANZA UNO	Alabang Zapote Road, Almanza Uno, Las Piñas City	5	1-Sep-17	31-Aug-22
67	LEGAZPI BRANCH & SALES OFFICE	F. Imperial Street, Barangay Bitano, Legazpi City	10	1-Mar-18	28-Feb-27
68	LINGAYEN	Unit 5-6, The Hub - Lingayen Building, National Road, Poblacion, Lingayen, Pangasinan	10	1-Jul-18	30-Jun-28
69	LIPA - CM RECTO	C.M. Recto Avenue, Lipa City	10	5-Jul-10	4-Jul-20
70	LOS BAÑOS - CROSSING	Batong Malake, Los Baños, Laguna	2	1-Jan-18	31-Dec-20
71	LUCENA	Cor. Merchan & Evangelista Streets, Lucena City	5	16-Sep-18	15-Sep-23
72	MACABEBE	Poblacion, Macabebe, Pampanga	10	16-Jun-17	15-Jun-27
73	MAKATI - CHINO ROCES	2176 Chino Roces Avenue, Makati City	10	1-Oct-13	30-Sep-23
74	MAKATI - J.P. RIZAL	882 J.P. Rizal Street, Makati City	10	1-Sep-13	31-Aug-23
75	MALABON - FRANCIS MARKET - SAVEMORE	Francis Market, Governor Pascual corner M.H. Del Pilar Streets, Malabon	1.1	6-Feb-17	5-Feb-19
76	MALOLOS	Canlapan Street, Sto. Rosario, Malolos City, Bulacan	5	1-Jul-17	30-Jun-22
77	MALOLOS - CATMON	Paseo Del Congreso, Catmon Malolos City, Bulacan	5	6-Apr-15	5-Apr-20
78	MANDALUYONG	New Panaderos Extension, Mandaluyong City	10	1-Mar-12	31-May-22
79	MANDALUYONG - SHAW BLVD.	G/F 500 Shaw Tower, 500 Shaw Boulevard, Mandaluyong City	5	1-Dec-18	30-Nov-23
80	MANILA - STA. ANA - SAVEMORE	Savemore, Pedro Gil Street, Sta. Ana, Manila	5	5-Feb-16	4-Feb-21
81	MARIKINA	33 Bayan-Bayanan Avenue, Brgy. Concepcion 1, Marikina City	10	24-Feb-10	23-Feb-20
82	MARIKINA - GIL FERNANDO AVENUE	CTP Building Gil Fernando Avenue, Marikina City	5	1-Jan-18	31-Dec-22
83	MCKINLEY HILL	U-B Commerce & Industry Plaza, Mckinley Towncenter, Fort Bonifacio, Taguig City	3	1-Jul-18	30-Jun-19
84	MEYCAUAYAN	Mancon Building, Calvario, Meycauayan, Bulacan	7	1-Nov-16	31-Oct-23
85	MOUNT CARMEL	Km 78 MacArthur Highway, Brgy. Saguin,San Fernando City, Pampanga	10	20-Jul-15	19-Jul-25
86	MUÑOZ - JACKMAN	Jackman Plaza, G/F, UG14 to UG18 EDSA Muñoz , Brgy. R. Magsaysay, Quezon City	7	1-Jun-17	31-May-24
87	NAGA	Rl Building, Panganiban Street, Lerma, Naga City	10	16-Jul-12	15-Jul-22
88	NEPA - Q. MART - SAVEMORE	Rose Building, 770 St. EDSA and K-G Street, West Kamias, Quezon City	2	30-Jul-17	1-Jul-19
89	NINOY AQUINO AVE.	Gf Skyfreight Building Ninoy Aquino Avenue corner Pascor Drive,Parañaque City	10	1-Jun-12	31-May-22
90	NOVA PLAZA MALL - SAVEMORE	Nova Plaza Mall, Quirino Highway corner Ramirez Street, Novaliches Proper, Quezon City	2	10-Sep-17	9-Sep-19

NO	BRANCH	Location	TERM (in years)	CONTRACT PERIOD	
				FROM	TO
91	OLONGAPO	G/F City View Hotel, 25 Magsaysay Drive, New Asinan, Olongapo City	5	25-Oct-17	24-Oct-22
92	ORTIGAS - CITRA	Unit B1, OMM Citra Building, San Miguel Avenue, Ortigas Center, Pasig City	1	24-Mar-18	23-Mar-19
93	ORTIGAS CENTER	G/F Hanston Square, San Miguel Avenue, Ortigas Center, Pasig City	5	1-Feb-18	31-Jan-21
94	PARAÑAQUE - BETTER LIVING	90 Doña Soledad Avenue, Better Living Subd, Bicutan, Parañaque City	5	1-Oct-18	30-Sep-23
95	PARAÑAQUE - BF HOMES	284 Aguirre Avenue, B.F. Homes, Parañaque City	10	1-Jul-13	30-Jun-23
96	PARANAQUE - JAKA PLAZA	Jaka Plaza Center, Dr. A. Santos Avenue, Sucat Parañaque City	7	19-Apr-16	18-Apr-23
97	PARAÑAQUE - LA HUERTA	Quirino Avenue, La Huerta, Parañaque City	15	1-Oct-13	30-Sep-28
98	PARAÑAQUE - MOONWALK	Kassel Residence Building, E. Rodriguez Avenue, Moonwalk, Parañaque City	7	17-Apr-15	16-Apr-22
99	PASAY - LIBERTAD	533 Cementina Street, Libertad, Pasay City	7	20-Feb-17	19-Feb-24
100	PASIG - CANIOGAN	Unit A, Ksn Building, C. Raymundo Avenue, Caniogan, Pasig City	7	15-Jun-16	14-Jun-23
101	PASIG - MUTYA	Richcrest Building, Caruncho corner Market Avenue, San Nicolas, Pasig City	10	16-Jul-17	15-Jul-27
102	PASIG - PADRE BURGOS	114 Padre Burgos Street, Kapasigan, Pasig City	5	16-Jun-18	15-Jun-23
103	PASO DE BLAS	Andoks Bldg.629 Gen. Luis Street, Paso De Blas, Valenzuela City	5	15-Jan-16	15-Jan-21
104	PATEROS	500 Elisco Road, Sto. Rosario, Pateros City	10	1-Jul-10	30-Jun-20
105	PATEROS - ALMEDA	120 M. Almeda Street, Pateros, Metro Manila	5	30-Aug-17	30-Aug-22
106	PEDRO GIL	LKE Building, Pedro Gil corner PasajeRosario, Paco, Manila	7	1-Sep-18	31-Aug-25
107	PLARIDEL	Banga, Plaridel, Bulacan	10	1-Sep-12	31-Aug-22
108	PLAZA - STA. CRUZ (former Avenida-Savemore)	MBI Building, Unit 103, Plaza Sta. Cruz, Sta. Cruz, Manila	10	1-Apr-16	31-Mar-26
109	PORAC	Cangatba, Porac, Pampanga	5	14-Dec-15	13-Dec-20
110	QUEZON AVENUE and Sales Office	G/F GJ Building, 385 Quezon Avenue, Quezon City	10	1-Nov-18	31-Oct-28
111	QUEZON AVENUE - PALIGSAHAN	1184-A Ben-Lor Building, Brgy. Paligsahan,Quezon City	5	16-Apr-16	15-Apr-21
112	QUIAPO - ECHAGUE	Carlos Palanca corner P. Gomez Street, Quiapo, Manila	10	1-Aug-18	31-Jul-28
113	QUIAPO - QUEZON BOULEVARD	416 Quezon Boulevard, Quiapo, Manila	7	5-Feb-16	4-Feb-23
114	RADA	HRC Center, 104 Rada Street, Legaspi Village, Makati City	5	16-Jun-16	15-Jun-21
115	ROOSEVELT	342 Roosevelt Avenue, Quezon City	7	15-Jun-17	31-May-24
116	ROXAS AVE. CAPIZ -CITYMALL	Citymall - Roxas Avenue, Brgy. VI, Roxas City, Capiz	5	14-Nov-18	13-Nov-23
117	SAN FERNANDO	KHY Trading Building, San Fernando-Gapan Road, San Fernando City, Pampanga	10	16-Jul-10	15-Jul-20
118	SAN FERNANDO - BAYAN	JSL Building, Consunji Street, City Of San Fernando, Pampanga	7	1-Jun-18	31-May-25
119	SAN ILDEFONSO - SAVEMORE	Savemore Bldg. San Ildefonso, Poblacion, Bulacan	5	22-Jun-15	21-Jun-20

NO	BRANCH	Location	TERM (in years)	CONTRACT PERIOD	
				FROM	TO
120	SAN JOSE DEL MONTE	G/F Giron Building, Gov. Halili Avenue, Tungkong Mangga, City Of San Jose Del Monte, Bulacan	10	1-Aug-12	31-Jul-22
121	SAN JUAN	Madison Square, 264 N. Domingo Street, Barangay Pasadena, San Juan	7	1-Sep-14	31-Aug-21
122	SAN MIGUEL	Norberto Street, San Miguel, Bulacan	5	1-Dec-18	30-Nov-23
123	SAN NARCISO	Brgy. Libertad, San Narciso, Zambales	8	8-Dec-16	7-Dec-24
124	SAN PABLO - RIZAL AVE.	Rizal Avenue corner A. Fule Street, San Pablo City, Laguna	7	1-Apr-15	31-Mar-22
125	SAN PEDRO	Gen - Ber Building, National Highway Landayan, San Pedro, Laguna	10	1-Mar-12	28-Feb-22
126	SAN RAFAEL	Cagayan Valley Road corner Cruz Na Daan, San Rafael,Bulacan	7	13-Dec-15	12-Dec-22
127	SANTIAGO - VICTORY NORTE	Maharlika Highway corner Quezon Street, Victory Norte, Santiago City	5	15-Oct-17	14-Oct-22
128	SOUTH TRIANGLE	G/F Sunnymede IT Center, Quezon Avenue, Brgy. South Triangle, Quezon City	7	1-Sep-18	31-Aug-25
129	STA. ANA	Poblacion, Sta. Ana,Pampanga	10	1-Dec-18	30-Nov-23
130	STA. MARIA	Gen. Luna corner De Leon Street, Sta. Maria, Bulacan	1	8-Dec-18	7-Dec-19
131	STA. MESA	4128 Ramon Magsaysay Boulevard, Sta. Mesa, Manila	7	16-Mar-17	15-Mar-24
132	STA. RITA	San Vicente, Sta. Rita, Pampanga	10	8-Oct-12	7-Oct-22
133	STA. ROSA	Sta. Rosa-Tagaytay Highway, Sta. Rosa, Laguna	9	17-Jun-13	16-Jun-22
134	STO. TOMAS	The Lifestyle Strip, Maharlika Highway, Sto. Tomas, Batangas	5	26-Oct-15	25-Oct-20
135	SUBIC	Baraca,Subic, Zambales	10	1-Mar-09	26-Feb-19
136	TAFT - MASAGANA - SAVEMORE	Parkview Plaza, Trida Building, Taft Avenue corner T.M. Kalaw Street, Ermita, Manila	2	25-Oct-17	24-Oct-19
137	TAGAYTAY - MENDEZ - SAVEMORE	Mendez Crossing West, Tagaytay-Nasugbu Highway corner Mendez-Tagaytay Road, Tagaytay City	1.1	6-Feb-17	5-Feb-19
138	TAGUM - CITYMALL	Maharlika Highway corner Lapu-Lapu Extension, Brgy. Magugpo, Tagum City	5	1-Jun-17	31-May-22
139	TALISAY - NEGROS - SAVEMORE	Mabini Street, Zone 12, Paseo Mabini, Talisay City, Negros Occidental	5	23-May-14	22-May-19
140	TANAUAN CITY	National Highway, Brgy. Darasa, Tanuan, Batangas	10	1-Dec-18	30-Nov-28
141	TANDANG SORA	Cecileville Bldg. III, 670 Tandang Sora Avenue corner General Avenue, Tandang Sora, Quezon City	7	16-May-17	15-May-24
142	TARLAC - MAC ARTHUR	Mac Arthur Highway San Nicolas, Tarlac City	7	15-Sep-16	14-Sep-23
143	TAYTAY	C. Gonzaga Building II, Manila East Road, Taytay, Rizal	5	15-Oct-18	14-Oct-23
144	TAYUMAN	1925-1929 Rizal Avenue near corner Tayuman Street, Sta. Cruz, Manila	7	1-Oct-16	30-Sep-23
145	TIMOG	Jenkinsen Towers 80 Timog Avenue, Quezon City	7	1-May-17	30-Apr-24
146	TUGUEGARAO	Metropolitan Cathedral Parish Rectory Complex Rizal Street, Tuguegarao City	5	16-Aug-17	15-Aug-22
147	TWO E-COM	Two E-Com Center Tower B, Ocean Drive near corner Bayshore Drive, Mall Of Asia Complex, Pasay City	3	1-Nov-16	31-Oct-19
148	UN AVENUE	552 United Nations Avenue,Ermita, Manila	5	1-Feb-16	31-Jan-19

NO	BRANCH	Location	TERM (in years)	CONTRACT PERIOD	
				FROM	TO
149	URDANETA	Brgy. Nancayasan, MacArthur Highway, Urdaneta City, Pangasinan	7	24-Aug-16	23-Aug-23
150	VALENZUELA - MARULAS	92 J Ong Juanco Building, MacArthur Highway, Marulas, Valenzuela City	5	20-Oct-15	19-Oct-20
151	VIGAN	Plaza Maestro Convention Center, Florentino corner Burgos Street, Vigan City, Ilocos Sur	10	5-Jun-17	4-Jun-27
152	VISAYAS AVE.	Upper Ground Floor, Wilcon City Center Mall, Visayas Avenue, Quezon City	5	2-Mar-17	1-Mar-22
153	ZAMBOANGA - CITYMALL	CityMall, Don Alfaro Street, Tetuan, Zamboanga	5	30-Sep-15	29-Sep-20

**With average annual rental rate of ₱1.23 million.*
***These lease contracts are renewable under certain terms and conditions and include pre-termination clause.*

c. Description of Properties The Bank Intends To Acquire/Lease In The Next 12 Months

The Bank has future plans to acquire/lease properties but no description/location of properties yet at this time.

Item 3. LEGAL PROCEEDINGS

There are pending cases for and against the Bank arising from normal business activities. In the opinion of the Management and the Legal Counsel, the Bank has no material pending legal proceedings to which the Bank is a party or which any of its property is the subject.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There are no matters that will be included in the agenda of the annual stockholders' meeting that may give rise to the exercise by a dissenting stockholder of the right of appraisal and demand payment of the fair value of his shares under Section 81 of the Corporation Code (Batas Pambansa Blg. 68).

PART II. OPERATIONAL AND FINANCIAL INFORMATION

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

1. Market Information

The registrant's equity is not listed in any exchange. Below is a summary of the transfers in 2018 and 2017:

PERIOD	NO. OF SHARES TRANSFERRED	PRICE PER SHARE	
		High	Low
January 1 to March 31, 2017	No transaction		
April 1 to June 30, 2017			
July 1 to September 30, 2017			
October 1 to December 31, 2017	26,414,149	100.00	
January 1 to March 31, 2018	No transaction		
April 1 to June 30, 2018			
July 1 to September 30, 2018			
October 1 to December 31, 2018			

2. Holders

The Bank's authorized common shares (₱100 par value) amounted to 134.00 million in 2018 and 2017 and authorized preferred shares (₱100 par value) amounted to 6.00 million in 2018 and 2017. There are approximately 1,423 stockholders of the 105,414,149 subscribed common shares as of December 31, 2018. The top 20 common shareholders as of December 31, 2018 are as follows:

NAME OF STOCKHOLDER	NUMBER OF SHARES	% OF HOLDINGS
1. China Banking Corporation	104,995,882	99.60%
2. Marinduque Mining & Industrial Corp.	46,002	0.04%
3. Bogo Medellin Milling Co., Inc.	33,521	0.03%
4. Reyes, Rodrigo C.	31,205	0.03%
5. Estate of Gil J. Puyat	13,729	0.01%
6. Development Bank of the Philippines	8,418	0.01%
7. Jipson, Espinela A.	8,248	0.01%
8. Cruz, Manuel C.	6,313	0.01%
9. Puyat, Patria Gil Vda. de	5,350	0.01%
10. Newsal Esterprise	5,036	0.00%
11. Pryce Plans, Inc.	4,984	0.00%
12. Rosario, Pedro R. Del	4,938	0.00%
13. Gocolay, Antonio K.	4,587	0.00%
14. Magsaysay, Cecilia Hernaez	4,284	0.00%
15. Hernaez, Celina R.	4,283	0.00%
16. Ponce, Teofilo L.	3,852	0.00%

NAME OF STOCKHOLDER	NUMBER OF SHARES	% OF HOLDINGS
17. Estate of Bienvenido P. Buan	3,789	0.00%
18. Heirs of Florencio & Rizalina Buan	3,789	0.00%
19. Reyes, Edmundo A.	3,789	0.00%
20. Reyes, Felipe Delos, & OR Reyes, Rose M. R. De Los Reyes	3,670	0.00%

3. Dividends

There were no dividends declared in 2018 and 2017.

4. Recent Sales of Unregistered Securities or Exempt Securities

There were no unregistered securities sold by the Bank for the past three (3) years.

Item 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

1. Plan of Operation

Over the next period, the Bank will focus on increasing its customer base by developing long-term, beneficial relationships with its customers and use network of branches, sales offices and business centers to deepen its reach within its existing territories. The Bank will leverage its strong tradition of personalized service to attract borrowers from teachers, auto and homebuyers, SMEs, without neglecting its services for entry-level customers like young professionals, wage-earners and micro entrepreneurs.

To achieve the net income target over the next twelve months, the Bank's objective is to sharpen its focus on three key strategies – (a) aggressive reduction of non-performing assets (NPAs) composed of real and other properties (ROPA) and non-performing loans (NPLs); (b) shifting loan portfolio mix towards higher-yielding products; and(c) growing significant amount of current accounts/savings accounts (CASA) to reduce the cost of funds.

The Bank will pursue its aggressive reduction of NPAs through its NPL Recovery Program and ROPA Reduction Program. For 2019, the Bank will redouble its efforts to unload significant chunk of ROPA. Management has implemented a competitive pricing scheme that will make ROPA more attractive to prospects and buyers. To further facilitate ROPA sales, buyers now have the option to pay for their ROPA acquisitions via Home Loan tie-up or the Easy Payment Plans under sales contract receivables.

The second focus is on shifting the loan portfolio mix to higher-yielding products. The Bank will concentrate on growing the Smallbiz loan facility and the buses and trucks lending portfolio for SME and commercial loans. Further, the consumer and APDS loans will be the major component of CBS loan portfolio for 2019. The growth in consumer loans will mainly come from auto loans. In addition to the existing loan centers processing APDS loans, two of which were opened in late 2018, the Bank will also tap its existing branches to market and sell APDS loans. This loan product is expected to provide significant amount of interest and fee income to the Bank.

The third focus is to grow significant volume of CASA. As seen in the previous year, the cost of funds has spiraled upwards due to the 175 bps increase in BSP's monetary policy stance. The Bank's build CASA strategy will include enhancing its existing CASA products and developing new ones that will meet the specific needs of its preferred market. The Bank will re-launch and rebrand its Cash Management Services to generate less volatile CASA. To support branch-based CASA build up efforts, the Bank will also aggressively use social media to target the prospects in the areas where it operates. The reorganized Marketing Division will be working very closely with the Bank's different units to develop the necessary tools for building the CBS brand and attracting more customers.

With the growth in loan portfolio, improvement in asset quality, increase in CASA and effective cost management, net income will significantly increase over the next 5 years.

The Bank will strengthen capital management and ensure that the Bank's CAR remains aligned and adequate with its expansion plans and risk parameters.

By exhibiting a solid core performance that continues to be on pace with its growth objectives, CBS has never been more motivated to be at the top of its game. A reinforced capital base, combined with a robust business franchise and extensive distribution network, puts the Bank in a premier position to capture growth opportunities and face headwinds from an increasingly competitive and volatile environment.

2. Management's Discussion and Analysis

a. Analysis of Statements of Condition

As of December 31, 2018 and 2017

Despite the challenging market conditions, the Bank stayed resilient with its strong balance sheet and steady financial results. Total assets expanded by ₱8.6 billion to ₱95.8 billion. Gross loans grew by 3.3% or ₱2.1 billion to ₱67.6 billion due to strong demand, particularly in consumer and APDS loans, which jumped by 17.8% or ₱5.3 billion to ₱35.1 billion. The growth in consumer loans was led by the significant increase in auto and housing loans at 11% and 13%, respectively.

The growth in loans and asset base was supported by the growth in funding base. Total deposits rose by 10.7% to ₱84.6 billion, boosted by 15.6% growth in low-cost funds, resulting to healthy CASA ratio of 34.1%, while the loans-to-deposit ratio was steady at 77.0%. CBS also grew its client base from 0.36 million to 0.45 million as of December 31, 2018.

Even as the expansion in the Bank's loan portfolio continued apace, stronger focus on credit underwriting standards and disciplined collection efforts led to a milestone reduction in the Bank's NPL ratio to 5.2% as NPL dropped by ₱439.3 million or 11.2%. Continued provisioning improved the loan loss coverage ratio to 65.1% from 54.0%.

Investment properties slightly increased by ₱39.9 million or 1.3% from last year's ₱3.2 billion due to the recovery efforts on the Bank's non-performing loans while aggressively reducing the same through sale and disposal.

Capital also increased from ₱8.4 billion last year to ₱9.1 billion in 2018, due to the additional capital infusion from the Parent Bank amounting to ₱0.5 billion in June 2018 which was partially offset by the impact of adopting the new accounting standards - PFRS 9. The Bank's total CAR was computed at 11.34% as of December 31, 2018.

As of December 31, 2017 and 2016

CBS achieved a record run in 2017, registering solid results in its overall financial performance. By the end of 2017, total assets peaked at ₱87.2 billion, total deposits reached ₱76.4 billion and total net loans hit ₱63.1 billion.

CBS' 2017 performance was driven by the rapid expansion of loans, particularly the consumer lending business, which is supported by the sustained low-cost funds generation. CBS also grew its client base from 0.28 million to 0.36 million.

Capitalizing on the country's robust economy and its presence in fast developing markets, the Bank's lending business increased by 8.4% to hit ₱63.1 billion which now accounts for 72.4% of total assets. The consumer lending business led the growth, up 23% year-on-year, with auto and housing loans growing fastest among the Bank's consumer assets. Strong expansion in the Bank's consumer lending business continued to be fueled by rising affluence. The auto loans saw its volume expand due to attractive financing schemes and the introduction of new car models. Auto loans expanded by 29%, leveraging on the Bank's huge client base, increased dealer coverage, and its capacity to provide faster results. Meanwhile, the housing loans continued to respond to the financing needs of home buyers by offering affordable product variants and flexible loan payment terms. Housing loan levels are up 19% from 2016, buoyed by a strong demand from overseas Filipinos and local buyers. The Bank teamed up with more developers to offer clients an expanded range of options for residential properties. Lending to the middle market and SME segments registered growth despite tougher competition (i.e., bigger banks offering cheaper interest rates and lower collateral requirements). Even as lending activities accelerated, CBS asset quality metrics improved dramatically. NPL ratio was at 6.1% by year-end, while NPL coverage continues to be adequate at 54.0%.

The Bank also sustained its efforts to bring banking closer to clients with the opening of 17 more branches (partially offset by 7 merged branches), most of which were located in Metro Manila areas. By the end of 2017, the Bank operated a network of 160 branches: Metro Manila - 78 (49%); Luzon - 67 (42%) and VisMin - 15 (9%). The growing branch and ATM network, coupled with extended and weekend banking hours, are meant to give customers utmost convenience and accessibility. Thereby, the Bank's CASA deposits kept its high growth rate of 12.5% to reach ₱24.9 billion. CASA ratio improved to 32.6% of the total ₱76.4 billion deposit base, from 31.0% a year ago and provided the liquidity to support loan growth.

b. Discussion of Results of Operations

For the years ended December 31, 2018 and 2017

The Bank achieved a net income of ₱369.9 million in 2018, 26.3% lower than a year ago. The Bank's core businesses delivered stable results with total income of ₱3.9 billion, driven by loan and fee income led by healthy growth in the consumer and APDS lending businesses. Net interest income was down by 1.9% in 2018 to ₱3.3 billion due to higher interest expense. Net interest margin was at 4.1%.

Total interest income increased by 11.0% or ₱512.3 million, better than the ₱4.6 billion recorded in 2017. Interest income from loans and receivables showed a 10.6% improvement or an increase of ₱454.3 million from ₱4.3 billion in 2017. Interest income on investment securities rose by 7.3% to ₱282.1 million from ₱262.8 million due to the Bank's higher investment portfolio in 2018. Interest earned from interbank loans receivable and SPURA increased by 29.8% or ₱27.4 million. Moreover, interest earned from deposits with BSP and interest income from other banks posted an increase of 79.9% to ₱25.3 million.

Interest expense on the Bank's deposit liabilities was higher by 43.8% to ₱1.9 billion compared to ₱1.3 billion during the same period in 2017 due to overall rise in interest rates and total deposits in 2018.

Service charges, fees and commissions increased by ₱28.6 million from ₱239.5 million in 2017. The Bank registered ₱270.1 million gain on the sale of investment properties in 2018, 124.1% higher than a year ago.

Other operating expenses went up by only ₱135.1 million or 3.7% from 2017 ago level of ₱3.6 billion. In line with the Bank's thrust to further strengthen its balance sheet, the Bank set aside a total of ₱104.6 million provision for impairment and credit losses for the year ended December 2018. Compensation and fringe benefits increased by 8.3%. Occupancy and equipment-related costs increased by 16.8% or ₱43.5 million to ₱303.2 million as a result from higher rent expense. As of December 31, 2018, the Bank has 162 branches and 167 ATMs nationwide.

Security, clerical, messengerial and janitorial services were at ₱244.8 million while depreciation and amortization of Bank's property and equipment, investment properties and software costs were at ₱325.5 million from ₱345.8 million in 2017. Taxes and licenses went up by 14.7% or ₱32.9 million brought by the implementation of the TRAIN Law. Miscellaneous expenses were lower by ₱2.2 million at ₱162.9 million from ₱165.1 million in 2017.

Increase in operating expenses was driven mainly by increase in documentary stamp tax and the ongoing branch expansion and set-up of additional lending centers in 2018. Other cost items were kept at a more manageable single-digit growth, notwithstanding the continued investment in branch network expansion, technology, system upgrades, and customer acquisition initiatives.

For the years ended December 31, 2017 and 2016

The business has sustained a momentum of growth, generating ₱501.5 million in net income, ₱268.0 million or 114.8% higher than the ₱233.5 million earned last 2016. Despite intense competitive pressures, the loan growth expansion and strong CASA generation allowed the Bank to keep net interest margins steady for 2017 at 4.7%.

Total interest income increased by 12.0% or ₱497.9 million, better than the ₱4.1 billion recorded in 2016. Interest income from loans and receivables showed an 11.6% improvement or an increase of ₱444.0 million from ₱3.8 billion in 2016. Interest income on investment securities rose by 23.7% or ₱50.4 million from ₱212.4 million due to the Bank's higher investment portfolio in 2017. Interest earned from interbank loans receivable and SPURA increased by 142.0% or ₱54.0 million versus ₱38.0 million in 2016. Moreover, interest earned from deposits with BSP and interest income from other banks posted a decrease of 78.2% to ₱14.1 million.

Interest expense on the Bank's deposit liabilities was higher by 8.8% to ₱1.3 billion compared to ₱1.2 billion during the same period in 2016 due to overall rise in total deposits in 2017.

For the period ended December 31, 2017, net interest income rose by 13.8% to ₱3.3 billion from ₱2.9 billion in 2016.

Other operating income declined by 7.1% to ₱547.3 million. Overall, total operating income for 2017 increased 10.3% year-on-year to ₱3.9 billion. Service charges, fees and commissions decreased by ₱29.5 million from ₱269.0 million in 2016. The Bank registered ₱120.5 million and ₱68.9 million gains on the sale of investment properties and investment securities, respectively, in 2017 versus a ₱121.4 million and ₱89.3 million, respectively, in 2016.

Other operating expenses, excluding provision for impairment and credit losses, went up by ₱270.8 million from 2016 ago level of ₱3.1 billion. In line with the Bank's thrust to further strengthen its balance sheet, the Bank set aside a total of ₱295.7 million provision for impairment and credit losses for the year ended December 2017. Compensation and fringe benefits increased by 10.1%. Occupancy and equipment-related costs increased by 5.4% or ₱13.3 million to ₱259.6 million as a result from higher rent expense. As of December 31, 2017, the Bank has 160 branches and 164 ATMs nationwide.

Security, clerical, messengerial and janitorial services were at ₱254.4 million while depreciation and amortization of Bank's property and equipment, investment properties and software costs were at ₱345.8 million from ₱326.2 million in 2016. Taxes and licenses went up by 0.2% or ₱0.4 million. Miscellaneous expenses were higher by ₱15.8 million at ₱165.1 million from ₱149.3 million in 2016.

Increase in operating expenses was driven mainly by manpower-related costs as the Bank is aggressive in hiring personnel to support its business expansion. Other cost items were kept at a more manageable single-digit growth, notwithstanding the continued investment in branch network expansion, technology, system upgrades, and customer acquisition initiatives.

c. Key Performance Indicators

	2018	2017	2016
Capital Adequacy Ratio			
Capital to Risk Assets Ratio	**11.34%**	11.43%	12.46%
Asset Quality			
Non-Performing Loans to Total Loans	**5.24%**	6.09%	7.20%
Liquidity			
Liquid Assets to Total Deposits	**27.60%**	22.80%	23.50%
Profitability			
Return on Equity (ROE)	**4.24%**	6.19%	3.55%
Return on Assets (ROA)	**0.40%**	0.60%	0.30%
Cost Efficiency			
Operating Expenses to Total Income	**95.53%**	93.51%	95.68%

2018 vs. 2017 Comparative highlights on key performance indicators

Capital adequacy ratio as of December 31, 2018 was at 11.3%. NPL ratio decreased to 5.2% as of year-end 2018 as compared to the 6.1% in 2017. The improvement in asset quality ratios is attributable to the improvements implemented in the Bank's credit process and the resources allocated to strengthen collection efforts and loan recovery which allowed the Bank to effectively manage its non-performing loans.

ROE and ROA for the year 2018 is at 4.2% and 0.4%, respectively, slightly lower than year-end 2017's 6.2% and 0.6%, respectively. Cost efficiency ratio also increased to 95.5% as of December 31, 2018, from 93.5% as of December 31, 2017.

2017 vs. 2016 Comparative highlights on key performance indicators

Capital adequacy ratio as of December 31, 2017 was at 11.4%. NPL ratio decreased to 6.1% as of year-end 2017 as compared to the 7.2% in 2016. The improvement in asset quality ratios is attributable to the improvements implemented in the Bank's credit process and the resources allocated to strengthen collection efforts and loan recovery which allowed the Bank to effectively manage its non-performing loans.

Liquidity ratio went down from 2016's 23.5% to 2016's level of 22.8%, as funds were shifted from liquid assets to loans.

ROE and ROA for the year 2017 is at 6.2% and 0.6%, respectively, higher than year-end 2016's 3.5% and 0.3%, respectively, as the Bank posted net income for the year. Accordingly, with the increase in revenues, cost efficiency ratio also improved to 93.5% as of December 31, 2017, from 95.7% as of December 31, 2016.

3. Key Variables and Other Qualitative and Quantitative Factors

a. Liquidity

The Bank manages its liquidity position to ensure that it has more than adequate funds to meet its obligations at any given time. The Bank monitors its daily liquidity and reserve position by determining inflows and outflows, short-term and long-term obligations, holdings and repayments. Short-term liquidity management identifies obligations and repayments in the next 12-months, aids in the determination of the securities trading strategy, and influences the Bank's pricing mechanism. On the other hand, long-term liquidity management covers maturing obligations and repayments of loans and investments beyond the next 12-months.

The level of liquid assets remained strong, exhibiting healthy growth in both placements with BSP/other banks and investments.

With the Bank's current capitalization, current liquidity position, strong deposit growth trend, continuing development of retail and corporate accounts, and prudent liquidity management, CBS does not anticipate encountering any cash flow or liquidity problems in the next 12 months. It remains confident of its ability to meet its obligations and is committed to providing the necessary funding to support the projected loan growth, investment activities and expenditures for 2019.

b. Events that will Trigger Direct or Contingent Financial Obligation

In the normal course of the Bank's operations, there are various outstanding commitments and contingent liabilities such as guarantees and commitments to extend credit, which are part of its lending and related businesses but due to their nature, may not be reflected in the accompanying financial statements. The Bank, however, does not anticipate significant losses as a result of these transactions.

Also, several suit and claims, in behalf or against the Bank in relation to its operations, are pending before the courts and quasi-judicial bodies. In the opinion of management, these suits and claims, if decided adversely, will not involve an amount having a material effect on the financial statements.

c. Material Off-Balance Sheet Transactions, Arrangements and Obligations

The following is a summary of the Bank's commitments and contingent liabilities at their equivalent peso contractual amounts:

	2018	2017
Committed credit lines	**₱524,162,035**	₱2,335,446,073
Standby domestic letters of credit	**148,988,582**	212,977,965
Late deposits/payments received	**36,672,003**	11,518,582
Outward bills for collection	**1,924,156**	1,829,009
Trust department accounts	**–**	235,267,741
Others	**151,625**	260,018
	₱711,898,401	₱2,797,299,388

None of these off-balance sheet transactions, arising in the ordinary course, either individually or in the aggregate, are expected to have a material adverse effect on the Bank's financial condition.

d. Material Commitments for Capital Expenditures

The Bank's capital expenditures in 2018 included expenses for 2 new branches, 4 new on-site ATMs, 8 APDS loan centers and upgrade of bank premises including infrastructure, furniture, fixtures and equipment, IT-related activities on systems and licenses. For 2019, the Bank plans to open at least 2 APDS loan centers. Capital expenditures were sourced from the Bank's capital.

e. Causes for Any Material Changes from Period to Period of Financial Statements

See previous discussion on Analysis of Statements of Condition and Discussion of Results of Operations.

f. Known Trends, Events or Uncertainties or Seasonal Aspects

The financial statements of the Bank have been prepared in compliance with PFRS.

Item 7. FINANCIAL STATEMENTS

Please refer to the attached **Exhibit 2** for the Audited Financial Statements as of and for the years ended December 31, 2018 and 2017.

Independent Public Accountant

SyCip, Gorres, Velayo, & Co. (SGV & Co.), independent certified public accountants, audited the Bank's financial statements without qualification and in accordance with Philippine Standards on Auditing and has expressed its opinion on the fairness of presentation upon completion of its examination, in its report to the stockholders and Board of Directors.

The following table sets out the aggregate fees billed for each of the years ended December 31, 2018 and 2017 for professional services rendered by SGV & Co. for the audit of the Bank's annual financial statements.

	2018	2017
Audit and Audit-Related Fees: ▪ Fees for services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements	₱2,200,000	₱1,600,000

The audit fees in 2018 increased owing to the additional necessary audit work in relation to the implementation of the new accounting standards - PFRS 9, *Financial Instruments* and PFRS 15, *Revenue from Contracts with Customers.*

Audit Committee's Approval Policies and Procedures for Above Services

As China Bank's subsidiary, the Bank adopted the Parent Bank's policies and procedures on audit engagement contract for external auditors. The same was discussed and approved by the Audit Committee. Included in the duties and responsibilities of the Audit Committee as provided for in the Audit Committee Charter are to recommend to the Board of Directors the appointment, re-appointment and dismissal of external auditors; to review and evaluate the external auditors' qualifications, performance, independence, and objectivity; and to review the external auditors' audit plan and scope among others.

The following are the members of Bank's Audit Committee:

Audit Committee (AuditCom)	
Chairman	Mr. Alberto S. Yao .
Vice-Chairman	Mrs. Margarita L. San Juan
Member	Mr. Philip S. L. Tsai

Item 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The financial statements of the Bank for the years ended December 31, 2018 and 2017 have been audited by SGV & Co. in accordance with Philippine Financial Reporting Standards. There were no changes in and disagreements with accountants on accounting and financial disclosures.

PART III. CONTROL AND COMPENSATION INFORMATION

Item 9. DIRECTORS AND EXECUTIVE OFFICERS

1. The Members of the Board of Directors

The Board of Directors is composed of distinguished members with extensive background in banking and business. All members are citizens of the Republic of the Philippines. The members of the Board hold the office for the remainder of the term of their successors and, with prior approval of the MB, concurrently with their position/s in the Parent Bank are as follows:

RICARDO R. CHUA **(B'date: 3-Apr-51)**	**68 years old**	**Chairman**
A holder of a degree in Bachelor of Science in Business Administration, Major in Accounting, *cum laude*, from the University of the East. He obtained his Master's degree in Business Management (MBM) from Asian Institute of Management in 1975. He was President and CEO and Director of China Bank. He joined China Bank in 1975 after a stint with SGV & Co. He is presently holding various positions in the following private institutions, namely: China Bank, Advisor to the Board since May 3, 2018; China Bank Insurance Brokers, Inc., Director, representing China Bank since November 3, 1989; CBC Properties and Computer Center, Inc., Director, representing China Bank since April 27, 2018; China Bank Capital Corporation, Chairman of the Board, representing China Bank since April 12, 2018; CBC Forex Corp., Director, representing China Bank since June 10, 1997; Cavacon Corporation, Director and President since 1975, Stockholder; Sun, Earth Corporation (formerly Sun and Earth Development & Const. Corp.), Director and President since April 6, 1990, Stockholder; Stonebrothers, Inc., Director and President since 2012, Stockholder; Sun & Earth Homes, Chairman of the Board since 2014, Stockholder; Genricland Properties, Inc., Chairman of the Board and President since 1989, Stockholder; Northbridge Holdings, Inc., Corporate Secretary since May 2017, Stockholder; Sierra Prime Holdings, Inc., President since November 20, 2017, Stockholder.		

NANCY D. YANG (B'date:12-Jul-39)	79 years old	Vice Chairman
A degree holder in Bachelor of Arts from the Philippine Women's University and in Human Development & Child Psychology from Merrill Palmer Institute in Detroit, Michigan, USA, 1961. She has attended the Allen Management Program in 1990, BAI Retail Delivery Conference in Phoenix, Arizona, USA in 1994, Environmental Risk Management Program for Bankers conducted by the Bank of America in 1997, and BAI Retail Delivery Conference in Miami Beach, Florida in 1999, and BAI Retail Delivery Conference in Orlando, Florida in 2008. She held the position of Senior Vice President and the Head of China Bank's Retail Banking Business prior to her retirement from employment. She joined China Bank in 1963, occupying various positions. She is presently holding various positions in the following private institutions, namely: Val Gardena Development Corporation, Chairman and Assistant Treasurer since 2008, Stockholder; Hamersley Development Corporation, Vice Chairman and Assistant Treasurer since 2008, Stockholder; GDSK Development Corporation, Director since 1979, Stockholder; Pacifica Royale Properties, Director since 1975, Stockholder; China Bank Insurance Brokers, Inc., Director since 1999, Stockholder; Makati Curb Holdings, Corporation, Vice President and Treasurer since May 27, 2012, Stockholder; Great Expectation Holdings, Inc., Vice President, Treasurer/Director since October 23, 2012, Stockholder; The Big D Holdings Corporation, Vice President, Treasurer/Director since April 30, 2013, Stockholder; Richesse Development Corporation, Vice President and Treasurer/Director since August 13, 2014, Stockholder; and Azureblue Properties, Inc., Treasurer since August 8, 2013, Stockholder. She is a member of the following CBS Board Level Committees, Executive Committee - Vice Chairman and Risk Management Committee.		

ALBERTO EMILIO V. RAMOS (B'date: 25-May-59)	59 years old	President and Director
A degree holder in Bachelor of Arts in Political Science and in Bachelor of Science in Marketing Management from the De La Salle University. He obtained his Master's degree in Business Management from Asian Institute of Management. He used to be the Head of Private Banking Group of China Bank. Prior to joining China Bank, he was the President of Philam Asset Management, Inc. He has held several officership positions in Bank of the Philippine Islands, Citytrust Banking Corporation, Western State Bank, Tokai Bank of California, Urban Development Bank and Filinvest Credit Corporation. He is a recipient of the Treasury Professional Certificate from the Banker's Association of the Philippines. He has also attended trainings on credit and financial analysis, performance appraisal and asset-liability management, treasury products, and strategic marketing planning. He is presently holding directorship positions in the following private institutions, namely: China Bank Capital Corporation and Manulife China Bank Life Assurance Corporation. He is member of the following CBS Board Level Committees, namely: Executive Committee, Vice - Chairman of Retirement and Compensation & Remuneration Committees. He is also member of the various Management Level Committees, namely: Chairman of Management Committee, Asset and Liability Committee, Information Technology Steering Committee, Credit Committee, Collection and Asset Recovery Committee, Service Committee and Credit Model Steering Committee and Member of the Anti-Money Laundering Committee.		

WILLIAM C. WHANG (B'date: 31-Mar-58)	60 years old	Director
A degree holder in Bachelor of Science in Commerce from the De La Salle University. He is concurrently the President and Director of China Bank and also a member of the Board of Directors of China Bank Insurance Brokers, Inc. (CBIBI), China Bank Properties & Computer Center, Inc. (CBPCCI), Bancnet Inc., China Bank Capital Corp., and Manulife China Bank Life Assurance Corp. He is Chairman/Director of China Bank Securities Corp., He is a Stockholder and Treasurer of CBPCCI. He represents China Bank in Banker's Association of the Philippines and Philippine Payments Management, Inc. He is member of the following CBS' board level committees, namely: Chairman of the Executive Committee, Retirement Committee Compensation and Remuneration Committee and as Vice-Chairman of Corporate Governance Committee and Nominations and Personnel Committee. He had attended various seminars such as the corporate governance workshop in 2014, orientation course for corporate governance in 2015 and corporate governance training in 2016, 2017 and 2018, all conducted by the Institute of Corporate Directors. Before China Bank, he was a senior bank officer at reputable local and international corporate banks.		

ROSEMARIE C. GAN (B'date: 13-Oct-57)	61 years old	Director
A degree holder in Bachelor of Science in Business Administration, Major in Management from the University of Santo Tomas where she graduated *magna cum laude* and was a recipient of the distinguished Rector's Award. She attended the Advanced Bank Management Program of AIM in June 2013. She is concurrently the Executive Vice President and Segment Head of Retail Banking Business of China Bank. She also holds a directorship position in CBC Properties & Computer Center, Inc. and a member of CBS Executive Committee. She has been with China Bank for over 35 years, having extensive exposure in marketing and training in financial analysis, credit portfolio management, strategic planning and corporate governance.		

ALEXANDER C. ESCUCHA (B'date: 3-Sep-56)	62 years old	Director
A degree holder in Bachelor of Arts in Economics, *cum laude* from the University of the Philippines. He is concurrently the Head of China Bank's Investor and Corporate Relations with the rank of Senior Vice President. He is the Chairman of the UP Visayas Foundation, Inc. and is an international resource person at The Asian Banker. He has served as Chairman of the Federation of ASEAN Economic Associations (FAEA), and President of the Philippine Economic Society of the Philippines, and the Bank Marketing Association of the Philippines. He had attended various seminars such as the corporate governance orientation conducted by the ICD in 2015, and had been a delegate in various economic briefings and conferences, such as the JP Morgan Philippines Conference and The Asian Banker Summit in 2015. Before China Bank, he was a Vice President at International Corporate Bank. He is a member of the Corporate Governance Committee and Nominations and Personnel Committee.		

JOSE L. OSMEÑA, JR (B'date: 22-Mar-59)	60 years old	Director
A degree holder in Bachelor of Science in Commerce, Major in Accounting, from the University of San Carlos. A graduate of Advance Bank Management Program from the Asian Institute of Management. He is concurrently the First Vice President - Deputy Group Head of China Bank - Retail Banking Business. He is a member of CBS' board level committees such as the Executive Committee, and Retirement Committee. He had attended various seminars the most recent was the corporate governance orientation program, conducted by the Institute of Corporate Directors. Before China Bank, he was area operations officer with a rank of assistant manager of Producers Bank of the Philippines.		

PATRICK D. CHENG (B'date: 18-Dec-62)	56 years old	Director
A degree holder in Bachelor of Science in Business Administration and Accountancy from the University of the Philippines, *magna cum laude*. He is a certified public accountant and ranked 7th in the 1985 CPA exams and a Distinguished Alumnus of the UP College of Business Administration. He completed his MS Management with Distinction at the Hult International School of Business in Cambridge, Massachusetts. He likewise graduated on the 1 year course on Trust Operations and Investment Management, with Distinction, from the Trust Institute of the Philippines. He was Head of Trust Group and Trust Officer at China Bank and Senior Vice President. Mr. Cheng served as Deputy Group Head of Trust Group at China Banking Corporation from March 2, 2015 to December 16, 2015 and its First Vice President II from March 2, 2015 to April 16, 2016. He served as an Executive Vice President and Head of Trust & Wealth Management at Philippine Bank of Communications Inc. from October 1, 2013 to March 1, 2015 and served as its Chief Trust Officer until March 1, 2015. He held various positions from other reputable banking institutions. He also served as director in Credit Information Corp, a government institution from 2012 to 2013. He is member of Risk Management Committee, Retirement Committee, Nominations and Personnel Committee and Ex-Officio member of Compensation and Remuneration Committee. He is also the Chief Finance Officer of China Bank.		

ALBERTO S. YAO (B'date: 12-May-46)	73 years old	Independent Director
A degree holder in Bachelor of Science in Business Administration from Mapua Institute of Technology. He is currently holding various positions in the following institutions, namely: Richwell Philippines, Inc., President and CEO since 1990; Richphil House, Inc., President, since 1992; China Banking Corp., Independent Director since 2004; China Bank Capital Corporation, Independent Director, since 2015; Internationale Globale Marques, Inc., President and CEO since 2011; China Bank Securities Corporation, Independent Director since 2017. He held various positions, such as, namely: Vice-President for Merchandising of Zenco Sales, Inc. from 1968 to 1975; Independent Director of Plantersbank from 2014 - 2015; Richwell Trading Corporation as President and CEO from 1979 to 2016; Europlay Distributor Co., Inc., President and CEO from 1997 to 2016 and Megarich Property Ventures, Corp. President from 1994 to 2016. He is member of Risk Management Committee - Vice Chairman, Corporate Governance Committee, Nominations and Personnel Committee, Audit Committee - Chairman, Compensation and Remuneration Committee, and Related Party Transaction Committee.		

PHILIP S. L. TSAI (B’date: 2-Aug-50)	68 years old	Independent Director
From 1978 until his retirement in August 2015, he served as the Bank’s First Vice President and Region Head for the Retail Banking Group - Metro Manila and South. He was previously connected with First CBC Capital (Asia) Limited, Midwest Medical Management, Fortune Paper Inc., Chemical Bank New York, Consolidated Can Corp., and Plastic Container Packaging. He holds a Business Administration degree from the University of the Philippines and a Masters in Business Administration from the Roosevelt University in Chicago, Illinois. He was elected Independent Director of CBS on November 15, 2018 and was appointed member of Risk Management Committee, Corporate Governance Committee - Chairman, Nominations and Personnel Committee - Chairman, Audit Committee and Related Party Transaction Committee - Chairman.		

MARGARITA L. SAN JUAN (B’date: 17-Oct-53)	65 years old	Independent Director
A degree holder in Bachelor of Science in Business Administration from the University of the Philippines. She also took up Advance Bank Management Program from the Asian Institute of Management in 1992. She started career in Ayala Investment & Dev’t. Corp. (AIDC) and left as Sr. Project Assistant in 1978. Then, she moved to Commercial Bank & Trust Co. (ComTrust). In August 1980, she joined China Bank and subsequently became the Head of the Account Management Group with the rank of First Vice President II and retired as such on November 30, 2008. She was a Director and member of the Executive Committee of Plantersbank from 2014 to December 17, 2015. Board Level Committee Memberships: Risk Management Committee, Chairman, Corporate Governance Committee, Member, Audit Committee, Vice Chairman, and Related Party Transaction Committee, Vice Chairman.		

The Directors’ number of years including number of shares held are as follows:

NAME OF MEMBERS	PRINCIPAL STOCKHOLDER REPRESENTED	NUMBER OF YEARS SERVED AS DIRECTOR	NUMBER OF DIRECT AND INDIRECT SHARES HELD	PERCENTAGE OF SHARES HELD TO TOTAL OUTSTANDING SHARES OF THE BANK
1. Ricardo R. Chua	None	11 years	1	0.00000000948%
2. Nancy D. Yang	None	11years	1	0.00000000948%
3. Alberto Emilio V. Ramos	None	7 years	1	0.00000000948%
4. William C. Whang	None	2 years	1	0.00000000948%
5. Alexander C. Escucha	None	11 years	1	0.00000000948%
6. Rosemarie C. Gan	None	5 years	1	0.00000000948%
7. Jose L. Osmeña, Jr.	None	2 years	1	0.00000000948%
8. Patrick D. Cheng	None	1 year	1	0.00000000948%
9. Philip S. L. Tsai*	None	**4 months	1	0.00000000948%
10. Alberto S. Yao*	None	9 years	1	0.00000000948%
11. Margarita L. San Juan*	None	5 years*	1	0.00000000948%

** Independent Director*
*** Elected on November 15, 2018*

2. Executive Officers

MARIA TERESITA R. DEAN (B'date: 9-Sep-63)	**55 years old**	**Senior Vice President and SME Lending Group Head**
A degree holder of Bachelor of Science in Business Administration, *cum laude,* from the University of the Philippines. She has completed 12 unit of the Executive Manager's Masteral Business Programme at the UP College of Business Administration. From 1985 to 1993, Mrs. Dean accumulated early work experience at Calyon Corp and Investment Bank, BPI (formerly FEBTC), JP Morgan Chase Bank. She moved as AVP – Credit and Loan Administration at Bahrain Middle East Bank EC from 1993 to 1995. She re-joined Calyon Corp and Investment Bank in September 1995 as Head of Credit and Loans in Manila, then expatriated to Hong Kong from 2001-2003 as VP, Distressed Assets Management, and repatriated back to Manila in 2004 for the same post for Manila Operations. Her recent posts were SAVP, Credit Risk Management Corporation, China Banking Corporation from February 2005-February 2007; FVP, OIC, Risk Management – GE Money Bank Philippines, Inc. from March 2007 to November 2009, VP, Risk Management Head/Information Security Officer, BDO Private Bank Inc. from December 2009 to September 2013 and SVP, Credit Management Group Head, Philippine Bank of Communications from September 2013 to November 2015. Management Level Committee Memberships: Chairman of HR Committee (HRCOM), Vice Chairman of MANCOM, Fraud Committee (FRAUDCOM), Administrative Investigating Committee (AIC) and CMSC. Member of ALCO, ITSC, AMLACOM, CARCOM and SERVCOM, Endorsing member of Sub Credit Committee (SUB-CRECOM).		

JOSE F. ACETRE (B'date: 24-Apr-53)	**66 years old**	**Senior Vice President and Assets Recovery Group Head**
A degree holder of B.S. Business Economics from the University of the Philippines. Before Plantersbank, he was an Account Officer in Far East Bank and Trust Company from 1977 to 1981. From 1981 to 1993, he was an Account Officer/Division Head in PCI Bank. Then from 1993 to 2001, he was the Sector/Group Head in Bank of Commerce. Prior to joining Plantersbank, he was Group Head in United Overseas Bank Philippines from 2001 to 2008. Management Level Committee Memberships: Chairman of Pricing Committee (AUTO) and SUB-CRECOM, Vice Chairman of CRECOM and CARCOM, and member of MANCOM, FRAUDCOM, and HRCOM.		

AGERICO G. AGUSTIN (B'date: 7-Apr-60)	**59 years old**	**Senior Vice President and Branch Banking Group Head**
A degree holder in Bachelor of Science in Civil Engineering from the University of the Philippines - Diliman. He had attended various seminars and trainings, such as Certificate Course in Compliance conducted by ABComp - DLSU in 2015; Corporate Governance conducted by Ateneo - BSP in 2016; and Data and Business Analytics conducted by UP - National Engineering Center in 2016. He joined China Bank Savings on March 1, 2017, before joining CBS he was President and CEO/Director of both PR Savings Bank in 2016 and Maximum Savings Bank from 2015 - 2016. Management Level Committee Memberships: Chairman of Administrative Investigating Committee (AIC) and Employee Recognition Committee, Vice Chairman of HRCom, and Member of MANCOM, ALCO, ITSC, AMLACOM, SERVCOM, and FRAUDCOM, endorsing member of Sub-CreCom.		

LUIS BERNARDO A. PUHAWAN (B'date: 22-Jul-75)	43 years old	First Vice President II and Controllership Group Head
A degree holder of Bachelor of Science in Accountancy from the University of Sto. Tomas. He is a Certified Public Accountant. In 2006, he joined Plantersbank as Assistant Vice President and head of the Financial Reporting and Control Department. He was likewise Plantersbank's Controller prior to its merger with CBS. Before joining Plantersbank, he was Senior Associate of SGV & Co. from 1997 to 2002. He also worked for Philippine Veterans Bank from 2002 to 2005, then to Deutsche Knowledge Services – Manila as Senior Associate from 2005 2006. Management Level Committee Memberships: Member of MANCOM, ALCO, ITSC, CARCOM, AIC and HRCOM.		

JAN NIKOLAI M. LIM (B'date: 6-Jul-76)	42 years old	First Vice President II and Consumer Lending Group Head
A degree holder of Bachelor of Science in Manufacturing Engineering and Management from De La Salle University. Prior to joining the Bank, he was a Vice President at East West Bank. He started his banking career in Citibank, N.A. as Manager in 2001. He moved to Standard Chartered Bank as Assistant Vice President before moving to PSBank as Vice President. Management Level Committee Memberships: Vice Chairman of Pricing Committee (AUTO), and Member of MANCOM, ALCO, ITSC, AMLACOM, CARCOM, SERVCOM, FRAUDCOM, HRCOM.		

ODEL S. JANDA (B'date: 20-Oct-57)	61 years old	First Vice President, Legal Division Head and Acting Corporate Secretary
A holder of degree in Bachelor of Laws from the University of the East. He was already the Head of Legal Support Services Department (LSSD) of Plantersbank prior to its merger with CBS. He was likewise Plantersbank's Corporate Secretary since August 1, 2011 up to its merger. Before joining Plantersbank, he was Active Bank's Head of Legal, Personnel and Security. Management Level Committee Memberships: Member of Pricing Committee (AUTO), AMLACOM, CARCOM, FRAUDCOM and AIC and Ex-Officio member of CRECOM.		

JOSEPHINE F. FERNANDEZ (B'date: 24-Dec-62)	56 years old	First Vice President and Human Resources Division Head
A degree holder in Bachelor of Science degree in Business Administration from University of the Philippines, Diliman, Quezon City in 1983 and completed Bachelor of Laws in San Beda College and San Sebastian College, Manila Philippines in 1993. She first started her career as College Instructor at University of Luzon with the Commerce Department. She then shifted career to the banking business and joined Equitable Banking Corporation where she focused in managing labor relations and collective bargaining negotiations. She also worked with Bank of Tokyo-Mitsubishi and gained her exposure with a foreign bank. This is also where she established formal HR organization, set up policies and manning business requirements of the bank. Major accomplishment was when she navigated the Bank into two mergers (with Mitsubishi Bank, then with UFJ). She joined Metrobank as FVP and Deputy Head of HR Group. She also worked with the Bank of Philippine Islands as Vice President and Deputy Head of HR Group. Her last engagement was with East West Banking Corporation as Senior Vice President and Head of HR Group, major initiative, was converting HR organization to business partnership model.		

JAYDEE P. CAPARAS (B'date: 05-Jun-73)	45 years old	First Vice President and BBG National Sales Director
A degree holder of Bachelor of Science Major in Accountancy, *magna cum laude,* from San Sebastian College - Cavite where he also earned his Masters in Business Administration from the same institution. He is a Certified Public Accountant, BOA, SEC-accredited, and a Licensed and Accredited External Auditor. He has a total of 24 years of banking experience gained from Bank of the Philippine Islands and Philippine Savings Bank, rose from the ranks. He was Management Trainee, Branch Head and Branch Manager in Bank of the Philippine Islands from 1994 to 1997 and Area Head, Division Head and Segment Head in Philippine Savings Bank from 2007 to until he joined in China Bank Savings, Inc.		

EDITH N. YOUNG* (B'date: 26-Jul-58)	60 years old	Vice President II and Information Technology Head
A degree holder in bachelor in General Science from the University of the East. She is an *ex-officio* member of the Bank's ManCom, and Vice Chairperson of ITSC. She is concurrently Chief Technology Officer of CBC PCCI with the rank of Vice President II. Prior to joining China Bank group, she held various IT-related positions in PCIBank, IBAA, BPI, Family Bank/FMLSC, Cybernetics and Pascual Laboraties – IT. BSP approved the interlocking functions on April 27, 2016. She is also an Ex Officio Member of Management Committee.		

ARTHUR S. ESQUIVEL (B'date: 10-Nov-60)	58 years old	Vice President II and Chief Marketing Officer
He started building his marketing career as Assistant Product Manager at General Foods Philippines in 1982 - 1997, managing brands like Tang Powder, Jell-O, Kool-Aid and Calumet Baking Powder. He became a Senior Product Manager at Del Monte Philippines handling its biggest business category (Pineapple Juices, Blends, Concentrates) and Assistant General Manager for Marketing for the Savola Edible Oil Company, the largest manufacturing conglomerate and biggest advertiser in the entire Saudi Arabian market. Effectively transitioned to marketing of consumer financial products (both acquisition and portfolio management at CitiTrust and Citibank NA handling financial products consisting CASA, term and investment products and Citi Visa and Mastercard. From 1998 to 2002, at Nextel Communications Inc. and Express Telecommunications as VP/ SVP – Marketing. From 2003 to 2008, he was the Profit Center Head (VP) for Philamlife Group and Credit Insurance Division From 2014 to 2015, he was the Vice President of Sales, Marketing and Distribution of Opportunity Kauswagan Bank, Inc., a Microfinance Thrift Bank. He was a Senior Vice President of Branch Banking Group of PR Savings Bank		

SONIA B. OSTREA (B'date: 2-Feb-63)	56 years old	Vice President II and Centralized Operations Group Head
A degree holder of Bachelor of Science in Commerce, major in Accounting, from Saint Louis University. She is a Certified Public Accountant. She had attended various seminars and trainings. She was Plantersbank's Clearing Operations Head prior to its merger with CBS. Before joining Plantersbank, she was the Central Operations Department Head of PCIBank and later Dao Heng Bank, Phils. Management Level Committee Memberships: Chairman of AMLACOM and Operations Committee (OPCOM), and Member of MANCOM, ITSC, CRECOM, SERVCOM, FRAUDCOM, HRCOM and Employee Recognition Committee.		

JAMES CHRISTIAN T. DEE* (B'date: 18-Jul-73)	45 years old	Vice President II and Treasurer
A degree holder of Bachelor of Science in Mechanical Engineering from the University of the Philippines and Master's degree in Business Management from Asian Institute of Management. He trained with the Regional Treasury Certifications from Citigroup, N.A., Treasury Certification Program from Ateneo-BAP, and ICAAP Risk Models Validation from SGV. He likewise graduated with distinction on the 1 year course on Trust Operation from Trust Institute Foundation of the Philippines. He is a member of the Bank's ManCom and the Vice Chairman of the ALCO. In 2001, he initially was a Trust Portfolio Officer of the Trust Group of China Bank before moving to Citibank N.A. Philippines – GCG Treasury in 2003. At Citibank, N.A. Philippines, he became the Portfolio Officer with the rank of Assistant Vice President of the GCG Treasury until he returned to China Bank in 2009. He is concurrently the Asset Liability Management Head of the Treasury Group of China Bank since 2009. Likewise, he was the Treasury Head & Vice Chairman of ALCO of Plantersbank till it was merged into the bank. Management Level Committee Memberships: Management Committee and Asset & Liability Committee - Vice Chairman. BSP approved the secondment appointment on November 19, 2012.		

MARILYN G. YUCHENKANG* (B'date: 27-Jan-53)	66 years old	Vice President & Chief Audit Executive
A degree holder in AB-BSC-Accounting from St. Scholastica's College and MBA from Dela Salle University. She started her career in China Banking Corporation in 1986 with a rank of Supervisor of its Audit Division until she rose to the rank of Senior Assistant Vice President and Chief Audit Executive to date. She was appointed as CBS' Audit Head on interlocking functions until such time that CBS has already hired her replacement. BSP approved the interlocking functions on June 8, 2018.		

FRANK HILARIO D. MENDOZA (B'date: 7-Sep-64)	54 years old	Vice President and Chief Compliance Officer
A degree holder in BSBA major in Accountancy from National College of Business Administration (NCBA). He is also a Certified Public Accountant. Prior to joining the Bank, he was with the Philippine Fruits & Vegetables Industries, Inc. as its Accountant, Central Bank of the Philippines as Bank Examiner/Officer, U-Bix Corporation as Audit Head/MMD Head, Active Bank as Audit Head and Compliance Officer, AMA Bank, as Audit Head and Chief Compliance Officer, Insular Bank as Chief Operating Officer and Country Builders Bank as its Executive Vice President and Chief Operating Officer until he joined China Bank Savings. He has more than 20 years of banking experience. Management Level Committee Memberships: Vice Chairman of Anti-Money Laundering Committee (AMLACom), and Resource Person to the Operations Committee (OpCom), Information Technology Steering Committee (ITSC) and Service Committee (ServCom).		

NEIL C. JUMAWAN (B'date: 28-Jun-69)	49 years old	Vice President and APDS Lending Group Head
A degree holder of Computer Science major in Computer Technology and BS Commerce major in Management. Before joining China Bank Savings, Inc., he was Data Encoder/Front Desk Officer of Staff Experts, Inc. (assigned at Pag-Ibig Fund), in 1999 to February 2000 as Loan Programmer for WVSU Multi-Purpose Cooperative, from December 2000 to July 2001 as Sales and Marketing Supervisor and from August 2001 to June 2002 as Sales and Training Supervisor of Forest Lake Development, Inc., from June 2002 to December 2012 as Sales Manager for Visayas for Sky Internet, Inc., from November 2003 to January 2012 as Branch Head, from February 2012 to April 2013 as Business Development Officer and from May 2013 until March 2, 2015. Management Level Committee Membership: Member of MANCOM, ALCO, ITSC, AMLACOM, OPCOM and SERVCOM.		

RAYMOND C. APO (B'date: 9-May-67)	52 years old	Senior Assistant Vice President and Risk Management Division Head
A degree holder in Bachelor of Science in Commerce Major in Accountancy from Far Eastern University. He is also a Certified Public Accountant. Prior to joining the Bank, he was with Solidbank Corporation, First Metro Investment Corp., Rizal Commercial Banking Corp., Asiatrust Devt. Bank, and Export and Industry Bank where he held positions of Auditor, I.T. Auditor, Operations Risk Officer, Audit Head and Credit and Operations Risk Officer. He has more than 20 years of banking experience. He was concurrently Plantersbank's Head of Risk Management Department prior to its merger to the Bank. Management Level Committee Memberships: Chairman of FRAUDCOM, Member of ALCO, AMLACOM, CARCOM, OPCOM, AIC and CMSC, and Ex-Officio member of ITSC, CRECOM and SERVCOM.		

HANZ IRVIN S. YORO* (B'date: 14-Sep-81)	37 years old	Senior Assistant Vice President and Information Security Officer
A degree holder in Bachelor of Science in Computer Science Information Technology from Asia Pacific College. He is concurrently the Information Security Officer of China Bank. Prior to joining China Bank, he was with Megalink as Information Security Officer. Earlier, he was likewise the Information Security Officer at EPacific Global, a Security Consultant at Mod.Net.Ph and Unix Specialist at I-Sentry Security. BSP approved the interlocking functions on April 27, 2016.		

*****with interlocking position in China Bank.

3. Term

The Directors are elected to hold office for one (1) year until the next succeeding annual stockholders' meeting or until the respective successors have been elected and qualified.

4. Significant Employees

The registrant is not highly dependent on the services of certain key personnel.

5. Family Relationship

None of the directors or officers is related to each other within the fourth degree either by consanguinity or affinity.

6. Involvement in Certain Legal Proceedings

The Bank has no knowledge of any involvement of any of the directors or executive officers in any material legal proceedings affecting their ability or integrity before any court of law or administrative body in the Philippines or elsewhere for the last five (5) years.

Item 10. EXECUTIVE COMPENSATION

Comparative amount of salaries paid for the Directors and Key Executives of the Corporation (with cut off of December 31, 2018), and, any amount of per diem including bonus of the directors for the last three years.

	YEAR	SALARY	BONUS, PER DIEM & OTHER COMPENSATION	TOTAL
Total for the 5 most highly compensated executive officers*	2019 (estimate)	₱24,563,105	₱5,090,208	₱29,653,313
	2018 (actual)	21,921,984	4,453,225	26,375,209
	2017 (actual)	19,564,847	3,895,953	23,460,800
Total for all key executive officers	2019 (estimate)	33,978,806	7,931,911	41,910,717
	2018 (actual)	31,862,967	6,942,052	37,305,018
	2017 (actual)	29,878,880	6,075,722	35,954,602
Total for all Directors	2019 (estimate)	–	1,593,678	1,593,678
	2018 (actual)	–	1,503,470	1,503,470
	2017 (actual)	–	582,000	582,000

**For years 2017 to 2019, top 5 most highly compensated executive officers are: SVP Maria Teresita R. Dean, SVP Agerico G. Agustin, SVP Jose F. Acetre, FVPII Jan Nikolai M. Lim and FVPII Luis Bernardo A. Puhawan.*

- The Key Executive Officers who were appointed by China Bank to CBS on a concurrent/seconded basis do not receive salaries and other bank benefits, bonuses and per diem from the registrant.
- The Directors, who hold their offices concurrently with their positions in China Bank, likewise receive no fees, per diem and bonuses from the registrant. Only the Independent Directors received per diems from the registrant.
- The only contract existing between the executive officers and the registrant is that of an employee–employer relationship.
- There are no other compensation arrangements for their services.
- There are no outstanding warrants or stock options held by the registrant’s officers and directors.

Item 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

1. Security Ownership of Certain Record and Beneficial Owners

The following own more than 5% of any class securities as of December 31, 2018.

TITLE OF CLASS	NAME, ADDRESS OF RECORD OWNER & RELATIONSHIP W/ ISSUER	BENEFICIAL OWNER & RELATIONSHIP W/ RECORD OWNER	CITIZENSHIP	NO. OF SHARES HELD	%
Common Stock	China Banking Corporation		Filipino	104,995,882	99.60%

The Chairman, Mr. Ricardo R. Chua, is the duly authorized representative of China Bank, and shall exercise the right to vote all the above-enumerated shares by appropriate proxy.

The Corporation has no knowledge of any person holding more than 5% of the Bank's outstanding shares under a voting trust or similar agreement. The Corporation is likewise not aware of any arrangement which may result in a change in control of the Corporation or any additional shares which the above listed beneficial or record owners have the right to acquire within thirty days, from options, warrant, rights, conversion privilege or similar obligation, or otherwise.

2. Security Ownership of Directors and Top Management

TITLE OF CLASS	NAME OF RECORD OWNER	AMOUNT (₱)	CITIZENSHIP	PERCENTAGE
	Directors			
Common Stock	Ricardo R. Chua	100	Filipino	0.00010%
	Nancy D. Yang	100	Filipino	0.00010%
	Alberto Emilio V. Ramos	100	Filipino	0.00010%
	William C. Whang	100	Filipino	0.00010%
	Rosemarie C. Gan	100	Filipino	0.00010%
	Alexander C. Escucha	100	Filipino	0.00010%
	Philip S. L. Tsai	100	Filipino	0.00010%
	Alberto S. Yao	100	Filipino	0.00010%
	Margarita L. San Juan	100	Filipino	0.00010%
	Jose L. Osmeña, Jr.	100	Filipino	0.00010%
	Patrick D. Cheng	100	Filipino	0.00010%
	Total as a Group	**1,100**		**0.00110%**

3. Voting Trust Holders of 5% or More

No other person holds more than 5% of a class under voting trust or similar agreement.

Item 12. CERTAIN RELATIONSHIP AND RELATED TRANSACTIONS

In the ordinary course of business, the Board of Directors continues to ensure that loans and other transactions with its DOSRI are made substantially on terms not less favorable to the Bank than those offered by others. Full disclosures for these transactions were made through timely reports with the BSP.

None of the directors or officers is related to each other within the fourth civil degrees either by consanguinity or affinity.

PART IV. CORPORATE GOVERNANCE

Item 13. CORPORATE GOVERNANCE

GOVERNANCE MECHANISMS AND POLICIES

The corporate governance structure of the Bank is supported by the policies and mechanisms adopted to foster a culture of good governance. These are enshrined in the Bank's Corporate Governance Manual, Code of Ethics, Compliance Manual and various internal circulars. The Bank has also adopted leading practices in corporate governance for the continuous promotion and protection of its stakeholders.

The Bank is continuously updating its Board-approved Manual on Corporate Governance. The Manual embodies the principles of good corporate governance and best practices. To comply with the new regulations issued by the BSP, the Manual was recently revised and approved by the Board. The amendment solidifies the Bank's commitment to formalize and institutionalize the principles of good corporate governance in the entire organization and strengthened the oversight function of the Board of Directors.

The Board of Directors, Management, employees and shareholders believe that good corporate governance is a necessary component of what constitutes sound strategic business management. Thus, it has, within the bounds of its resources, implemented all planned action to create a heightened and continuing awareness on good corporate governance within the organization.

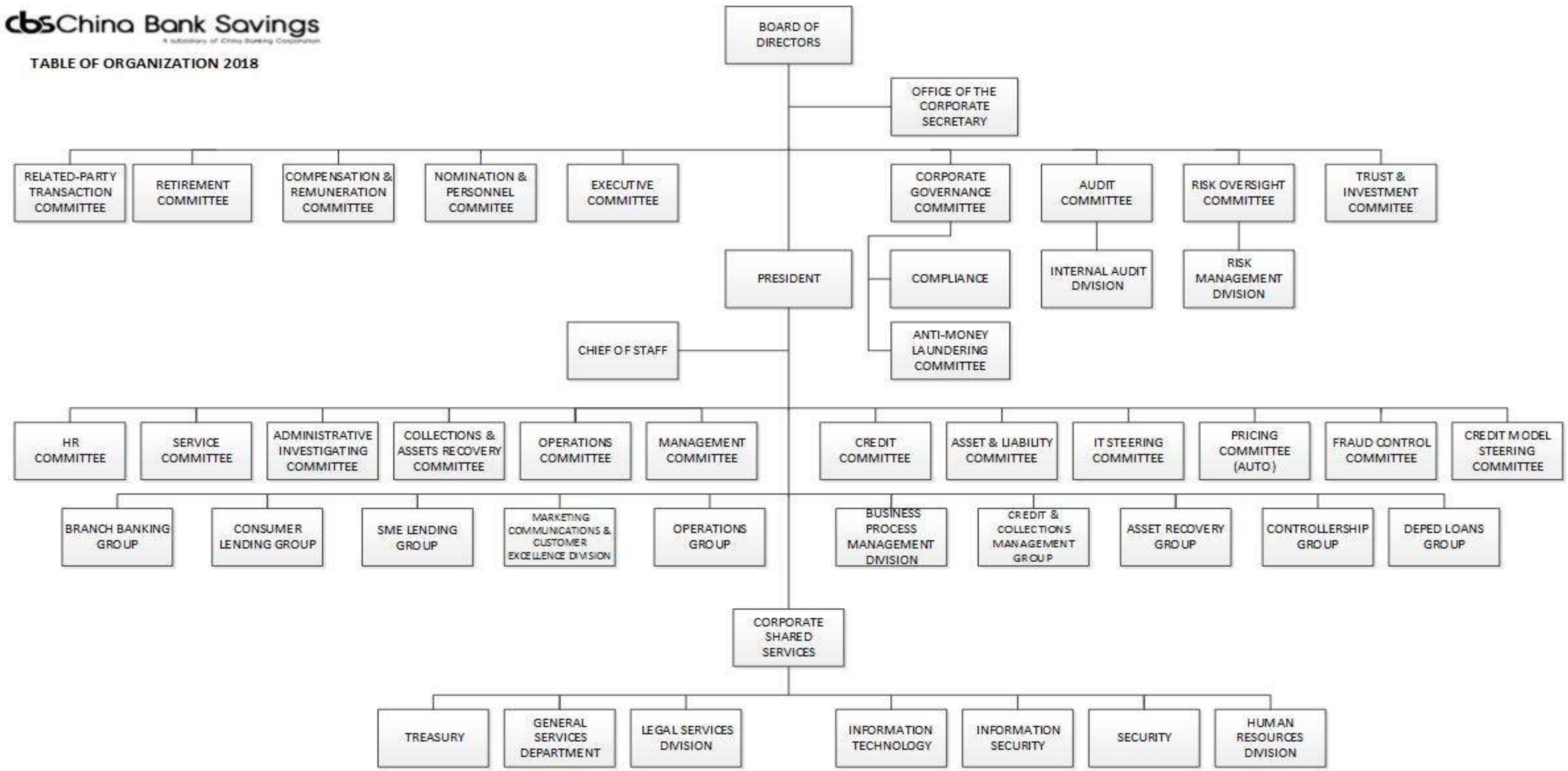
To ensure good governance, there is an evaluation system for the Board, individual Directors and various Board Committees such as Executive Committee, Risk Management Committee, Audit Committee and Corporate Governance Committee.

For 2018, the Bank submitted with the SEC the annual Certification of Compliance on Good Corporate Governance. The Certification was submitted on January 22, 2019.

Organizational structure

The Board of Directors being at the core of the Bank's corporate governance structure continues to foster a culture of a proactive Board that is accountable and responsible for the affairs and performance of the Bank supported by dynamic officers and staff in achieving its goal of governance of going beyond best practice compliance.

In January 2018, the Board approved the new table of organization, to wit:



Board of Directors

The Bank has eleven (11) directors. In accordance with the Bank‘s Manual on Corporate Governance aligned with laws, rules and regulations, the members of the Board are selected from a broad pool of qualified candidates after considering, among other things, their integrity, competence, independence, leadership, ability to exercise sound judgment, and experience at policy-making levels involving issues affecting business, government, as well as other areas relevant to the Bank's operations.

Acknowledging the significant and crucial roles of Independent Directors, the Bank has three (3) independent directors in the Board to promote independent oversight of management by the Board of Directors. The Bank‘s Independent Directors are independent of management and major/substantial shareholders, and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with exercise of independent judgment in carrying out their responsibilities as directors of the Bank.

The members of the Board are given a copy of their general and specific duties and responsibilities as prescribed by the Manual of Regulations for Banks (MORB); the directors acknowledge that they have received and certify that they read and fully understood the same. Copies of the acknowledgement receipt and certification are submitted to the BSP within the prescribed period. Moreover, the Directors individually submit a Sworn Certification that they possess all the qualifications as enumerated in the MORB. These certifications are submitted to the BSP after their election. Additional certifications are executed by Independent Directors to comply with Securities Regulation Code and BSP rules which are then submitted to the SEC.

Board Meetings and Supply of Information

The meetings of the Board are scheduled in advance in accordance with the Bank‘s By-Laws every third Tuesday of each month. Special meetings are held when necessary.

The Directors are expected to prepare for, attend and participate in these meetings, and to act judiciously, in good faith and in the interest of the Bank and its shareholders, thus, they are provided Board materials related to the agenda days in advance of meetings by the Corporate Secretary.

A director may participate via telephone-conferencing when exigencies prevent him from attending a Board meeting in person.

The Board is provided with the information and resources needed to effectively discharge its fiduciary duty. The Board is informed on an ongoing basis of the Bank‘s performance, major business issues, new developments, and the impact of recent developments in the economic and regulatory environment.

Members of Senior Management are invited to attend Board meetings to provide the Board with detailed explanations and clarifications on proposals tabled to enable the Board to make an informed decision. The meetings of the Board and its committees are recorded in minutes, and all resolutions are documented.

For the period January to December 2018, the Board of Directors had 14 meetings, including the organizational meeting. The incumbent directors attended/participated in more than 50% of all the meetings, as follows:

DIRECTOR	ATTENDANCE
1. Ricardo R. Chua	100%
2. Nancy D. Yang	100%
3. Alberto Emilio V. Ramos	100%
4. William C. Whang	100%
5. Alexander C. Escucha	100%
6. Rosemarie C. Gan	100%
7. Jose L. Osmeña, Jr.	92.86%
8. Patrick D. Cheng	100%
9. Philip S. L. Tsai*	**0%
10. Alberto S. Yao*	100%
11. Margarita L. San Juan*	85.71%

** Independent Director*
*** Elected in November 2018*

Board Committees

In order to effectively carry out its mandate of good corporate governance through compliance with laws, rules, regulations and best practices, the Board of the Bank is supported by various committees, as follows:

a. **Executive Committee** when the Board is not in session has the powers of the Board in the management of the business and affairs of the Bank, to the fullest extent permitted under Philippine law.

Executive Committee (ExCom)	
Chairman	Mr. William C. Whang
Vice-Chairman	Mrs. Nancy D. Yang
Member	Mr. Alberto Emilio V. Ramos
Member	Mrs. Rosemarie C. Gan
Member	Mr. Jose L. Osmena, Jr.

b. **Corporate Governance Committee** is responsible for ensuring the Board‘s effectiveness and due observance of Corporate Governance principles and guidelines, and oversees the periodic evaluation of the Board and its Committees, as well as of the Executive Management.

Corporate Governance Committee (CorpGovCom)	
Chairman	Mr. Philip S. L. Tsai, Independent Director
Vice-Chairman	Mr. William C. Whang
Member	Mr. Alexander C. Escucha
Member	Mr. Alberto S. Yao, Independent Director
Member	Mrs. Margarita L. San Juan, Independent Director

c. **Audit Committee** primarily oversees all matters pertaining to audit, including the evaluation of the adequacy and effectiveness of the Bank's internal control system. It likewise provides oversight on the activities of Management and the internal and external auditors. The Committee is also empowered to oversee the Bank's external audit functions, financial reporting and policies, by selecting the auditors and approving their fees, reviewing and discussing the scope and plan of annual audit, and reviewing and discussing with management and auditors the annual audited financial statements of the Bank. It also provides oversight over management's activities in managing credit, market, liquidity, operational, legal and other risks of the Bank, including regular receipts from management of information on risk exposures and risk management activities.

Audit Committee (AuditCom)	
Chairman	Mr. Alberto S. Yao, Independent Director .
Vice-Chairman	Mrs. Margarita L. San Juan, Independent Director
Member	Mr. Philip S. L. Tsai, Independent Director

d. **Risk Management Committee** is responsible for the oversight and development of all the Bank's risk management functions, including the evaluation of the risk management plan to ensure its continued relevance, comprehensiveness, and effectiveness.

Risk Management Committee (RMC)	
Chairman	Ms. Margarita L. San Juan, Independent Director
Member	Mr. Alberto S. Yao, Independent Director
Member	Mrs. Nancy D. Yang
Member	Mr. Philip S. L. Tsai, Independent Director
Member	Mr. Patrick D. Cheng

e. **Nominations and Personnel Committee** is responsible for reviewing and evaluating the qualifications of all persons nominated to the Board and other appointments that require Board approval, including promotions favorably endorsed by the Promotions Review Committee. It also has the task of identifying the qualities of the nominees/appointees to the Board aligned with the Bank's strategic directions.

Nominations and Personnel Committee	
Chairman	Mr. Philip s. L. Tsai, Independent Director
Vice-Chairman	Mr. William C. Whang
Member	Mr. Patrick D. Cheng
Member	Mr. Alexander C. Escucha
Member	Mr. Alberto S. Yao, Independent Director
Ex-Officio	Ms. Maria Rosanna L. Testa
Ex-Officio	Atty. Josephine F. Fernandez

f. **Compensation and Remuneration Committee** provides oversight on the remuneration of senior management and other key personnel, ensuring that compensation is consistent with the Bank's culture, strategy and control environment.

Compensation and Remuneration Committee	
Chairman	Mr. William C. Whang
Vice-Chairman	Mr. Alberto Emilio V. Ramos
Member	Mr. Alberto S. Yao, Independent Director
Ex-Officio	Mr. Patrick D. Cheng
Ex-Officio	Ms. Maria Rosanna L. Testa
Ex-Officio	Atty. Josephine F. Fernandez

g. **Retirement Committee** shall discharge the Board of Directors' responsibilities relating to oversight of the investment of the funds of the Company's retirement benefit plans and the performance of plan trustee and investment fiduciaries.

Retirement Committee	
Chairman	Mr. William C. Whang.
Member	Mr. Alberto Emilio V. Ramos
Member	Mr. Patrick D. Cheng
Member	Mr. Jose L. Osmena, Jr.
Ex-Officio	Ms. Maria Rosanna L. Testa
Ex-Officio	Atty. Josephine F. Fernandez

h. **Related Party Transaction Committee** is responsible for reviewing all material related party transactions to ensure that they are conducted in accordance with the arm's length principles.

Related Party Transaction Committee (RPTCom)	
Chairman	Mr. Philip S. L. Tsai, Independent Director
Vice-Chairman	Mrs. Margarita L. San Juan. Independent Director
Member	Mr. Alberto S. Yao. Independent Director

For the period January to December 2018, the incumbent directors attended/participated in more than 50% of all the committee meetings, as follows:

NAME OF MEMBERS	EXCOM	RMC	AUDITCOM	CORPGOV COM
No. of Meetings	**25**	**6**	**3**	**6**
1. Ricardo R. Chua	-	-	-	-
2. Nancy D. Yang	96%	100%	-	-
3. Alberto Emilio V. Ramos	92%	-	-	-
4. William C. Whang	100%	-	-	100%
5. Alexander C. Escucha	-	-	-	100%
6. Rosemarie C. Gan	100%	-	-	-
7. Jose L. Osmeña, Jr.	92%	-	-	-
8. Patrick D. Cheng	-	100%	-	-
9. Philip S. L. Tsai*	-	**-	**-	**-
10. Alberto S. Yao*	-	100%	100%	100%
11. Margarita L. San Juan*	-	83%	100%	100%

** Independent Director*
*** Elected in November 2018*

OTHER MANAGEMENT COMMITTEES

Management Committee (ManCom)	
Chairman	President Alberto Emilio V. Ramos
Vice Chairman	SVP Maria Teresita R. Dean - SME Lending Group Head
Members	SVP Jose F. Acetre - Asset Recovery Group Head
	VP II James Christian T. Dee – Treasurer
	FVP II Luis Bernardo A. Puhawan - Controller
	FVP II Jan Nikolai M. Lim - Consumer Lending Group Head
	SVP Agerico G. Agustin - Branch Banking Group Head
	FVP Atty. Josephine F. Fernandez, Human Resources Division Head
	FVP Jaydee P. Caparas - BBG, National Sales Director
	VP II Sonia B. Ostrea - Centralized Operations Group Head
	VP II Arthur S. Esquivel - Chief Marketing Officer
	VP Niel C. Jumawan - APD Lending Group Head
Ex Officio	VP II Edith N. Young - IT Head; or IT Officer
Secretary	M Faye Abigail G. Año - Corporate Planning Unit Head, Office of the Controller

Asset and Liability Committee (ALCO)	
Chairman	President Alberto Emilio V. Ramos
Vice-Chairman	VP II James Christian T. Dee - Treasurer
Members	SVP Maria Teresita R. Dean - SME Lending Group Head
	FVP II Luis Bernardo A. Puhawan - Controller
	FVP II Jan Nikolai M. Lim - Consumer Lending Group Head
	SVP Agerico G. Agustin - Branch Banking Group Head
	VP Niel C. Jumawan - APD Lending Group Head
Ex Officio	SAVP Raymond C. Apo - Risk Management Department Head
	M Faye Abigail G. Año - Corporate Planning Unit Head, Office of the Controller
Secretary	SAVP Charmaine S. Hao - Treasury Officer

Information Technology Steering Committee (ITSC)	
Chairman	President Alberto Emilio V. Ramos
Vice-Chairman	VP II Edith N. Young - Information Technology Head
Members	Director Alexander C. Escucha - Board Member
	SVP Maria Teresita R. Dean - SME Lending Group Head
	FVP II Luis Bernardo A. Puhawan - Controller
	FVP II Jan Nikolai M. Lim - Consumer Lending Group Head
	SVP Agerico G. Agustin - Branch Banking Group Head
	VP II Sonia B. Ostrea - Centralized Operations Group Head
	VP Arthur S. Esquivel - Chief Marketing Officer
	VP Maria Consuelo S. Ruffy - SME Credit Division Head
	VP Pablito C. Veloria - Consumer Credit Division Head
	VP Niel C. Jumawan - APD Lending Group Head
Ex Officio	FVP Adonis C. Yap - Digital Bank/Alternative Channels/Worksite Division Head

Information Technology Steering Committee (ITSC)	
	SAVP Raymond C. Apo - Risk Management Division Head
	VP Marilyn G. Yuchenkang***** - China Bank Audit Division Head *****_Interlocking appointment shall only be temporary until such time that CBSI appoints its full-time Internal Audit Division Head._
Resource Person	VP Frank Hilario D. Mendoza, Chief Compliance Officer
Secretary	SM Raymond A. Deseo – Business Process Management Division Head

Credit Committee (CreCom)	
Chairman	President Alberto Emilio V. Ramos
Vice-Chairman	SVP Jose F. Acetre - Asset Recovery Group Head
Members	SVP Maria Teresita R. Dean - SME Lending Group Head
	VP II Sonia B. Ostrea - Centralized Operations Group Head
	VP Maria Consuelo S. Ruffy - SME Credit Division Head
	SAVP Mary Grace F. Guzman - Special Assets Management Division Head
	VP Pablito C. Veloria - Consumer Credit Division Head (Alternate)
	AVP Grace Z. Floresca - Credit Policy and Quality Assurance Division Head (Alternate)
Ex Officio	FVP Atty. Odel S. Janda - Legal Services Division Head
	SAVP Raymond C. Apo - Risk Management Division Head
Secretary	M Jaynee Ann C. Victoria

Sub-Credit Committee (Sub-CreCom)	
Chairman	SVP Jose F. Acetre - Asset Recovery Group Head
Vice-Chairman	VP Maria Consuelo S. Ruffy - SME Credit Division Head
Members	VP Pablito C. Veloria - Consumer Credit Division Head
	SAVP Mary Grace F. Guzman - Special Assets Management Division Head
	AVP Grace Z. Floresca - Credit Policy and Quality Assurance Division Head
Endorsing Members	SVP Maria Teresita R. Dean - SME Lending Group Head
	SVP Agerico G. Agustin - Branch Banking Group Head
	FVP II Jan Nikolai M. Lim - Consumer Lending Group Head
Secretary	M Jaynee Ann C. Victoria

Pricing Committee (Auto)	
Chairman	SVP Jose F. Acetre - Asset Recovery Group Head
Vice-Chairman	FVP II Jan Nikolai M. Lim - Consumer Lending Group Head
Members	VP Pablito C. Veloria - Consumer Credit Division Head
	FVP Atty. Odel S. Janda - Legal Services Division Head & Corporate Secretary
	SAVP Emmanuelito M. Gomez - Auto Lending Division Head
Secretary	Acquired Assets Division Officer (Auto)

Anti-Money Laundering Committee (AMLACom)	
Chairman	VP II Sonia B. Ostrea - Centralized Operations Group Head
Vice-Chairman	VP Frank Hilario D. Mendoza, Chief Compliance Officer
Members	President Alberto Emilio V. Ramos
	SVP Maria Teresita R. Dean - SME Lending Group Head
	FVP II Jan Nikolai M. Lim - Consumer Lending Group Head
	SVP Agerico G. Agustin - Branch Banking Group Head
	FVP Atty. Odel S. Janda - Legal Services Division Head & Corporate Secretary
	VP Niel C. Jumawan - APD Lending Group Head
	SAVP Raymond C. Apo - Risk Management Division Head
	SAVP Myrna G. Mendoza - Branch Operations Division OIC
Secretary	AVP Atty. Alfonso Ismael A. Alcuaz

Collections and Asset Recovery Committee (CarCom)	
Chairman	President Alberto Emilio V. Ramos
Vice-Chairman	SVP Jose F. Acetre - Asset Recovery Group Head
Members	SVP Maria Teresita R. Dean - SME Lending Group Head
	FVP II Luis Bernardo A. Puhawan - Controller
	FVP II Jan Nikolai M. Lim - Consumer Lending Group Head
	FVP Atty. Odel S. Janda - Legal Services Division Head & Corporate Secretary
	VP Maria Consuelo S. Ruffy - SME Credit Division Head
	VP Pablito C. Veloria - Consumer Credit Division Head
	SAVP Raymond C. Apo - Risk Management Division Head
	AVP Grace Z. Floresca - Credit Policy and Quality Assurance Division Head
Secretary	AVP Claudette V. Sia

Operations Committee (OpCom)	
Chairman	VP II Sonia B. Ostrea - Centralized Operations Group Head
Vice-Chairman	AVP Marilou M. De Guzman - Branch Support Services Management Division Head
Members	SM Raymond A. Deseo - Business Process Management Division Head
	VP Rosalinda T. Munsayac - Loans Operations Division Head
	SAVP Myrna G. Mendoza - Branch Operations Division OIC
	VP Maria Consuelo S. Ruffy - SME Credit Division Head
	VP Pablito C. Veloria - Consumer Credit Division Head
	SAVP Raymond C. Apo - Risk Management Division Head
	VP Niel C. Jumawan - APD Lending Group Head
	SM Jesus D. Tomboc - LOD SME Head
	SM Jinkee C. Rejuso - Loans Business Center Head
Resource Person	VP Frank Hilario D. Mendoza, Chief Compliance Officer
Secretary	SAM Jomasus V. Manset

Service Committee (ServCom)	
Chairman	President Alberto Emilio V. Ramos
Vice-Chairman	VP II Arthur S. Esquivel - Chief Marketing Officer
Members	SVP Maria Teresita R. Dean - SME Lending Group Head
	SVP Agerico G. Agustin - Branch Banking Group Head
	FVP II Jan Nikolai M. Lim - Consumer Lending Group Head
	VP Niel C. Jumawan - APD Lending Group Head
	VP II Sonia B. Ostrea - Centralized Operations Group Head
	VP Christian Hermes M. Bite - Collection Services Division Head
	AVP Marilou M. De Guzman - Branch Support Services Management Division Head
	AVP Maria Theresa E. Santos - Customer Experience Management Department Head
	SM Raymond A. Deseo - Business Process Management Division Head
Ex Officio	FVP Adonis C. Yap - Digital Bank/Alternative Channels/Worksite Division Head
	SAVP Raymond C. Apo - Risk Management Division Head
Resource Person	VP Frank Hilario D. Mendoza - Chief Compliance Officer
Secretary	AM Stephanie T. Trinidad - Service Quality Unit Head

Fraud Control Committee (FraudCom)	
Chairman	SAVP Raymond C. Apo - Risk Management Division Head
Vice-Chairman	SVP Maria Teresita R. Dean - SME Lending Group Head
Members	SVP Jose F. Acetre - Asset Recovery Group Head
	FVP II Jan Nikolai M. Lim - Consumer Lending Group Head
	FVP Atty. Odel S. Janda - Legal Services Division Head
	VP II Sonia B. Ostrea - Centralized Operations Group Head
	SVP Agerico G. Agustin - Branch Banking Group Head
Secretary	Risk Management Division Officer

Administrative Investigation Committee (AIC)	
Chairman	FVP Atty. Josephine F. Fernandez – Human Resources Division Head
Vice-Chairman	SVP Maria Teresita R. Dean - SME Lending Group Head
Members	FVP II Luis Bernardo A. Puhawan - Controller
	FVP Atty. Odel S. Janda - Legal Services Division Head
	SAVP Jay Araceli L. Suria - HRD Employee Relations Department Head
	SAVP Raymond C. Apo - Risk Management Division Head
Secretary	Human Resources Officer

Credit Model Steering Committee (CMSC)	
Chairman	President Alberto Emilio V. Ramos
Vice-Chairman	SVP Maria Teresita R. Dean - SME Lending Group Head
Members	VP Pablito C. Veloria - Consumer Credit Division Head
	VP Maria Consuelo S. Ruffy - SME Credit Division Head

Credit Model Steering Committee (CMSC)	
	SAVP Raymond C. Apo - Risk Management Division Head
	VP Christian Hermes M. Bite - Collection Services Division Head
	AVP Winifredo G. Solis - Project Manager, Business Intelligence
	AVP Grace Z. Floresca - Credit Policy and Quality Assurance Division Head
Resource Person	FVP Ananias S. Cornelio, III - Chief Risk Officer

Human Resources Committee	
Chairman	SVP Maria Teresita R. Dean - SME Lending Group Head
Vice-Chairman	SVP Agerico G. Agustin - Branch Banking Group Head
Members	SVP Jose F. Acetre - Asset Recovery Group Head
	FVP II Jan Nikolai M. Lim - Consumer Lending Group Head
	FVP II Luis Bernardo A. Puhawan - Controller
	FVP Atty. Josephine F. Fernandez, Human Resources Head
	VP II Sonia B. Ostrea - Centralized Operations Group Head
Secretary	Human Resources Officer

Employee Recognition Committee	
Chairman	FVP Atty. Josephine F. Fernandez – Human Resources Division Head
Vice-Chairman	VP II Arthur S. Esquivel - Chief Marketing Officer
Members	VP Emmanuel Antonio R. Gomez - Metro Manila Lending Division Head
	VP II Sonia B. Ostrea - Centralized Operations Group Head
	VP Kristine Michele C. Broadhurst - Housing Loans Division Head

Screening Committee (Employee Recognition Sub-Committee)	
Chairman	FVP Atty. Josephine F. Fernandez - Human Resources Division Head
Vice-Chairman	SM Raymond A. Deseo - Business Process Management Division Head
Members	AVP Maria Theresa E. Santos - Customer Experience Management Department Head
	SM Arnold A. Alcala – BBG-BOD Policies & Procedures Unit Head
Secretary	Human Resources Officer (Organization Development)

Selection Process for the Board and Senior Management

The nominations and personnel committee and/or corporate governance committee shall assist the board of directors in fulfilling its corporate governance responsibilities. It shall review and evaluate the qualifications of all persons nominated to the board as well as those nominated to other positions requiring appointment by the board of directors.

The corporate governance committee shall be responsible for ensuring the board's effectiveness and due observance of corporate governance principles and guidelines. It shall oversee the periodic performance evaluation of the board and its committees and executive management; and shall also conduct an annual self-evaluation of its performance. The committee chairman shall certify that it conduct a “proper and fit test” on the Bank’s directors and senior management.

Powers/Responsibilities and Duties of Directors

The duties of care and loyalty are the two key elements of the fiduciary duty of the Board. The duty of care requires the members of the Board to act on a fully informed basis, in good faith, with due diligence and care, while, the duty of loyalty is where the board members should act in the best interest of the Bank and all its stakeholder, such as the depositors, creditors, employees and regulators.

a. Powers of the board of directors. The corporate powers of the bank shall be exercised, its business conducted, and all its property shall be controlled and held by the board of directors. The powers of the board of directors as conferred by law are original and cannot be revoked by the stockholders. The directors hold their office charged with the duty to exercise sound and objective judgment for the best interest of the Bank.

b. General responsibility of the board of directors. The position of a bank director is a position of trust. A director assumes certain responsibilities to different constituencies or stakeholders, i.e., the Bank itself, its stockholders, its depositors and other creditors, its management and employees, the regulators, deposit insurer and the public at large. These constituencies or stakeholders have the right to expect that the institution is being run in a prudent and sound manner. The board of directors is primarily responsible for approving and overseeing the implementation of the Bank’s strategic objectives, risk strategy, corporate governance and corporate values. Further, the board of directors is also responsible for monitoring and overseeing the performance of senior management as the latter manages the day to day affairs of the institution.

c. Specific duties and responsibilities of the board of directors

   - To define the Bank’s corporate culture and values.
   - To approve Bank’s objectives and strategies and oversee management’s implementation thereof.
   - To appoint/select key members of senior management and heads of control functions and for the approval of a sound remuneration and other incentive policies for personnel.
   - To approve and oversee implementation of the Bank’s corporate governance framework.
   - To approve the Bank’s risk governance framework and oversee management’s implementation thereof.
   - To approve and oversee the implementation of policies governing major areas of banking operations.
   - To consistently conduct the affairs of the institution with a high degree of integrity.
   - To constitute committees to increase efficiency and allow deeper focus in specific areas.

Duties and Responsibilities of the Chairperson of the Board of Directors

The duties and responsibilities of the Chairperson include, among others, the following:

a. To provide leadership in the board of directors. The chairperson of the board shall ensure effective functioning of the board, including maintaining a relationship of trust with board members.

b. To ensure that the board takes an informed decision. The chairperson of the board shall ensure a sound decision making process and he should encourage and promote critical discussion and ensure that dissenting views can be expressed and discussed within the decision-making process. In relation to this, the chairperson shall guarantee that the Board receives accurate, timely, relevant, insightful, concise, and clear information to enable it to make sound decisions.

Specific Duties and Responsibilities of a Director

a. To remain fit and proper for the position for the duration of his term. A director is expected to remain fit and proper for the position for the duration of his term. He should possess unquestionable credibility to make decisions objectively and resist undue influence. He shall treat board of directorship as a profession and shall have a clear understanding of his duties and responsibilities as well as his role in promoting good governance. Hence, he shall maintain his professional integrity and continuously seek to enhance his skills, knowledge and understanding of the activities that the Bank is engaged in or intends to pursue as well as the developments in the banking industry including regulatory changes through continuing education or training.

b. To conduct fair business transactions with the Bank and to ensure that personal interest does not bias board decisions. Directors should avoid situations that would give rise to a conflict of interest. If transactions with the institutions cannot be avoided, it should be done in the regular course of business and upon terms not less favorable to the institution than those offered to others. The basic principle to be observed is that a director should not use his position to make profit or to acquire benefit or advantage for himself and/or his related interests. He should avoid situations that would compromise his impartiality.

c. To act honestly and in good faith, with loyalty and in the best interest of the institution, its stockholders, regardless of the amount of their stockholdings, and other stakeholders such as its depositors, investors, borrowers, other clients and the general public. A director must always act in good faith, with the care which an ordinarily prudent man would exercise under similar circumstances. While a director should always strive to promote the interest of all stockholders, he should also give due regard to the rights and interest of other stakeholders.

d. To devote time and attention necessary to properly discharge their duties and responsibilities. Directors should devote sufficient time to familiarize themselves with the institution’s business. They must be constantly aware of the institution’s condition and be knowledgeable enough to contribute meaningfully to the board’s work. They must attend and actively participate in board and committee meetings, request and review meeting materials, ask questions, and request explanations. If a person cannot give sufficient time and attention to the affairs of the institution, he should neither accept his nomination nor run for election as member of the board.

e. To act judiciously. Before deciding on any matter brought before the Board of Directors, every director should thoroughly evaluate the issues, ask questions and seek clarifications when necessary.

f. To contribute significantly to the decision-making process of the board. Directors should actively participate and exercise objective independent judgment on corporate affairs requiring the decision or approval of such board.

g. To exercise independent judgment. A director should view each problem/situation objectively. When a disagreement with others occurs, he should carefully evaluate the situation and state his position. He should not be afraid to take a position even though it might be unpopular. Corollary, he should support plans and ideas that he thinks will be beneficial to the institution.

h. To have a working knowledge of the statutory and regulatory requirements affecting the institution, including the content of its articles of incorporation and by-laws, the requirements of the BSP and where applicable, the requirements of other regulatory agencies. A director should also keep himself informed of the industry developments and business trends in order to safeguard the institution's competitiveness.

i. To observe confidentiality. Directors must observe the confidentiality of non-public information acquired by reason of their position as directors.

Board and Committee Performance Evaluation

The Board conducts an annual assessment of its performance and effectiveness as a body, as well as its various committees, and the individual directors through self-assessment. The results thereof are reported to the Board through the Corporate Governance Committee. This exercise covers the assessment of the ongoing suitability of each board member taking into account his or her performance in the Board and board-level committees.

In 2018, there are no significant deviations noted and, in general, the Bank has complied with the provisions and requirements of the MORB and the Bank's Corporate Governance Manual.

Corporate Governance Manual

The Corporate Governance Manual contains the governance principles and policies that serves as a guide/reference in complying with regulations. The manual formalizes and institutionalizes the principles of good corporate governance in the Bank.

In furtherance of its responsibilities under the Manual and Corporate Governance Charter, the Corporate Governance Committee reviewed and approved the following:

a. Revised Corporate Governance Manual;
b. Amended Corporate Governance Charter; and
c. Updated Board and board-level committees' Self-Assessment Questionnaires.

Compliance Risk Management System

The compliance risk management system is designed to specifically identify and mitigate risks that may erode the franchise value of the Bank such as risks of legal or regulatory sanctions, material financial loss, or loss to reputation, the Bank may suffer as a result of its failure to comply with laws, rules, related self-regulatory organization standards, and codes of conduct applicable to its activities.

It is the method by which the Bank manages the compliance process. It consists of rules, policies and procedures which provide assurance for an effective compliance culture in the Bank. The Bank's compliance system includes compliance policies and procedures which provide the framework for the bank's compliance processes as source of reference of all stakeholders, the board of directors, officers and employees.

Compliance risk management is an integral part of the culture and risk governance framework of the Bank. Compliance is a responsibility and shared accountability of all personnel, officers, and the board of directors.

The Compliance System of the Bank was established pursuant to the regulatory mandate of the BSP and SEC. It is carried out through a Board-approved Compliance Program by the Compliance Office, which reports directly to the Corporate Governance Committee. Compliance Office oversees the implementation of the Compliance Program, and is responsible for, among others, (i) identification of all relevant laws and regulations applicable to the activities and business of the Bank, and monitoring and controlling of attendant compliance risks, (ii) creating awareness on all banking laws and regulations among Bank employees with dissemination of all regulatory issuances and regular trainings; (iii) regular compliance testing of all Bank activities and products; and (iv) liaise and dialogue with BSP and other government regulatory agencies.

Bank Compliance Framework

The Bank's Compliance Framework was established to implement a strong compliance system. The Bank employs a triple level approach for observing laws and regulation.

- 1st level - Employee participation (compliance with the relevant regulations)
- 2nd level - Compliance Office (implementation of the compliance program)
- 3rd level - Internal Audit Department (post audit)

The Compliance Office, in particular, has an approved manpower count of 16 members including the CCO, an administrative assistant, 9 Compliance Officers for AML and 5 Compliance officers for the General and Corporate Governance. Unit Compliance Coordinators are assigned on each unit of the Bank to help the compliance office perform the monitoring and testing functions.

Compliance Program

The compliance program includes an annual plan that should ensure that the bank's compliance system is effectively running and in place, rules and regulations are adhered to, taking into account the risks involved for the protection of its clients, bank's reputation, its employees, business efforts and strategies.

Components of the Compliance Program

1. Review and implementation of specific policies and procedures
2. Compliance risk assessment
3. Compliance testing
4. Educating personnel on compliance matters
5. Monitoring compliance risk exposures
6. Regular reporting to the board and board-level committees

Testing and Reporting

Compliance Office conducts its regular compliance testing in accordance with the approved Compliance Testing Plan. The basis of the Compliance Testing Plan is the result of the latest risk assessment of business units. The risk profile is used as guide of Compliance Office in the prioritization of a unit/branch to be included in the annual Compliance Testing Plan.

All bank compliance issues and concerns, including results of compliance testing and internal audit, BSP examinations results, implementation of internal control policies, and all other issues monitored by the BSP are reported to the CGCOM every other month. The Members of the CGCOM, on the other hand, provide guidance on the effectiveness of all actions taken/to be taken.

Anti-Money Laundering Prevention

The Bank adheres to the Anti-Money Laundering Act and all related and applicable rules, regulations and issuances of the BSP. The Bank commits to protect and preserve the integrity and confidentiality of its customers' accounts and shall not allow them to be used as money laundering site for the proceeds of unlawful activity.

The Bank has in place a board-approved Money Laundering and Terrorist Prevention Program (MLPP) which contains and consolidates all laws and regulations on anti-money laundering, such as, know-your-client (KYC) requirements, monitoring of accounts and transactions, training of all officers and employees on AML laws and regulations and other relevant information. The MLPP manual is updated on an annual basis using the most recent updates on the applicable rules, regulations and issuances of the BSP.

Dissemination of laws and regulations is regularly made to all officers and employees of the Bank to equip them with necessary knowledge and information to combat money laundering activities. AML trainings are regularly given during orientation sessions of new employees and refresher courses are regularly conducted.

Conflict of Interest

Conflict between the interest of the Bank, of the employees and related parties should be avoided at all times. In cases of conflict, the interest of the Bank should prevail. Our Directors, Officers, Stockholders and related parties are not allowed to have direct or indirect financial interests that conflict or appear to conflict with their duties and responsibilities as employees of the Bank.

In this regard, the Directors and/or Officers concerned shall disclose any direct, indirect or on behalf of third parties, a financial interest in the transaction or matter affecting the Bank.

Directors and/or officers with personal interest, related or any form of connection which may potentially result to a conflict of interest in the transaction shall abstain from the discussion, deliberation, approval and management of such transaction or matter affecting the Bank.

Code of Ethics

CBS is committed to carry out its business operations in accordance with the highest standards of ethics. The Bank, as a whole, together with the members of the Board of Directors, stakeholders, and all employees are dedicated in ensuring that they abide by the acceptable rules and regulations which dictate its operations.

The Code of Ethics is founded on basic standards and ethical business and personal conduct, including honesty and candor in all activities, avoidance of activities and transactions that could result or potentially result in conflicts between personal and the Bank's interest, maintenance of the Bank's reputation, avoidance of personal gain at the expense of the institution, and conduct contrary to ethical business practices. The Code also embodies policies that will prevent fraud, or the use of the facilities of the Bank in the furtherance of any unlawful or immoral pursuit. In all activities and decisions, one must consider the ethics or propriety of every situation, full transparency and be beyond reproach.

Related Party Transactions

The Bank recognizes that transactions between and among related parties may create financial, commercial and economic benefits to individuals, institutions and to the entire group where the Bank belongs.

In this regard, as required by existing regulations for related party transaction (RPT), the Bank, its Board, Management, all officers and staff ensure that RPTs are done on an arm's length basis and that the appropriate oversight and implementation of an effective control system for the management of exposures are in place.

Therefore, the Bank's Board of Directors, Management, officers and staff are mandated to comply with the board-approved policies in the RPT Framework (RPT Framework or Framework) and shall not allow RPTs that may lead to abuses or may cause disadvantages to the Bank, its depositors, creditors, fiduciary clients, and other stakeholders.

The RPT framework was approved by the Board on July 21, 2016. The framework is supported by an implementing policy guidelines which was approved by the Board on January 17, 2019.

Overarching Policies and Procedures for Managing Related Party Transactions

The Bank's Policy on Related Party Transactions applies to all covered RPT of the Bank, regardless of the amount, and the Bank has set specific procedures and guidelines in managing the Bank's RPTs.

Related Party Transactions are transactions or dealings with related parties of the Bank, regardless of whether or not a price is charged. These include, but not limited to the following:

a. On-and-off balance sheet credit exposures and claims and write-offs;
b. Investment and/ or subscription for debt/ equity issuances;
c. Consulting, professional, agency and other service arrangements/ contracts;
d. Purchase and sales of assets, including transfer of technology an intangible items;
e. Construction arrangements/ contracts;
f. Lease arrangements/ contracts;
g. Trading and derivative transactions;
h. Borrowings, commitments, fund transfer and guarantees;
i. Sale, purchase or supply of any goods or materials; and
j. Establishment of joint venture entities

RPTs shall be conducted at an arm's length terms to ensure that the transaction is conducted in the regular course of business; and not undertaken on more favourable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement, etc.) to such related parties covering similar transactions with non-related parties under similar circumstances.

The concept of arm's length terms is to ensure that both parties in the transaction are acting in their own self-interest and are not subject to any pressure from the other. It ensures that parties to transaction are on equal footing. It is used specifically in the contract law to make an equitable agreement which stands up to legal scrutiny, even though parties may be closely related or may have shared interest.

In this regard, to ensure that transactions are engaged into at terms that promote the best interest of the Bank and its stakeholders, an effective Price Discovery Mechanism should be implemented.

Related Party Transaction Committee

The committee is responsible for the following, among others:

1. Evaluating on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified.

2. Evaluating all material RPTs

3. Ensuring that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the bank's RPT exposure, and policies on conflicts of interest or potential conflicts of interest.

4. Reporting to the Board of Directors on a regular basis, the status and aggregate exposures to each related party as well as the total amount of exposures to all related parties.

5. Ensuring that transactions with Related Parties, including write-off of exposures, are subject to periodic independent review or audit process; and

6. Overseeing the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including the periodic review of RPT policies and procedures.

Materiality Threshold

The business units (BUs) shall identify if transactions are classified as material RPTs based on the following criteria:

- If the parties and relationship of parties involved in the transaction are classified as RPs, as defined in the policy; and
- If the amount of transaction is equal or higher than the materiality threshold set by the Bank.

The materiality threshold shall be reviewed by the business units every year or as necessary based on changes in BSP regulation or mandate of Management. The Compliance Office shall present the summary of materiality threshold to the RPT Committee, for ratification by the Board.

A. Approval Requirements of Material RPTs

   All material RPTs shall be endorsed to the RPT Committee using the prescribed forms and approved by the Board of Directors.

   All board-approved material RPT shall be ratified by the Stockholders (by majority vote) during the Annual Stockholders' Meeting.

B. Approval Requirements of Non-material RPTs

   All non-material RPTs shall follow the existing approval requirements of the respective business unit transactions.

C. For credit transactions to DOSRI, approval by the Board of Directors shall be required.

Health and Safety

The Bank strives to provide employees and officers with a safe and healthy work environment. Each employee and officer has responsibility for maintaining a safe and healthy workplace for all employees and officers by following environmental, safety and health rules and practices and reporting accidents, injuries and unsafe equipment, practices or conditions. Violence and threatening behavior are not permitted.

Performance Assessment Program

The Bank has a Performance Management System (PMS), a vital tool for aligning individual performance with the Bank's strategic direction and operational business plans. It is an integrated process by which the organization involves its employees in improving organizational effectiveness towards the accomplishment of its mission and strategic goals. The Bank also uses the Balanced Scorecard (BSC) as a tool to capture, describe and translate its strategic goals into defined objectives at group, divisional, departmental, and branch levels. It uses the PMS to capture the individual officers' objectives that are aligned with the BSC.

Orientation and Education Program

With the continuing and growing footprint of CBS in the banking industry, the CBS Academy plays a very central and crucial role. In today's dynamic environment, it is essential that the Bank continues to keep abreast of the latest trends and developments in the financial services world. CBS owes it to its customers, who put their trust in the Bank. Knowledge, skills and attitude assimilation is a very important aspect of ensuring the continuing competitiveness of any financial institution. The Bank looks upon its people as one of its key stakeholders, and investing in their personal development is integral to the Bank's corporate responsibility.

The opening of the CBS Academy boosted the efforts of the Bank's Human Resources Division in delivering a high level of professional training and banking skills to help each one of them optimize his/ her full potential. It is imperative that such a dedicated facility is available to bring everyone under one roof to deliver greater efficiency and to meet the competency, training and developmental needs of the Bank's employees at all levels that will help them grow and contribute within the Bank's overall framework.

The CBS Academy provides employees with various key courses and training programs at various stages in their career, including refresher courses and advanced skills, based on their specific areas of expertise. These courses are aimed to give its people a sound grounding of core banking training as well as soft skills development. These include various aspects of financial services procedures, legal, compliance and risk, leadership and management skills and team development, amongst other areas. In addition to expanding their knowledge base and skills, these courses enable its workforce to enhance their career development prospects.

It is of great importance though that the Bank ensures that the Training Academy remains current and relevant. The Bank will ensure that they are perfectly aligned to the Bank's strategy and business needs, as well as in synch with emerging regulatory requirements.

Retirement and Succession Policy

The Bank believes that excellent leadership talent positively contributes to the overall organizational performance. The Bank implements and maintains a Succession Planning and Management Program that ensures the availability of qualified officers for key positions for the entire life of the organization.

a. Board of Directors – any vacancy, expect those caused by removal by the stockholders or by expiration of term, may be filled by election or appointment by the remaining Directors, if still constituting a quorum. If there is no quorum, the vacancy must be filled by the stockholders owning and/or representing majority of the subscribed capital stock at a special meeting duly called for the purpose.

b. Chairman of the Board – vacancy will be temporarily filled up by the Vice Chairman, until such time the Board of Directors elects a successor who will hold office for the unexpired term. In the absence or inability of both the Chairman and the Vice Chairman, the President shall preside the meeting of the Board in order not to hold up important matters requiring the action of the Board, and in which case the decision on all matters to be considered must be unanimous.

c. Vice Chairman – it will be filled by a successor in the same manner the position of Chairman is filled. The successor will serve and hold office for the unexpired term.

d. President/Chief Executive Officer – will be temporarily filled by the next most ranking officer, who will act as Officer-in-Charge until such time that the Board of Directors, by majority vote, elects a successor who will hold office for the unexpired term.

e. Corporate Secretary – the Assistant Corporate Secretary, if any, or if none, the Chief Legal Counsel, will temporarily assume the position until such time the Board of Directors appoints a successor.

f. Treasurer – will be temporarily filled by the next ranking officer, who will act as Officer-in-Charge, until such time the Board of Directors appoints a successor.

g. Internal Auditor – will be temporarily filled by the Assistant Auditor or the next most senior ranking officer in the Internal Audit Department, who will act as Officer-in-Charge, until such time the Board of Directors appoints a successor.

h. Operations Group Head – will be temporarily filled by the next most senior ranking officer in the Group, who will act as Officer-in-Charge, until such time the Board of Directors appoints a successor.

i. Risk Officer - will be temporarily filled by the next most senior ranking officer in the Risk Management Division, who will act as Officer-in-Charge, until such time the Board of Directors appoints a successor.

j. Compliance Officer - will be temporarily filled by the Assistant Compliance Officer or the next most senior ranking officer, who will act as Officer-in-Charge, until such time the Board of Directors appoints a successor.

k. Chief Legal Counsel - will be temporarily filled by the next most senior ranking Legal Officer, who will act as Officer-in-Charge, until such time the Board of Directors appoints a successor.

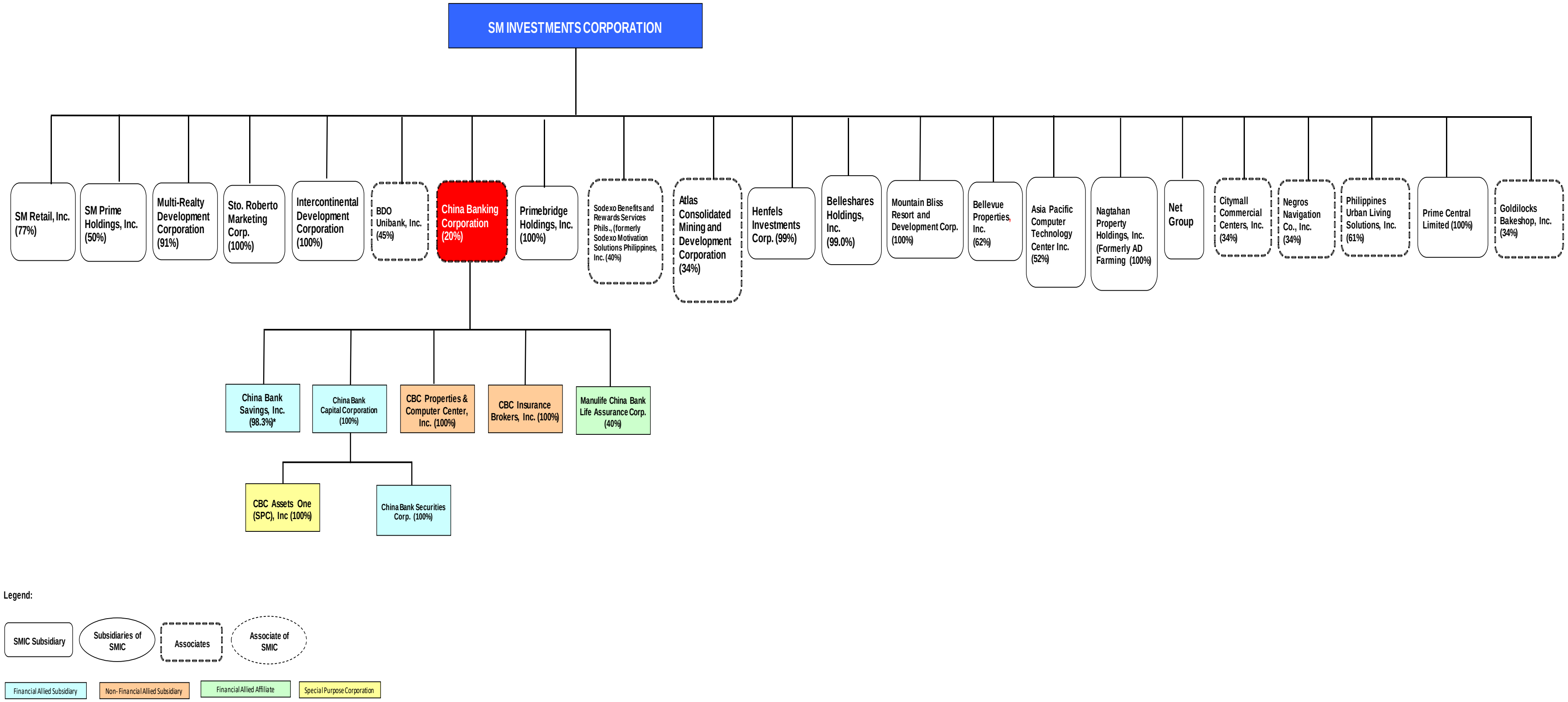
l. Other Group/Division Heads - will be temporarily filled by the next most senior ranking officer, who will act as Officer-in-Charge, until such time the Board of Directors appoints a successor.

Remuneration Policy

The Bank grants annual salary increases to its officers in accordance with its Pay for Performance policy. The increases are given in the form of merit increases which vary depending on the officers' performance rating and corporate rank for the given year. On top of the regular bonuses, CBS officers are entitled to a performance bonus based on their previous year's performance rating. On a continuing and regular basis, the Bank, through its Senior Management evaluates recommendations of various Division/Department Heads for the promotion of their subordinate officers to the following corporate rank. Those whose promotions are approved are given promotion increase in addition to the change in their fringe benefits package.

Conglomerate Structure

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONGLOMERATE MAP
AS OF DECEMBER 31, 2018



Consumer Welfare Protection

The Board of Directors is ultimately responsible in ensuring that consumer protection practices are embedded in the Bank's operations. The Bank adheres to the highest standards and embrace a culture of fair and responsible dealings in the conduct of its business.

The Board and Senior Management are responsible for the Bank's protection strategy and establishing an effective oversight function over the Bank's consumer protection programs. The Board is primarily responsible for approving and overseeing the implementation of the consumer protection policies of the Bank.

The Bank subscribes to the perspective that creating a positive customer experience and performing excellent customer service mean managing customer expectations and delivering what is promised, in a manner that manifests its mission that is: "We understand the needs of our customers, thus, we provide value-enhancing, customer-driven solutions through their preferred channels" and one of its core values on Customer Service Focus: "We value our relationships with all our stakeholders."

The Bank undertakes to manage customer expectations and resolve complaints within the bounds of pertinent policies and guidelines. It endeavors to institute appropriate actions to continuously improve or minimize, if not, prevent the incidence and/or recurrence of complaints.

The Consumer Protection Risk Management System (CPRMS) is a means by which the Bank identifies, measures, monitors and controls consumer protection risks inherent in its operations. These include both risks to the financial consumers and the Bank.

Independent of the compliance function, the Audit Division reviews the Bank's consumer protection practices, adherence to internal policies and procedures, and compliance with existing laws, rules and regulations. The Bank's internal audit of the different business units/functions includes the Consumer Protection Audit Program.

The Human Resources Division and respective business units ensure that all relevant personnel specifically those whose roles and responsibilities have customer interface, receive specific and comprehensive training that reinforces and helps implement written policies and procedures on consumer protection. The training program should be able to address changes in consumer protection laws, rules and regulations and policies and procedures should be provided in a timely manner.

The Bank increased its awareness and adherence to the Consumer Act of the Philippines and such other regulations promoting consumer protection. As part of its intensified drive for a positive customer experience and excellent customer service, the ServCom meets on a weekly basis not only to address complaints but to dynamically reposition the Bank to meet customer expectation.

Conformably with BSP Circular No. 857, in relation to consumer protection, the Bank continues to track the significant statistics on customer concerns.

Dividend Policy

In accordance with the Amended By-Laws of the Bank, dividends shall be declared and paid out of surplus and/or net profits of the Bank, after allocating the percentage of the net profits, as often and such time as the Board of Directors may determine and in accordance with the provisions of law and the regulations of the BSP. There were no dividends declared in 2018 and 2017.

Corporate Social Responsibility Initiatives

Community involvement is a cornerstone of CBS' CSR programs. The Bank supports a wide range of noteworthy projects for the underprivileged sector, provide educational assistance to promising children, undertake charitable fundraising, and encourage employee volunteerism in its efforts to give back to society.

Brigada Eskwela
CBS supports clean, safe, learner-friendly school facilities and improving the quality of public education in the country. The Bank is a regular participant of Brigada Eskwela, the annual campaign of the DepEd to mobilize parents, students, faculty and private sector stakeholders to clean, refurbish and rehabilitate pubic elementary and high school campuses and facilities before the start of each school year.

In May 2018, CBS mobilized its “Red Brigade” to provide volunteer labor, deliver building and cleaning materials, and distribute snacks and refreshments in over 50 campuses from Tuguegarao in the far north Luzon all the way to Davao City in Mindanao.

Balik Eskwela Donor program
Volunteers from CBS visited pupils and teachers of Tabang Elementary School in Bulakan, Bulacan in June 2018 and distributed gift packages containing brand-new school bags, hygiene kits and school supplies donated by officers and staff of the Bank.

CBS Financial Wellness for Young Filipino / WYFi
This is the novel program to develop basic financial literacy, savings consciousness and promote bank usage among elementary school pupils and teenagers nationwide. The program is CBS' contribution to the youth-oriented Banking on Your Future (BOYF) advocacy of the BSP. Launched in July 2018, the program has visited 25 elementary schools, high schools and universities in Luzon and Mindanao.

Healthy Diet, Habit for Life project
In observance of Nutrition Month, CBS organized the Healthy Diet, Habit for Life project in three Metro Manila public elementary schools benefitting 75 pupils. The project provides free complete, hot meals over a three week period for pupils from the poorest, most vulnerable families. Program results indicate a marked weight gain of feeding program beneficiaries.

CBS Financial Wellness Road Show
This is the nationwide advocacy in response to the call by the BSP for private sector stakeholders to promote financial inclusion, raise financial literacy to higher levels, and increase the number of Filipinos in the formal banking system. Launched in August 2018, the CBS Financial Wellness Road Show brought the message Charting the Course of Your

Financial Life to over 600 public school administrators, faculty and non-teaching staff in 12 DepEd Regions, including the Visayas and Mindanao.

CBS DepEdVenture 2.0 | Alay sa mga Guro

CBS sponsored the region-wide financial wellness meet and World Teachers Day tribute for 500 administrators, faculty and staff of public elementary and high schools in the provinces of Bataan, Bulacan, Pampanga, Tarlac, Zambales and Nueva Ecija. The event held in October 2018 in San Fernando, Pampanga is the highlight of the nationwide CBS Financial Wellness Road Show and takes off from the similar event held in Manila in 2017. Takeaways from the seminar were practical skill sets for making smart financial decisions, conserving family assets, and preparing for worry-free retirement. The half-day event included fun activities and entertainment numbers to reinforce lessons from the financial wellness seminar.

Regalong Pamasko para sa Pamilyang Walang Tahanan

Now in its second year, the project, organized in partnership with friends from Emerson Commercial & Residences Solutions, distributes care packages to families living in the streets of Manila in the week before Christmas. The parcels donated and packed by CBS volunteers contain rice, canned meat, instant noodle packs, biscuits, powdered juice, drinking water, and articles of clothing.

Project RED / RAISE for the Education/Empowerment of Dumagats

This is the CSR program of the CBS to assist the home school program among the indigenous Remontado Dumagat people in the foothills of the Sierra Madre Range between Rizal and Quezon provinces. The project marked its first year in November 2018 with the establishment of a reading library in a remote sitio of Magata in barangay Laiban, Tanay, Rizal. The number of learners was 80 in a sitio that had 200 people.

Project RED is the grassroots advocacy in tandem with efforts of volunteer teachers of the AGAP Buhay program, which provides access to education and vocational training for children and adults in the hinterland villages of Tanay, Rizal. The rate of illiteracy among the Dumagat people remains a high 60 percent. Project RED will continue to accept donations of new and pre-loved books, art materials, teaching aids and school supplies at the collection point in CBS Buendia Head Office in Makati.

PART V. EXHIBITS AND SCHEDULES

Item 14. EXHIBITS AND REPORTS

(a) Exhibits

Exhibit 1 Statement of Management's Responsibility
Exhibit 2 Audited Financial Statements as of December 31, 2018 and 2017
Exhibit 3 Supplementary Schedules
a Independent Auditors' Report on Supplementary Schedules
b Schedules Required under Securities Regulation Code Rule 68

(b) Reports on SEC Form 17-C

	REPORT	DATE REPORTED
1	**Board Meeting – March 15, 2018:** a. Extension of Employment of officers beyond 60 years old. b. Retirement of the following officers c. Resignation of Ms. Marivic B. Landicho, Division Head, Internal Audit	20-Mar-2018
2	**Board Meeting – June 21, 2018:** a. China Banking Corporation Capital Infusion of P500 Million to China Bank Savings, Inc. b. Appointment of Mr. Frank Hilario D. Mendoza as Chief Compliance Officer (CCO), effective August 1, 2018. **Annual Stockholders' Meeting held on June 21, 2018:** I. Election/re-election of the following as members of the Board of Directors II. Retention of SyCip, Gorres, Velayo, & Co. (SGV & Co.) as the Corporation's external auditor for the Fiscal Year 2018-2019, and the appointment of Mr. Ray Francis C. Balagtas as the new partner-in-charge assigned to the Corporation for the ensuing year.	27-Jun-2018
3	**Board Meeting – September 20, 2018:** a. Resignation of Mrs. Ma. Lilibeth C. Paradero, HRD Head effective September 30, 2018 b. Appointment of Atty. Josephine F. Fernandez as HRD Head/First Vice President effective October 1, 2018.	26-Sep-2018
4	**Board Meeting – November 2018:** a. Appointment of Mr. Jaydee P. Caparas as National Sales Director and First Vice President under the Branch Banking Group with Class 1 signing authority effective November 16, 2018. b. Nomination and election of Mr. Philip S. L. Tsai as Independent Director and member of the Board of Directors of China Bank Savings, Inc. to replace and to serve for the unexpired term of the late Mr. Roberto F. Kuan until the next Annual Stockholders' meeting when new members of the Board shall then be elected.	21-Nov-2018

SIGNATURES

Pursuant to the requirements of Section 17 of the Securities Regulation Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned in the City of Makati on this ___ day of _______ 2019.

CHINA BANK SAVINGS, INC.

By:

ALBERTO EMILIO V. RAMOS
President

JAMES CHRISTIAN T. DEE
Treasurer

LUIS BERNARDO A. PUHAWAN
Controller

Atty. ODEL S. JANDA
Corporate Secretary

APR 24 2019

SUBSCRIBED AND SWORN to before me this ____ day of _______ 2019 at Makati City, affiants exhibited to me their government issued identification cards, as follows:

NAME	NUMBER
Alberto Emilio V. Ramos	SSS No. 03-6734669-8
James Christian T. Dee	SSS No. 33-49988673
Luis Bernardo A. Puhawan	Unified Multi-Purpose ID No. CRN-0033-4600510-6
Odel S. Janda	IBP No. 32346

Doc. No. 423;
Page No. 86;
Book No. I;
Series of 2019.

ATTY. ANNA MARIELA O. MARIPOSQUE
Notary Public until Dec. 31, 2021
Appointment No. M-181 (2019-2021)
Roll No. 71147 IBP No. 064265
PTR No. 7332992 01/04/19 Makati
MCLE Compliance No. VI-0018080 02.11.19
314 Gil Puyat Ave., Makati City

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **CHINA BANK SAVINGS, INC.** is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the year ended December 31, 2018, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

SyCip Gorres Velayo & Co. (SGV & Co.), the independent auditor appointed by the stockholders has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

RICARDO R. CHUA
Chairman of the Board

ALBERTO EMILIO V. RAMOS
President

JAMES CHRISTIAN T. DEE
Treasurer

LUIS BERNARDO A. PUHAWAN
Controller

SUBSCRIBED AND SWORN to before me this ___ day of APR 24 2019 2019 affiant(s) exhibiting to me their government-issued identification cards, as follows:

NAME	NUMBER
Ricardo R. Chua	SSS No. 03-2416389-8
Alberto Emilio V. Ramos	SSS No. 03-6734669-8
James Christian T. Dee	SSS No. 33-49988673
Luis Bernardo A. Puhawan	Unified Multi-Purpose ID No. CRN-0033-4600510-6

Doc. No. 422;
Page No. 86;
Book No. I;
Series of 2019.

ATTY. ANNA MARIELA O. MARIFOSQUE
Notary Public until Dec. 31, 2021
Appointment No. M-181 (2019-2021)
Roll No. 71147 IBP No. 064245
PTR No. 7332992 01/04/19 Makati
MCLE Compliance No. VI-0018080 02.11.19
314 Gil Puyat Ave., Makati City

China Bank Savings, Inc.
(A Majority Owned Subsidiary of China Banking Corporation)

Financial Statements
December 31, 2018 and 2017
and for the years ended December 31, 2018, 2017 and 2016

and

Independent Auditor's Report

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SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
China Bank Savings, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of China Bank Savings, Inc. (the Bank), a majority-owned subsidiary of China Banking Corporation, which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2018 and 2017, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Other Information

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

SGV
Building a better working world

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 31 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of China Bank Savings, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ray Francis C. Balagtas

Ray Francis C. Balagtas
Partner
CPA Certificate No. 108795
SEC Accreditation No. 1510-AR-1 (Group A),
September 18, 2018, valid until September 17, 2021
Tax Identification No. 216-950-288
BIR Accreditation No. 08-001998-107-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 7332523, January 3, 2019, Makati City

March 21, 2019

CHINA BANK SAVINGS, INC.
(A Majority Owned Subsidiary of China Banking Corporation)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2018	2017
ASSETS		
Cash and Cash Equivalents (Notes 6 and 24)	**₱13,551,253,323**	₱11,534,522,627
Financial Assets at Fair Value Through Profit or Loss (Note 7)	**–**	135,397,767
Financial Assets at Fair Value through Other Comprehensive Income (Note 7)	**1,081,864,447**	–
Available-for-Sale Financial Assets (Note 7)	**–**	2,220,626,084
Investment Securities at Amortized Cost (Note 7)	**8,712,822,931**	–
Held-to-Maturity Financial Assets (Notes 7 and 23)	**–**	3,502,817,726
Loans and Receivables (Notes 8 and 24)	**65,131,357,475**	63,144,324,080
Non-current Assets Held for Sale (Note 9)	**379,192,579**	212,031,191
Property and Equipment (Note 10)	**1,228,301,104**	1,248,751,066
Investment Properties (Note 11)	**3,197,091,385**	3,157,145,538
Branch Licenses (Note 12)	**74,480,000**	74,480,000
Software Costs (Note 12)	**63,333,167**	73,437,992
Deferred Tax Asset (Note 22)	**613,401,172**	338,324,894
Other Assets (Notes 13 and 24)	**1,746,611,709**	1,536,077,212
	₱95,779,709,292	₱87,177,936,177
LIABILITIES AND EQUITY		
Liabilities		
Deposit Liabilities (Notes 15 and 24)		
Demand	**₱16,036,991,323**	₱15,589,330,155
Savings	**12,796,615,183**	9,351,070,190
Time	**55,767,866,280**	51,496,682,275
	84,601,472,786	76,437,082,620
Manager's Checks	**484,179,921**	731,802,306
Accrued Interest and Other Expenses (Note 16)	**418,850,987**	266,842,282
Income Tax Payable	**345,478**	292,940
Other Liabilities (Notes 16 and 24)	**1,185,637,858**	1,375,852,104
	86,690,487,030	78,811,872,252
Equity		
Capital stock (Note 18)	**10,543,579,100**	10,043,579,100
Additional paid-in capital (Note 18)	**485,049,814**	490,049,814
Other equity reserves (Note 29)	**(2,248,520,637)**	(2,248,520,637)
Surplus reserves (Notes 18 and 23)	**–**	22,764,290
Surplus (Notes 18 and 23)	**347,992,619**	242,276,780
Remeasurement gains (losses) on retirement asset (Note 20)	**747,845**	(66,964,439)
Net unrealized losses on:		
Financial assets at fair value through other comprehensive income (Note 7)	**(85,306,273)**	–
Available-for-sale financial assets (Note 7)	**–**	(132,516,533)
Cumulative translation adjustment	**45,679,794**	15,395,550
	9,089,222,262	8,366,063,925
	₱95,779,709,292	₱87,177,936,177

See accompanying Notes to Financial Statements.

CHINA BANK SAVINGS, INC.
(A Majority Owned Subsidiary of China Banking Corporation)

STATEMENTS OF INCOME

	Years Ended December 31		
	2018	2017	2016
INTEREST INCOME			
Loans and receivables (Notes 8 and 24)	**₱4,723,862,839**	₱4,269,523,330	₱3,825,506,373
Investment securities (Note 7)	**282,094,661**	262,808,362	212,401,581
Interbank loans receivable and securities purchased under resale agreements (Note 6)	**119,349,402**	91,952,398	37,994,899
Due from Bangko Sentral ng Pilipinas and other banks (Notes 6 and 24)	**25,347,885**	14,087,651	64,555,954
	5,150,654,787	4,638,371,741	4,140,458,807
INTEREST EXPENSE			
Deposit liabilities (Notes 15 and 24)	**1,886,664,631**	1,311,815,042	1,205,860,728
Bills payable	**–**	–	10,917,524
	1,886,664,631	1,311,815,042	1,216,778,252
NET INTEREST INCOME	**3,263,990,156**	3,326,556,699	2,923,680,555
Gain on asset exchange (Note 9)	**270,140,580**	120,530,783	121,408,146
Service charges, fees and commissions	**268,037,238**	239,452,223	268,968,398
Income from property rentals (Notes 11, 21 and 24)	**31,184,292**	27,847,995	24,599,679
Trading and securities gains (losses) - net (Notes 7 and 24)	**(866,221)**	68,871,922	89,296,487
Miscellaneous (Note 19)	**100,746,511**	90,554,583	84,823,799
TOTAL OPERATING INCOME	**3,933,232,556**	3,873,814,205	3,512,777,064
Compensation and fringe benefits (Notes 20 and 24)	**1,264,557,216**	1,167,316,193	1,060,508,535
Depreciation and amortization (Note 10)	**325,484,568**	345,824,017	326,229,128
Documentary stamp taxes	**325,246,773**	198,543,153	173,288,962
Occupancy costs (Note 21)	**303,179,796**	259,647,476	246,382,130
Taxes and licenses	**256,232,538**	223,349,751	222,971,604
Security, clerical, messengerial and janitorial	**244,763,404**	254,444,223	253,268,183
Insurance	**219,076,739**	195,971,231	170,572,121
Acquired asset and other litigation expense	**134,088,277**	171,657,363	93,038,714
Transportation and travel	**117,739,730**	91,703,285	82,338,949
Provision for impairment and credit losses (Note 14)	**104,649,096**	295,680,313	305,000,666
Entertainment, amusement and recreation (Note 22)	**99,022,205**	86,039,178	87,792,311
Utilities	**96,004,237**	88,691,492	89,079,470
Data processing and information technology	**60,223,207**	30,242,093	52,177,381
Stationery, supplies and postage	**31,635,981**	36,402,353	27,855,528
Management and other professional fees	**12,781,365**	11,844,995	21,207,906
Miscellaneous (Notes 11 and 19)	**162,907,228**	165,148,841	149,341,960
TOTAL OPERATING EXPENSES	**3,757,592,360**	3,622,505,957	3,361,053,548
INCOME BEFORE INCOME TAX	**175,640,196**	251,308,248	151,723,516
BENEFIT FROM INCOME TAX (Note 22)	**(194,223,416)**	(250,233,969)	(81,810,726)
NET INCOME	**₱369,863,612**	₱501,542,217	₱233,534,242

See accompanying Notes to Financial Statements.

CHINA BANK SAVINGS, INC.
(A Majority Owned Subsidiary of China Banking Corporation)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2018	2017	2016
NET INCOME	**₱369,863,612**	₱501,542,217	₱233,534,242
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that recycle to profit or loss in subsequent periods:			
Changes in net unrealized losses on:			
Financial assets at fair value through other comprehensive income (Note 7)	**(8,132,886)**	–	–
Available-for-sale financial assets (Note 7)	**–**	25,196,599	(133,786,521)
Cumulative translation adjustment	**30,284,244**	(2,314,166)	27,350,859
Items that do not recycle to profit or loss in subsequent periods:			
Remeasurement gains (losses) on retirement asset (Note 20)	**67,712,284**	19,294,655	(68,467,785)
	89,863,642	42,177,088	(174,903,447)
TOTAL COMPREHENSIVE INCOME	**₱459,727,254**	₱543,719,305	₱58,630,795

See accompanying Notes to Financial Statements.

CHINA BANK SAVINGS, INC.
(A Majority Owned Subsidiary of China Banking Corporation)

STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 18)	Additional Paid-in Capital (Note 18)	Deposit for Future Stock Subscription (Notes 18 and 24)	Other Equity Reserves (Note 29)	Surplus Reserves (Notes 18 and 23)	Surplus (Notes 18 and 23)	Remeasurement Gains (Losses) on Retirement Asset (Note 20)	Net Unrealized Losses on Financial Assets at Fair Value through Other Comprehensive Income (Note 7)	Net Unrealized Losses on Available-for-Sale Financial Assets (Note 7)	Cumulative Translation Adjustment	Total Equity
Balance at January 1, 2018	**₱10,043,579,100**	**₱490,049,814**	**₱–**	**(₱2,248,520,637)**	**₱22,764,290**	**₱242,276,780**	**(₱66,964,439)**	**₱–**	**(₱132,516,533)**	**₱15,395,550**	**₱8,366,063,925**
Effect of initial application of PFRS 9 (Note 2)	**–**	**–**	**–**	**–**	**–**	**(286,912,063)**	**–**	**(77,173,387)**	**132,516,533**	**–**	**(231,568,917)**
Balance at January 1, 2018, as restated	**10,043,579,100**	**490,049,814**	**–**	**(2,248,520,637)**	**22,764,290**	**(44,635,283)**	**(66,964,439)**	**(77,173,387)**	**–**	**15,395,550**	**8,134,495,008**
Issuance of capital stock	**500,000,000**	**(5,000,000)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**495,000,000**
Total comprehensive income (loss) for the year	**–**	**–**	**–**	**–**	**–**	**369,863,612**	**67,712,284**	**(8,132,886)**	**–**	**30,284,244**	**459,727,254**
Transfer from surplus reserves	**–**	**–**	**–**	**–**	**(22,764,290)**	**22,764,290**	**–**	**–**	**–**	**–**	**–**
Balance at December 31, 2018	**₱10,543,579,100**	**₱485,049,814**	**₱–**	**(₱2,248,520,637)**	**₱–**	**₱347,992,619**	**₱747,845**	**(₱85,306,273)**	**₱–**	**₱45,679,794**	**₱9,089,222,262**
Balance at January 1, 2017	₱7,402,164,200	₱495,643,582	₱2,647,942,142	(₱2,248,520,637)	₱22,585,422	(₱259,086,569)	(₱86,259,094)	–	(₱157,713,132)	₱17,709,716	₱7,834,465,630
Application of deposit for future stock subscription to issued shares (Notes 18 and 24)	2,641,414,900	(5,593,768)	(2,647,942,142)	–	–	–	–	–	–	–	(12,121,010)
Total comprehensive income (loss) for the year	–	–	–	–	–	501,542,217	19,294,655	–	25,196,599	(2,314,166)	543,719,305
Transfer to surplus reserves	–	–	–	–	178,868	(178,868)	–	–	–	–	–
Balance at December 31, 2017	₱10,043,579,100	₱490,049,814	₱–	(₱2,248,520,637)	₱22,764,290	₱242,276,780	(₱66,964,439)	–	(₱132,516,533)	₱15,395,550	₱8,366,063,925
Balance at January 1, 2016	₱3,707,812,400	₱363,320,342	₱4,012,500,000	(₱2,248,520,637)	₱22,002,127	(₱492,037,516)	(₱17,791,309)	–	(₱23,926,611)	(₱9,641,143)	₱5,313,717,653
Application of deposit for future stock subscription to issued shares (Notes 18 and 24)	3,694,351,800	132,323,240	(3,864,557,858)	–	–	–	–	–	–	–	(37,882,818)
Deposit for future stock subscription (Note 18)	–	–	2,500,000,000	–	–	–	–	–	–	–	2,500,000,000
Total comprehensive income (loss) for the year	–	–	–	–	–	233,534,242	(68,467,785)	–	(133,786,521)	27,350,859	58,630,795
Transfer to surplus reserves	–	–	–	–	583,295	(583,295)	–	–	–	–	–
Balance at December 31, 2016	₱7,402,164,200	₱495,643,582	₱2,647,942,142	(₱2,248,520,637)	₱22,585,422	(₱259,086,569)	(₱86,259,094)	–	(₱157,713,132)	₱17,709,716	₱7,834,465,630

See accompanying Notes to Financial Statements.

CHINA BANK SAVINGS, INC.
(A Majority Owned Subsidiary of China Banking Corporation)

STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱175,640,196**	₱251,308,248	₱151,723,515
Adjustments for:			
Depreciation and amortization (Note 10)	**325,484,568**	345,824,017	326,229,128
Gain on asset exchange (Note 9)	**(270,140,580)**	(120,530,783)	(121,408,146)
Provision for impairment and credit losses (Note 14)	**104,649,096**	295,680,313	305,000,666
Amortization of premium on investment securities	**64,529,787**	47,877,645	72,261,607
Realized trading gain on financial assets at fair value through other comprehensive income (Note 7)	**(866,221)**	–	–
Realized trading gain on available-for-sale financial assets (Note 7)	**–**	(63,355,179)	(61,119,743)
Amortization of unrealized loss on held-to-maturity financial assets reclassified from available-for-sale financial assets (Note 7)	**–**	3,267,094	471,298
Unrealized mark-to-market losses (gains) on fair value through profit or loss investments (Note 7)	**–**	1,646,852	(1,307,647)
Write-off of non-financial asset (Note 10)	**–**	–	10,743,845
Changes in operating assets and liabilities:			
Decrease (increase) in the amounts of:			
Loans and receivables	**(3,201,090,037)**	(6,053,432,776)	(8,373,484,271)
Financial assets at fair value through profit or loss	**–**	333,950,906	283,866,837
Other assets (Notes 13 and 27)	**(323,896,787)**	(254,786,332)	(288,390,865)
Increase (decrease) in the amounts of:			
Deposit liabilities	**8,164,390,166**	4,847,465,600	5,183,739,638
Manager's checks	**(247,622,385)**	147,600,685	(87,696,522)
Accrued interest and other expenses	**152,008,705**	(13,010,145)	43,310,446
Other liabilities (Notes 16 and 27)	**(286,946,080)**	415,581,452	29,109,297
Net cash generated from (used in) operations	**4,656,140,428**	185,087,597	(2,526,950,917)
Income tax paid (Notes 22 and 27)	**(113,361,063)**	(58,641,721)	(56,176,004)
Net cash provided by (used in) operating activities	**4,542,779,365**	126,445,876	(2,583,126,921)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Investment securities at amortized cost	**(3,452,219,037)**	–	–
Financial assets at fair value through other comprehensive income	**(384,875,194)**	–	–
Property and equipment (Note 10)	**(221,501,212)**	(343,660,006)	(270,049,299)
Software costs (Note 12)	**(5,857,179)**	(16,544,421)	(22,786,398)
Available-for-sale financial assets	**–**	(1,034,304,528)	(2,923,590,088)
Held-to-maturity financial assets	**–**	(188,875,689)	(480,256,847)
Proceeds from sale/maturity of:			
Investment properties (Notes 9 and 11)	**506,060,571**	556,300,236	452,390,207
Non-current assets held for sale (Note 9)	**414,687,056**	484,618,905	110,631,995
Financial assets at fair value through other comprehensive income	**46,190,714**	–	–
Investment securities at amortized cost	**44,100,000**	–	–
Property and equipment (Note 10)	**–**	57,701,286	–
Available-for-sale financial assets	**–**	1,018,832,682	1,785,042,827
Net cash provided by (used in) investing activities	**(3,053,414,281)**	534,068,465	(1,348,617,603)

(Forward)

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from capital infusion (Notes 18 and 24)	**₱500,000,000**	₱–	₱2,500,000,000
Settlement of bills payable	**–**	–	(662,530,655)
Net cash provided by financing activities	**500,000,000**	–	1,837,469,345
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**27,365,612**	(2,933,718)	27,350,859
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**2,016,730,696**	657,580,623	(2,066,924,320)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**11,534,522,627**	10,876,942,004	12,943,866,324
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱13,551,253,323**	₱11,534,522,627	₱10,876,942,004

OPERATIONAL CASH FLOWS FROM INTEREST			
Interest received	**₱5,015,119,977**	₱4,421,272,502	₱4,012,626,173
Interest paid	**1,767,878,474**	1,294,064,555	1,219,328,394

See accompanying Notes to Financial Statements.

1. **Corporate Information**

China Bank Savings, Inc. (the Bank or CBS) reopened to the public on June 26, 1999 as a thrift bank in accordance with the Monetary Board (MB) Resolution No. 512 dated April 21, 1999. Under MB Resolution No. 512, the Bank was allowed to reopen its 72 branches as provided in the Bank's operating plan.

In 2007, China Banking Corporation (the Parent Bank or CBC) acquired the majority shareholdings of the Bank. Following the change in its majority owners, the Bank continues to operate as a thrift bank. In 2008, the Bank transferred its other existing branches and unused branch licenses to CBC to improve cost efficiency and branch networking. As of December 31, 2018 and 2017, the Bank has 162 and 160 branches, respectively.

The Bank's original Certificate of Incorporation was issued by the Philippine Securities and Exchange Commission (SEC) on May 23, 1960. On August 20, 2009, the Board of Directors (BOD) approved the amendment of the Bank's Articles of Incorporation to extend its corporate term for another fifty (50) years, from and after May 23, 2010, the end of the original term of the Bank's corporate existence. The amendment to the Articles of Incorporation to extend the Bank's corporate term was subsequently approved by the stockholders of the Bank, who own/represent at least two thirds (2/3) of the outstanding capital stock, at the Annual Stockholders' Meeting held in October 2009. The Amended Articles of Incorporation was approved by the SEC on March 25, 2010.

As of December 31, 2018 and 2017, CBC, the ultimate parent bank, has ownership interest in the Bank of 99.60% and 99.22%, respectively.

The registered office address of the Bank is at CBS Building, 314 Sen. Gil Puyat Avenue, Makati City.

<u>Merger between the Bank and Unity Bank, A Rural Bank Inc.</u>
The BOD of the Bank and Unity Bank, A Rural Bank, Inc. (Unity Bank), in their meetings held last June 6, 2013 and June 11, 2013, respectively, approved the proposed merger with Unity Bank, with the Bank as the surviving entity. The Plan of Merger was approved by the stockholders of both banks in their meetings held on July 18, 2013 and July 19, 2013, respectively. Unity Bank is 99.95% owned by CBC, having acquired the former on November 20, 2012 under the Strengthening Program for Rural Banks (SPRB) Plus of the Bangko Sentral ng Pilipinas (BSP).

On December 10, 2013, the BSP approved the issuance of Certificate of Authority to register the approved Plan of Merger and Articles of Merger of the Bank and Unity Bank.

Thereafter, on January 20, 2014, the SEC formally issued the Certificate of the Filing of Articles and Plan of Merger by and between the Bank (surviving corporation) and Unity Bank (absorbed corporation).

The merger was effected via a share-for-share exchange (Note 29).

Merger between the Bank and Planters Development Bank (PDB)
On June 26, 2014, the BOD of both the Bank and Planters Development Bank (PDB) approved the Plan and Articles of Merger of the Bank and PDB, with the former as the surviving entity. PDB is a 99.85% owned subsidiary of CBC. The stockholders of both PDB and the Bank approved, ratified and confirmed the Plan and Articles of Merger on August 14, 2014. An amended Plan of Merger was approved by the BOD of both banks on January 29, 2015.

On August 19, 2015 and December 17, 2015, the MB of the BSP and the SEC approved the merger, respectively.

The salient provisions of the Articles of Merger are as follows:
a. Upon the effectivity date of the merger, PDB shall be merged with and into the Bank. The separate and distinct existence of PDB shall cease and terminate upon the effective date of merger.
b. The Bank shall be the surviving corporation.
c. As of the effective date, all common and preferred shares of PDB shall be converted into fully paid China Bank Savings common shares totaling to 16.5 million shares (see Note 29).

2. Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis except for financial assets at fair value through profit or loss (FVPL), available-for-sale (AFS) financial assets and financial assets at fair value through other comprehensive income (OCI) that have been measured at fair value and non-current assets held for sale (NCAHS) that have been measured at the lower of their carrying amount and fair value less cost to sell. All values are rounded to the nearest peso unless otherwise stated.

The accompanying financial statements of the Bank include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of the RBU and the FCDU is the Philippine peso and the United States dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine peso (see accounting policy on foreign currency translation). The financial statements of these units are combined after eliminating inter-unit accounts and transactions.

Statement of Compliance
The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

Presentation of Financial Statements
The Bank presents its statement of financial position in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities within twelve (12) months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 17.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. The Bank assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Bank and all of the counterparties.

Income and expense are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

Consolidation

Consolidated financial statements are prepared for the same reporting year as the parent company's using consistent accounting policies. All significant intra-group balances, transactions and income and expenses resulting from intra-group transactions are eliminated in full. Subsidiaries are consolidated from the date on which control is transferred to the parent company.

Principles of control are discussed under the accounting policy on investment in subsidiary. The subsidiaries are immaterial to the financial statements, hence the Bank did not prepare the consolidated financial statements.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following new, amendments and improvements to PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretation which became effective as of January 1, 2018. Except as otherwise indicated, these changes in the accounting policies did not have any significant impact on the financial position or performance of the Bank:

- *New and Amended Standards*
  - Amendments to PFRS 2, *Share-based Payment*, *Classification and Measurement of Share-based Payment Transactions*
  - Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*
  - Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

- *Annual Improvements to PFRSs (2014 - 2017 Cycle)*
  - Amendments to PAS 28, *Investments in Associates and Joint Ventures, Measuring an Associate or Joint Venture at Fair Value*
  - Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*

Standards that has have been adopted and that are deemed to have significant impact on the financial statements or performance of the Bank are described below:

PFRS 9, *Financial Instruments*

The Bank adopted PFRS 9 on January 1, 2018 following the modified retrospective approach. PFRS 9 replaced PAS 39, *Financial Instruments: Recognition and Measurement.*

Under the modified retrospective approach, the Bank did not restate the prior-period comparative financial statements and remains to report the comparative information for 2017 under PAS 39. Accordingly, the 2017 comparative financial statements are not comparable to the information presented for 2018. Differences in the carrying amounts of financial instruments resulting from the adoption of PFRS 9 are recognized in the opening January 1, 2018 surplus and other comprehensive income (OCI) as if the Bank had always followed the new requirements.

As a result of applying PFRS 9's split between surplus and OCI requirements on classification and measurement of financial assets, the opening January 1, 2018 surplus and OCI in the Bank's statement of financial position increased by ₱68.84 million and ₱55.34 million, respectively. This change resulted from reclassifications of financial assets depending on the Bank's application of its business models and its assessment of the financial assets' cash flow characteristics. However, applying PFRS 9's requirements on the recognition of expected credit losses decreased the opening January 1, 2018 surplus in the Bank's statement of financial position by ₱355.75 million. Impairment under expected credit losses (ECL) model is now dependent upon whether there have been significant increases in the credit risk of the Bank's financial assets since initial recognition and on the Bank's evaluation of factors relevant to the measurement of expected credit losses such as a range of possible outcomes and information about past events, current conditions and forecasts of future economic conditions.

The accounting policies adopted by the Bank as a result of adopting PFRS 9 are discussed in page 8.

The adoption of PFRS 9 did not have an impact on the classification and measurement of the Bank's financial liabilities and on the application of hedge accounting.

The impact of adopting PFRS 9 as of January 1, 2018 follows:

	PAS 39			Remeasurement		PFRS 9	
	Category	Amount	Re-classifications	ECL	Others	Category	Amount
Assets							
Cash and other cash items	Loans and receivables	₱1,501,172,842	₱–	₱–	₱–	Amortized cost	₱1,501,172,842
Due from BSP	Loans and receivables	6,772,976,958	–	–	–	Amortized cost	6,772,976,958
Due from other banks	Loans and receivables	1,856,049,625	–	–	–	Amortized cost	1,856,049,625
SPURA	Loans and receivables	1,404,323,202	–	–	–	Amortized cost	1,404,323,202
Loans and receivables	Loans and receivables	63,144,324,080	–	(300,846,241)	–	Amortized cost	62,843,477,839
Other financial assets	Loans and receivables	1,005,217,324	–	(48,520,344)	–	Amortized cost	956,696,980
Investment securities	Financial assets at FVPL	135,397,767	(135,397,767)	–	–	FVPL	–
	AFS financial assets	2,220,626,084	(1,439,430,500)	(661,013)	–	FVOCI	780,534,571
	HTM financial assets	3,502,817,726	1,574,828,267	(5,725,840)	124,184,521	Amortized cost	5,196,104,674
		₱81,542,905,608	₱–	(₱355,753,438)	₱124,184,521		₱81,311,336,691

Equity	Balance at January 1, 2018	Transition adjustments	Balance at January 1, 2018 (as restated)
Surplus	₱242,276,780	(₱286,912,063)	(₱44,635,283)
Net unrealized losses taken to OCI	(132,516,533)	55,343,146	(77,173,387)

On January 1, 2018, the Bank reclassified the following:

a. its previous financial assets at FVPL with carrying value of ₱135.40 million as financial assets at fair value through other comprehensive income (FVOCI). Market valuation previously credited to surplus on these financial assets amounting to ₱4.02 million were adjusted to net unrealized loss on FVOCI on January 1, 2018. These instruments had contractual cash flows that were solely payments for principal and interests and were held for liquidity management; and
b. a portion of its previous AFS financial assets with carrying value of ₱1.64 billion as investment securities at amortized cost. Reclassification of these financial assets resulted in reversal of previously recognized market valuation loss of ₱68.62 million. These instruments had contractual cash flows that were solely payments for principal and interests, were not intended for active trading and were held for accrual business, with the intention to collect cash flows and without the intention to sell.

FVOCI assets as of January 1, 2018 included unquoted equity securities that were previously classified as AFS. The allowance for impairment losses on these securities which were previously charged to surplus amounted to ₱73.04 million was reversed and charged to net unrealized loss upon adoption of PFRS 9.

Had the financial assets at FVPL securities not been transferred to FVOCI, additional fair value loss of ₱12.82 million would have been charged to profit or loss in 2018. The effective interest rates on these reclassified securities range from 3.15% to 3.99%. Interest income earned in 2018 on these securities amounted to ₱3.94 million.

Had the AFS financial assets not been transferred to investment securities at amortized cost, additional fair value loss of ₱78.92 million would have been charged to OCI in 2018. The effective interest rates on these reclassified securities range from 2.89% to 6.72%. Interest income carried in 2018 amounted to ₱64.69 million.

PFRS 15, *Revenue from Contracts with Customers*
PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

PFRS 15 requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Bank adopted PFRS 15 using the modified retrospective method of adoption with the date of initial application of January 1, 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Bank elected to apply the standard to all contracts as at January 1, 2018.

There were no adjustments recognized to the opening balance of surplus at the date of initial application as an effect of initially applying PFRS 15. Also, the comparative information was not restated and continues to be reported under PAS 11, PAS 18 and related Interpretations.

Significant Accounting Policies
Common Control Business Combinations
Where there are business combinations involving entities that are ultimately controlled by the same ultimate parent before and after the business combination and that the control is not transitory ("business combinations under common control"), the Bank accounts for such business combinations using pooling of interest method.

In applying the pooling of interest method, the Bank follows Philippine Interpretations Committee (PIC) Q&A No. 2012-01, *PFRS 3.2 Application of the Pooling of Interest Method for Business Combinations of Entities under Common Control in Consolidated Financial Statements*, which provides the following guidance:

- The assets and liabilities of the combining entities are reflected in the consolidated financial statements at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination. The only adjustments that are made are those adjustments to harmonize accounting policies.
- No new goodwill is recognized as a result of the combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid or transferred and the equity acquired is reflected within equity as additional paid-in capital, i.e., either as contribution or distribution of equity.
- An entity has an option for restatement or non-restatement of financial information in the consolidated financial statements for the periods prior to the date of business combination.

In applying the above guidance, the Bank made the accounting policy choice of:

- Recognizing the assets acquired and liabilities assumed from the absorbed entity based on their respective carrying values as reported in the financial statements of the absorbed entity as of merger date and adjusted to harmonize with the accounting recognition and measurement policies of the Bank.
- Not restating the consolidated financial statements of the Bank for presentation of the merged balances for periods prior to the merger date.
- Recognizing equity reserves of the absorbed entity such as those arising from the remeasurement of AFS financial assets or financial assets at FVOCI, retirement liability and cumulative translation adjustment, based on amounts reflected in the financial statements of the absorbed entity on merger date.

Foreign Currency Translation

RBU

As of reporting date, foreign currency-denominated monetary assets and monetary liabilities in the RBU are translated in Philippine peso based on the Philippine Dealing System (PDS) closing rate prevailing at end of year and foreign currency-denominated income and expenses based on the yearly PDS weighted average rate (PDSWAR). Foreign exchange differences arising from the restatement of foreign currency-denominated assets and liabilities in the RBU are credited to or charged against statement of income in the year in which the rates change. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

FCDU

As of reporting date, the assets and liabilities of the FCDU are translated into the Bank's presentation currency (the Philippine peso) at the PDS closing rate prevailing at the reporting date and its income and expenses are translated at PDSWAR for the year. Exchange differences arising on translation are taken directly to the statement of comprehensive income as 'Cumulative translation adjustment'. Upon actual remittance or transfer of the FCDU income to RBU, the related exchange difference arising from translation lodged under 'Cumulative translation adjustment' is recognized in the statement of income of the RBU books.

Fair Value Measurement

The Bank measures financial instruments, such as financial assets at FVPL, AFS financial assets and financial assets at FVOCI, at fair value at each reporting date. The fair values of financial instruments measured at amortized cost (or cost) and nonfinancial assets are disclosed in Note 4.

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 by the Bank. 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 economic best interest.

If a financial instrument measured at fair value has a bid price and an ask price, the price within bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy.

A fair value measurement of a non-financial 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 Bank 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.

All assets and liabilities for which fair value is measured or disclosed in the 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 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing 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.

For purposes of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and fair value hierarchy as explained above.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, due from BSP and other banks, and securities purchased under resale agreements (SPURA) that are convertible to known amounts of cash and which have original maturities of three months or less from dates of placements and that are subject to an insignificant risk of changes in value.

Due from BSP includes the statutory reserves required by the BSP which the Bank considers as cash equivalents wherein withdrawals can be made to meet the Bank's cash requirements as allowed by the BSP.

SPURA

The Bank enters into short-term purchases of securities under resale agreements of identical securities with the BSP. Resale agreements are contracts under which a party purchases securities and resells such securities to the same selling party at a specified future date at a fixed price. The amount of advances made under resale agreements are carried as SPURA in the statement of financial position. SPURA are carried at cost. Interest earned on resale agreements is reported as 'Interest income' in the statement of income.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on settlement date. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the Bank, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that such asset is delivered by the Bank. Any change in fair value of unrecognized financial asset is recognized in the statement of income for assets classified as financial assets at FVPL, and in equity for assets classified as financial assets at FVOCI and AFS financial assets. Deposits, amounts due from banks and customers and loans and receivables are recognized when cash is received by the Bank or advanced to the borrowers.

Initial recognition of financial instruments

Financial instruments are initially recognized at fair value. Except for financial assets and financial liabilities at FVPL, the initial measurement of financial instruments includes transaction costs.

'Day 1' difference

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Bank recognizes the difference between the transaction price and the fair value (a 'Day 1' difference) in the statement of income unless it qualifies for recognition as some other type of asset. In cases where the transaction price used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the 'Day 1' difference amount.

Classification, Reclassification and Impairment of Financial Assets (PFRS 9)

Classification and measurement

Under PFRS 9, the classification and measurement of financial assets is driven by the entity's contractual cash flow characteristics of the financial assets and business model for managing the financial assets.

As part of its classification process, the Bank assesses the contractual terms of financial assets to identify whether they meet the 'solely payments of principal and interest' (SPPI) test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (e.g., if there are repayments of principal or amortization of the premium or discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set. In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:
- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected); and
- the expected frequency, value and timing of sales are also important aspects of the Bank's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The Bank's measurement categories are described below:

Investment securities at amortized cost
Financial assets are measured at amortized cost if both of the following conditions are met:
- the asset is held within the Bank's business model whose objective is to hold financial assets in order to collect contractual cash flows; and,
- the contractual terms of the instrument give rise, on specified dates, to cash flows that are SPPI on the principal amount outstanding.

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

The Bank's investment securities at amortized cost are presented in the statement of financial position as cash and cash equivalents, investment securities at amortized cost, loans and receivables and certain accounts under other assets.

The Bank may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost.

Financial assets at FVPL
Debt instruments that neither meet the amortized cost nor the FVOCI criteria, or that meet the criteria but the Bank has chosen to designate as at FVPL at initial recognition, are classified as financial assets at FVPL. Equity investments are classified as financial assets at FVPL, unless the Bank designates an equity investment that is not held for trading as at FVOCI at initial recognition. As of December 31, 2018, the Bank does not have financial assets at FVPL.

Financial assets at FVPL are measured at fair value. Related transaction costs are recognized directly as expense in profit or loss. Gains and losses arising from changes (mark-to-market) in the fair value of the financial assets at FVPL and gains or losses arising from disposals of these instruments are included in 'Trading and securities gains (losses) - net' account in the statement of income.

Interest recognized based on the modified effective interest rate of these investments is reported in statement of income under 'Interest income' account while dividend income is reported in statement of income under 'Miscellaneous income' account when the right of payment has been established.

Financial assets at FVOCI - equity investments
At initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Bank for trading. The Bank has designated its unquoted equity instruments as at FVOCI on initial application of PFRS 9 as these are not held for trading purposes.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in net unrealized losses on investment securities in the statements of financial position. When the asset is disposed of, the cumulative gain or loss previously recognized in the net losses on investment securities account is not reclassified to profit or loss, but is reclassified directly to 'Surplus-free' account. Any dividends earned on holding these equity instruments are recognized in profit or loss under 'Miscellaneous income' account.

Financial assets at FVOCI - debt investments
The Bank applies the new category under PFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:
- the instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value being recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost. The ECL calculation for financial assets at FVOCI is explained in the 'Impairment of Financial Assets' section.

On derecognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

Reclassification
The Bank can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Bank is required to reclassify financial assets:
(i) from amortized cost to FVPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the Bank's business model will be effected only at the beginning of the next reporting period following the change in the business model.

Impairment of financial assets
Starting January 1, 2018, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets carried at amortized cost, financial assets carried at FVOCI, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under PFRS 9.

ECL represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECL allowances are measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial instrument.

For non-credit-impaired financial instruments:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced an SICR since initial recognition. The Bank recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced an SICR since initial recognition. The Bank recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:

- Financial instruments are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The ECL model requires that lifetime ECL be recognized for impaired financial instruments.

The Bank uses internal credit assessment and approvals at various levels to determine the credit risk of exposures at initial recognition. Assessment can be quantitative or qualitative and depends on the materiality of the facility or the complexity of the portfolio to be assessed.

The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, in all cases when the borrower becomes at least 90 days past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted. An instrument is considered to be no longer in default (i.e., to have cured) when it no longer meets any of the default criteria for a consecutive period of 180 days (i.e., consecutive payments from the borrowers for 180 days).

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors such as downgrade in the credit rating of the borrowers and a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's internal credit assessment, the borrower or counterparty is determined to require close monitoring or with well-defined credit weaknesses. For exposures without internal credit grades, if contractual payments are more than a specified days past due threshold (i.e., 30 days), the credit risk is deemed to have increased significantly since initial recognition. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Bank shall revert to recognizing a 12-month ECL.

ECL is a function of the probabilities of default (PD), exposure at default (EAD) and loss given default (LGD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment.

The PD represents the likelihood that a credit exposure will not be repaid and will go into default in either a 12-month horizon for Stage 1 or lifetime horizon for Stage 2. EAD represents an estimate of the outstanding amount of credit exposure at the time a default may occur. For off-balance sheet and undrawn amounts, EAD includes an estimate of any further amounts to be drawn at the time of default. LGD is the amount that may not be recovered in the event of default. LGD takes into consideration the amount and quality of any collateral held. Please refer to Note 6 for other information related to the Bank's models for PD, EAD, and LGD.

The calculation of ECLs, including the estimation of PD, EAD, LGD and discount rate is made, on an individual basis for most of the Bank's financial assets, and on a collective basis for retail products such as personal and teachers' loans. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

In certain circumstances, the Bank modifies the original terms and conditions of a credit exposure to form a new loan agreement or payment schedule. The modifications can be given depending on the borrower's or counterparty's current or expected financial difficulty. The modifications may include, but are not limited to, change in interest rate and terms, principal amount, maturity date, date and amount of periodic payments and accrual of interest and charges. Distressed restructuring with indications of unlikeliness to pay are categorized as impaired accounts and are moved to Stage 3.

<u>Classification, Reclassification and Impairment of Financial Assets (Prior to Adoption of PFRS 9)</u>
The Bank classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) financial assets, AFS financial assets, and loans and receivables while financial liabilities are classified as financial liabilities at FVPL and financial liabilities carried at amortized cost. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial assets and financial liabilities at FVPL
Financial assets and financial liabilities at FVPL include financial assets and liabilities held for trading purposes, financial assets and financial liabilities designated upon initial recognition as at FVPL, and derivative instruments.

Financial instruments held for trading
Financial instruments held for trading (HFT) include government debt securities purchased and held principally with the intention of selling them in the near term.

These securities are carried at fair value, and the realized and unrealized gains and losses on these instruments are recognized as 'Trading and securities gains' in the statement of income. Interest earned or incurred on financial instruments held for trading is reported in the statement of income under 'Interest income' (for financial assets) and 'Interest expense' (for financial liabilities).

As of December 31, 2017, all financial assets at FVPL of the Bank are classified as HFT and consist of government debt securities.

HTM financial assets
HTM financial assets are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Bank's management has the positive intention and ability to hold to maturity. Where the Bank would sell other than an insignificant amount of HTM financial assets, the entire category would be tainted and reclassified as AFS financial assets and the Bank would be prohibited from classifying any financial asset under HTM category during the current year and two succeeding years thereafter unless for sales or reclassifications that:

- are so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortization is included in 'Interest income' in the statement of income. Gains and losses are recognized in income when the HTM financial assets are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of income under 'Provision for impairment and credit losses'. The effects of translation of foreign currency-denominated HTM financial assets are recognized in profit or loss. As of December 31, 2017, this account consists of government and private debt securities.

Loans and receivables
This accounting policy relates to 'Due from BSP, 'Due from other banks', and 'SPURA' accounts reported under 'Cash and cash equivalents', 'Loans and receivables', and financial assets reported under 'Other assets'.

Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market other than:

- those that the Bank intends to sell immediately or in the near term and those that the Bank upon initial recognition designates as at FVPL;
- those that the Bank, upon initial recognition, designates as AFS financial assets; or
- those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial recognition, loans and receivables are subsequently measured at cost (or amortized cost) using the effective interest method, less allowance for impairment and credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included under 'Interest income' in the statement of income. The losses arising from impairment are recognized under 'Provision for impairment and credit losses' in the statement of income.

AFS financial assets
AFS financial assets are those which are designated as such or do not qualify to be classified as financial assets at FVPL, HTM financial assets or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include debt and equity securities.

After initial measurement, AFS financial assets are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of translation of foreign currency-denominated AFS debt securities, is reported in the statement of income. The unrealized gains and losses arising from the fair valuation of AFS financial assets are excluded, net of tax, from reported earnings and are included in 'Net unrealized losses on AFS financial assets' under OCI.

When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized in 'Trading and securities gains' in the statement of income. Where the Bank holds more than one investment in the same security, these are deemed to be disposed of on a specific identification basis. Interest earned on holding AFS debt securities are reported as 'Interest income' using the EIR. Dividends earned on holding AFS equity securities are recognized in the statement of income as 'Miscellaneous income' when the right to receive the payment has been established. The losses arising from impairment of such investments are recognized as 'Provision for impairment and credit losses' in the statement of income.

Other financial liabilities
This accounting policy relates to the statement of financial position captions 'Deposit liabilities', 'Manager's checks', 'Accrued interest and other expenses' and financial liabilities under 'Other liabilities'. These are issued financial instruments or their components which are not designated as at FVPL and where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, other financial liabilities not qualified and not designated as at FVPL are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

Reclassification of Financial Assets
The Bank may reclassify, in rare circumstances, non-derivative financial assets out of the HFT investments category and into the AFS financial assets, Loans and receivables or HTM financial assets categories. The Bank may also reclassify, in certain circumstances, financial instruments out of the AFS financial assets to loans and receivables category. Reclassifications of financial assets carried at fair value are recorded at fair value at the date of reclassification, which becomes the new amortized cost.

The Bank may reclassify a non-derivative trading asset out of HFT investments and into the Loans and Receivable category if it meets the definition of loans and receivables, the Bank has the intention and ability to hold the financial assets for the foreseeable future or until maturity and only in rare circumstances. If a financial asset is reclassified, and if the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognized as an adjustment to the EIR from the date of the change in estimate.

For a financial asset reclassified out of the AFS financial assets category, any previous gain or loss on that asset that has been recognized in OCI is amortized to profit or loss over the remaining life of the investment using the effective interest method. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the effective interest method. If the asset is subsequently determined to be impaired then the amount recorded in OCI is recycled to the statement of income. Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Bank does not reclassify any financial instrument into the FVPL category after initial recognition. An analysis of reclassified financial assets is disclosed in Note 7.

Impairment of Financial Assets (prior to adoption of PFRS 9)
The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a 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 a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost
For financial assets carried at amortized cost, which include 'Due from BSP', 'Due from other banks', 'SPURA', 'Loans and receivables', 'HTM financial assets' and financial assets recorded under 'Other assets', the Bank 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. If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of the 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 financial asset carried at amortized cost has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the statement of income under 'provision for impairment and credit losses'. Interest income continues to be recognized based on the original EIR of the asset. The financial assets, 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 the Bank determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. 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 for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, collateral type, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a previous write-off is later recovered, any amount formerly charged is credited to 'Miscellaneous income' in the statement of income.

Financial assets carried at cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS financial assets
For AFS financial assets, the Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity investments classified as AFS financial assets, this would include:

- A 'significant' or 'prolonged' decline in the fair value of the investments below its cost; and /or
- other information about the issuer that may negatively affect an equity issuer's performance

The Bank treats 'significant' generally as 20.00% and 'prolonged' generally as greater than one year. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income, is removed from the statement of comprehensive income and recognized in the statement of income.

Impairment losses on equity securities are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in the statement of comprehensive income.

In the case of debt securities classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss previously recognized in profit or loss. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the statement of income. If, in the subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through 'Miscellaneous income' in the statement of income.

Restructured loans
Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement 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 that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR. 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 in 'Provision for impairment and credit losses' in the statement of income.

If modifications are substantial, the loan is derecognized as explained in the accounting policy for derecogniton of financial assets.

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 financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired; or
- the Bank 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 Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred control over the asset.

Where the Bank 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 Bank's continuing involvement in the asset. In that case, the Bank also recognizes an associated liability. The transferred asset and associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

The transfer of risks and rewards is evaluated by comparing the Bank's exposure, before and after the transfer, with the variability in the amounts and timing of the net cash flows of the transferred asset. The Bank has retained substantially all the risks and rewards of ownership of a financial asset if its exposure to the variability in the present value of the future net cash flows from the financial asset does not change significantly as a result of the transfer (e.g., because the entity has sold a financial asset subject to an agreement to buy it back at a fixed price or the sole price plus a lender's return). The Bank has transferred substantially all the risks and rewards of ownership of a financial asset if its exposure to such variability is no longer significant in relation to the total variability in the present value of the future net cash flows associated with the financial asset (e.g., because the entity has sold a financial asset subject only to an option to buy it back at its fair value at the time of repurchase or has transferred fully proportionate share of the cash flows from a larger financial asset in an agreement).

Whether the Bank has retained control of the transferred asset depends on the transferee's ability to sell the asset. If the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, the entity has not retained control.

Financial liabilities
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 from the same lender on substantially different terms, or the terms of existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

Write-offs
Financial assets are written off either partially or in their entirety when the Bank no longer expects collections or recoveries within a foreseeable future. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

NCAHS
NCAHS include repossessed vehicles acquired in settlement of loans and receivable. The Bank classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use.

NCAHS are measured at the lower of their carrying amount and fair value less costs to sell and are no longer depreciated or amortized. The criteria for NCAHS classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition.

Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

If the Bank decides to use an asset as property and equipment, the related asset ceases to qualify as NCAHS and is reclassified to property and equipment.

Upon reclassification, the Bank measures a non-current asset that ceases to be classified as held for sale at the lower of:

- its carrying amount before the asset was classified as held for sale, adjusted for any depreciation, amortization or revaluation that would have been recognized had the asset not been classified as held for sale, and
- its recoverable amount at the date of the subsequent reclassification.

Property and Equipment
Land is stated at cost less any impairment in value while depreciable properties including buildings and furniture, fixture and equipment are stated at cost less accumulated depreciation and amortization, and any impairment in value. Such cost includes the cost of replacing part of the property and equipment when that cost is incurred and if the recognition criteria are met, but excluding repairs and maintenance costs. Leasehold rights and improvements are stated at its net carrying amount after directly deducting amortization.

Depreciation and amortization is calculated using the straight-line method over the estimated useful life (EUL) of the depreciable assets as follows:

Condominium properties, buildings and improvements	20 to 40 years
Furniture, fixtures and equipment	2 to 10 years
Leasehold improvements	5 to 10 years or the related lease terms, whichever is shorter

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

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the asset is derecognized.

Investment Properties

Investment properties include real properties acquired in settlement of loans and receivables and investments in real estate.

Real properties acquired in settlement of loans and receivables

Real properties acquired in settlement of loans and receivables are booked under ROPA account as follows:

- upon the date of entry of judgment in case of judicial foreclosure; or
- upon the date of Sheriff's Certificate of Sale in case of extrajudicial foreclosure; or
- upon the date of notarization of the Deed of Dacion in case of dation in payment.

These properties are carried at cost, which is the fair value at acquisition date including certain transaction costs, less accumulated depreciation and impairment in value. Transaction costs, which include nonrefundable capital gains tax and documentary stamp tax, incurred in connection with foreclosure are capitalized as part of the carrying values of the cost of the real properties acquired. Investment properties acquired through a nonmonetary asset exchange is measured initially at fair value unless (a) the exchange lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable, where the net carrying value of the related loans and receivables is used. The difference between the fair value of the foreclosed properties and the carrying value of the related receivables given up is recognized in 'Gain (loss) on asset exchange' account in the statement of comprehensive income. Subsequent to initial recognition, real properties acquired in settlement of loans and receivables are stated at cost less accumulated depreciation and any accumulated impairment in value. Depreciation is computed on a straight-line basis over the EUL from the time of acquisition of the investment properties but not to exceed 10 years.

Investments in real estate

Investments in real estate consist of investments in land and building. The Bank applies the cost model in accounting for investments in real estate. Investment in land is carried at cost less impairment in value. Building is carried at cost less accumulated depreciation and impairment in value. All costs that are directly attributable to the acquisition and development of property are capitalized, including borrowing costs incurred to finance the property development. Depreciation is computed on a straight-line basis between 20 to 40 years.

Subsequent measurement of investment properties
The EUL of investment properties and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of investment properties.

The carrying values of the investment properties are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any of such indication exists and where the carrying values exceed the estimated recoverable amount, the investment property or CGUs it is related to are written down to their recoverable amounts.

Investment properties are derecognized when they have either been disposed of or when they are permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment properties are recognized in the statement of income in the year of retirement or disposal under 'Gain (loss) on asset exchange'.

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

<u>Intangible Assets</u>
Intangible assets consist of software costs and branch licenses.

Software costs
Costs related to software purchased by the Bank for use in operations are recognized as 'Software costs' in the statement of financial position. Capitalized computer software costs are amortized on a straight-line basis over 3 to 7 years.

Branch licenses
These intangible assets were determined to have indefinite useful lives and are therefore not amortized. The useful life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis. Branch licenses are tested for impairment annually either individually or at the CGU level.

Impairment is determined by assessing the recoverable amount of the individual asset or CGU (or group of CGUs) to which the intangible asset relates. Recoverable amount is the higher of the individual asset's or CGU's fair value less cost to sell and its value in use. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life, or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortization period or methodology, as appropriate, which are then treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is presented as a separate line item in the statement of income.

Investment in a Subsidiary and an Associate

Investment in a subsidiary

A subsidiary pertains to an entity over which the Bank has control. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Investment in a subsidiary is carried at acquisition cost, less any impairment in value.

This policy relates to the Bank's investment in a 100% owned subsidiary recorded in 'Other equity investments' under 'Other assets'.

Investment in an associate

An associate pertains to an entity over which the Bank has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Investment in an associate is accounted for under the equity method of accounting.

Under the equity method, an investment in an associate is carried in the statement of financial position at cost plus post-acquisition changes in the Bank's share of the net assets of the associates. Goodwill, if any, relating to an associate is included in the carrying value of the investment and is not amortized. When the Bank increases its ownership interest in an associate that continues to be accounted for under the equity method, the cost for the additional interest is added to the existing carrying amount of the associate and the existing interest in the associate is not remeasured.

The Bank's share of its associate's post-acquisition profits or losses is recognized in the statement of income, and its share of post-acquisition movements in the associates' equity reserves is recognized directly in equity. When the Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Bank does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. Profits and losses resulting from transactions between the Bank and an associate are eliminated to the extent of the interest in the associate. Dividends received, if any, are treated as a reduction in the carrying value of the investment.

In cases where an associate is in a net liability position, the equity method requires the Bank to discontinue recognizing its share of further losses when its cumulative share in the losses of the associate equals or exceeds its interest in the associate, unless the Bank has incurred legal or constructive obligations or made payments on behalf of the associate, in which case a liability is recognized.

This policy relates to the Bank's investment in a 49%-owned investee company recorded in 'Other equity investments' under 'Other assets'.

As of December 31, 2018 and 2017, the investment in an associate, which was acquired as a result of merger with PDB, is fully impaired (Note 13).

Impairment of Nonfinancial Assets

At each reporting date, the Bank assesses whether there is any indication that its nonfinancial assets (i.e., property and equipment, investment properties, investment in a subsidiary and an associate, software cost) may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of recoverable amount.

Recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those other assets or groups of assets, in which case the recoverable amount is assessed as part of the CGU to which it belongs. Where the carrying amount of an asset or CGU exceeds its 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 recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged against the statement of income in the period in which it arises.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is credited to current operations.

After such a 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 life.

<u>Leases</u>
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:

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

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

Bank as 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 and included in the statement of income as 'Occupancy cost'.

Bank as lessor
Leases where the Bank does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Deposit for Future Stock Subscription
Deposit for future stock subscriptions (DFFS) pertains to capital infusions made by stockholders of the Bank on subscription to the increase in the authorized capital which cannot be directly credited to capital stock issued pending approval by the BSP and registration with the SEC of the amendment to the Articles of Incorporation for the proposed increase in capital stock. Under SEC Financial Reporting Bulletin 006 issued in 2012 and amended in 2013, an entity should not consider a DFFS as an equity instrument unless all of the following elements are present:

- There is a lack or insufficiency of authorized unissued shares of stock to cover the deposit;
- The entity's BOD and shareholders have approved an increase in capital stock to cover the shares corresponding to the amount of the deposit; and
- An application for the approval of the increase in capital stock has been filed with the SEC and BSP.

If any or all of the foregoing elements above are not present, the DFFS should be recognized as a liability.

Equity
Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to 'Additional paid-in capital' account. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to 'Additional paid-in capital' account. If the 'Additional paid-in capital' is not sufficient, the excess is charged against the 'Surplus (deficit)'. The effect of positive (negative) equity adjustments arising from business combination under common control is included under 'Additional paid-in capital' ('Other equity reserves').

When the Bank issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

Surplus
Surplus represents cumulative balance of periodic net income or loss, dividend declarations, prior period adjustments, effect of changes in accounting policy and other capital adjustments, if any.

Revenue Recognition
Prior to PFRS 15, revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duties. Starting January 1, 2018, revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those goods or services. The Bank has assessed that it is acting as principal in all arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Interest income
For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as FVOCI and AFS financial assets, interest income is recorded at either EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability, or at rate stated in the contract. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, as applicable, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as 'Interest income'.

Under PFRS 9, when a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3 (as discussed in "Impairment of Financial Assets" above), the Bank calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis. Under PAS 39, once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Service fees and commission income
Fees earned for the provision of services over a period of time are accrued over that period, as the customer simultaneously receives and consumes the benefits provided by the bank. Using an output method, revenue is recognized if the Bank has a right to invoice the customer for services directly corresponding to performance completed to date. These include charges from usage of ATM, charges for returned checks, charges for below minimum maintaining balance and commission income.

The Bank assessed that there is no difference in accounting for service fees and commission income under PFRS 15 and PAS 18.

Gain on asset exchange
Gain (loss) on asset exchange transaction is recognized upon foreclosure of loan collaterals (see accounting policy on investment properties and NCAHS) or sale of such foreclosed properties. The gain or loss on foreclosure represents the difference between the fair value of the asset received and book value of the asset given up. Income (loss) from sale of foreclosed properties is recognized upon completion of the earnings process, the transfer of risk and rewards over the property to the buyer, and the collectability on the sales price is reasonably assured.

Trading and securities gains (losses) - net
Gain (loss) from investment securities arise from trading activities of FVPL instruments including all gains and losses from changes in fair value of financial assets held for trading. It also includes gains and losses realized from sale of AFS financial assets and FVOCI debt investments.

Rental income
Rental income arising from leased properties is accounted from on a straight-line basis over the lease terms on ongoing leases and is recorded in the statement of comprehensive income under 'Income from property rentals'.

Trust fee income
This arises from rendering of trust management services to the trust and managed funds of the Bank's Trust Department. Trust fee income is accrued as service is provided.

Dividend income
Dividend income are recognized under 'Miscellaneous income' when the Bank's right to receive payment is established, which is generally when the shareholders approve the dividend declarations.

Expense Recognition
Expenses are recognized when it is probable that a decrease in future economic benefit related to a decrease in an asset or an increase of a liability has occurred and the decrease in economic benefits can be measured reliably. Expenses are recognized when incurred.

Interest expense
Interest expense for all interest-bearing financial liabilities are recognized in 'Interest expense' in the statement of income using the EIR of the financial liabilities to which they relate.

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

Taxes and licenses
These include all other taxes, local and national, including gross receipts tax (GRT), real estate taxes and licenses and permit fees which are recognized when incurred.

Retirement Benefits
The net defined benefit asset or liability is the aggregate of the present value of the defined benefit obligation at the reporting date reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The defined benefit obligation is calculated annually by an independent actuary. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates on government bonds that have terms to maturity approximating the terms of the related retirement asset or liability. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plan is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:
a. service cost;
b. net interest on the net defined benefit liability or asset; and
c. remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on Philippine government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Bank, nor can they be paid directly to the Bank. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Bank's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain. If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Provisions and Contingencies

Provisions are recognized when the Bank 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 Bank expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, 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 an interest expense.

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

Income Taxes

Current tax

Current tax assets and current tax liabilities for the current period and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as of the reporting date.

Deferred tax

Deferred tax is provided, using the balance sheet liability method, 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, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized. Deferred tax assets and deferred tax liabilities, however, is not recognized on temporary differences that arise 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 amounts of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are applicable to the period 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.

Current tax and deferred tax relating to items recognized directly in equity is also recognized in equity and not in the statement of income.

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

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

Events after the Reporting Date
Post year-end events that provide additional information about the Bank's position at the reporting date (adjusting events) is reflected in the financial statements. Any post-year-end event that is not an adjusting event is disclosed in the notes to the financial statements when material.

Standards Issued but Not Yet Effective
There are new PFRSs, amendments, interpretation and annual improvements, to existing standards effective for annual periods subsequent to 2018, which are adopted by the Financial Reporting Standards Council. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Bank's financial statements:

Effective beginning on or after January 1, 2019:

- PFRS 9 (Amendment), *Prepayment Features with Negative Compensation*. Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted. Management has assessed that the amendment has no impact on the financial statements.

- PFRS 16, *Leases*. This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases.* The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).

  At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

  PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

  A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

  Upon adoption of this standard, the Bank expect to recognize a right of use asset and lease liability for covered lease contracts. Management is currently assessing the impact of this new standard in the financial statements.

  - PAS 19 (Amendments), *Employee Benefits, Plan Amendment, Curtailment or Settlement.* The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

    - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
    - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

  The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

Early application is permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Bank.

- PAS 28 (Amendments), *Long-term Interests in Associates and Joint Ventures.* The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively, with early application permitted.

- IFRIC 23, *Uncertainty over Income Tax Treatments*. The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

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

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

This interpretation is not relevant to the Bank because there is no uncertainty involved in the tax treatments made by management in connection with the calculation of current and deferred taxes as of December 31, 2018 and 2017.

Annual Improvements to PFRS 2015-2017 Cycle

- Amendments to PFRS 3, *Business Combinations, and PFRS 11, Joint Arrangements, Previously Held Interest in a Joint Operation*. The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

  A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Bank but may apply to future transactions.

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity.* The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends 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 clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

  An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. Early application is permitted.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*. The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  Earlier application is permitted.

- Amendments to PAS 1, *Presentation of Financial Statements, and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*. The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgments.

  Earlier application is permitted.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*. The standard is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

Early application is permitted. This standard has no impact on the Bank as it has no insurance operations.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements, and PAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*. The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in accordance with PFRS requires the Bank to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

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

a. *Fair value of financial instruments (prior to adoption of PFRS 9)*
   The Bank classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an

active market is the determination of whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions conducted on an arm's length basis.

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position or disclosed in the notes to the financial statements cannot be derived from active markets, they are determined using discounted cash flow model, incorporating inputs such as current market rates of comparable instruments. The carrying values and corresponding fair values of financial assets and financial liabilities as well as the manner in which fair values were determined are discussed in Note 4.

b. *HTM financial assets (prior to PFRS 9 adoption)*
The classification to HTM financial assets requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than in certain specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire portfolio as part of AFS financial assets. The investments would therefore be measured at fair value and not at amortized cost.

Details of AFS financial assets reclassified to HTM financial assets are disclosed in Note 7.

c. *Classification of NCAHS*
The Bank classifies NCAHS if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use.

The criteria for NCAHS classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition.

d. *Contingencies*
The Bank is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Bank's defense in these matters and is based upon an analysis of potential results. The Bank currently does not believe that these proceedings will have a material adverse effect on the financial statements. 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 (Note 25).

e. *Evaluation of business model in managing financial instruments (PFRS 9)*
The Bank manages its financial assets based on business models that maintain an adequate level of financial assets to match its expected cash outflows, largely arising from customers' withdrawals and continuing loan disbursements to borrowers, while maintaining a strategic portfolio of financial assets for investment and trading activities consistent with its risk appetite.

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

In determining the classification of a financial instrument under PFRS 9, the Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Bank, various risks and key performance indicators being reviewed and monitored by responsible officers, as well as the manner of compensation for them.

At the start of 2018, the Bank's BOD approved its documentation of business models which contains broad categories of banking and trading business models. The banking business model includes the Bank's lending activities as well as treasury business activities broken down into liquidity and investment portfolios. The approval of the business models triggered the realignment and reassessment of the Bank's strategy for managing its hold to collect (HTC) portfolio and the introduction of new portfolios with the objective of maximizing risk-adjusted returns. As such, the Bank's classification of financial assets now consists of amortized cost and FVOCI, where certain securities were reclassified from a classification measured at amortized cost to a classification measured at fair value, and vice versa, at the beginning of first quarter of 2018.

The business model assessment is based on reasonably expected scenarios without taking worst case or stress case scenarios into account. If cash flows, after initial recognition are realized in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

f. *Testing the cash flow characteristics of financial assets (PFRS 9)*
In determining the classification of financial assets under PFRS 9, the Bank assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk), i.e., cash flows that are non-SPPI, does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Bank assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Bank considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

Estimates
The key assumptions concerning the future and other sources of estimation uncertainty at the reporting date that have a significant risk of causing material adjustment to the carrying amounts in the statement of financial position within the next financial year are described below:

a. *Credit losses on loans and receivables, HTM financial assets, AFS debt securities and financial assets under 'Other assets' (prior to adoption of PFRS 9)*
The Bank reviews its loans and receivables, HTM financial assets, AFS debt securities and financial assets under 'Other assets' at each reporting date to assess whether an allowance for impairment and credit losses should be recorded in the statement of financial position and any changes thereto in the statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors. Actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant financial assets, the Bank also makes a collective impairment assessment against exposures which, although not specifically identified as requiring an allowance, have a greater risk of default than when originally granted. This collective impairment assessment is based on any deterioration in the credit quality of a group of financial assets with similar credit risk characteristics. The collective impairment assessment considers factors such as deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

The carrying values of AFS debt securities and loans and receivables as of December 31, 2017 are disclosed in Notes 7 and 8, respectively.

As of December 31, 2017 HTM financial assets were unimpaired. The carrying values of HTM financial assets are disclosed in Note 7.

b. *Expected credit losses on financial assets (PFRS 9)*
The Bank reviews its financial assets and commitments at each reporting date to determine the amount of expected credit losses to be recognized in the balance sheet and any changes thereto in the statement of income. In particular, judgments and estimates by management are required in determining the following:

- whether a financial asset has had a significant increase in credit risk since initial recognition;
- whether default has taken place and what comprises a default;
- macro-economic factors that are relevant in measuring a financial asset’s probability of default as well as the Bank’s forecast of these macro-economic factors;
- probability weights applied over a range of possible outcomes;
- sufficiency and appropriateness of data used and relationships assumed in building the components of the Bank’s expected credit loss models;
- measuring the exposure at default for unused commitments on which an expected credit loss should be recognized and the applicable loss rate

The related allowance for credit losses of financial assets are disclosed in Note 14.

c. *Impairment of non-financial assets*

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

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

The Bank recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the fair value less cost to sell for real properties. Recoverable amounts are estimated for individual assets or, if it is not possible, for the CGU which the asset belongs.

The carrying values of the Bank's investment properties are disclosed in Note 11.

Branch licenses
The Bank conducts an annual review for any impairment in the value of branch licenses. Branch licenses are written down for impairment where the recoverable value is insufficient to support their carrying value. The recoverable amount of branch licenses is based on its fair value less costs of disposal (Note 12).

d. *Recognition of deferred income taxes*
Deferred tax assets are recognized for all unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The estimates of future taxable income indicate that certain temporary differences will be realized in the future. The recognized net deferred tax assets and unrecognized deferred tax assets are disclosed in Note 22.

e. *Net retirement asset (liability) and retirement expense*
The determination of the Bank's net retirement asset (liability) and annual retirement expense is dependent on the selection of certain assumptions used in calculating such amounts. These assumptions include, among others, discount rates and salary increase.

The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of the reporting date. The salary projection rate was based on the historical trend of salary increase rate of the Company. Refer to Note 20 for the details on the assumptions used in calculating the defined benefit asset (liability).

The present value of the retirement obligation and fair value of plan assets are disclosed in Note 20.

4. **Fair Value Measurement**

The methods and assumptions used by the Bank in estimating the fair values of its assets and liabilities are:

Cash and cash equivalents and financial assets recorded under 'Other assets' - The carrying amounts approximate their fair values in view of the relatively short-term maturities of these instruments.

Debt securities - Fair values are generally based on quoted market prices. If the market prices are not readily available, fair values are estimated using adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Equity securities (prior to adoption of PFRS 9) - Unquoted equity securities are carried at cost less allowance for impairment losses due to the unpredictable nature of future cash flows and the lack of suitable method of arriving at a reliable fair value. Unquoted equity securities are not significant in relation to the Bank's portfolio of financial instruments.

Equity securities (upon adoption of PFRS 9) - Remeasurement of the unquoted equity securities to their fair values is not material to the financial statements.

Loans and receivables and unquoted debt securities - Fair values are estimated using the discounted cash flow methodology, using the Bank's current incremental lending rates for similar types of receivables or securities. The discount rates used in estimating the fair value of loans and receivables are the incremental lending rates ranging from 6.43% to 28.43% and from 5.65% to 28.43% in 2018 and 2017, respectively.

The discount rates used in estimating the fair values of unquoted debt securities are the incremental lending rates ranging from 3.55% to 6.75% in 2017.

Deposit liabilities - Fair values of time deposits are estimated using the discounted cash flow methodology, using the Bank's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. For demand and savings deposits, carrying amounts approximate fair values considering that these are currently due and demandable. The discount rates used in estimating the fair value of time deposits as of December 31, 2018 and 2017 range from 0.50% to 7.50% and from 0.25% to 4.75%, respectively.

Manager's checks, accrued interest and other expenses and other liabilities - Carrying amounts approximate fair values due to the short-term nature of the accounts.

NCAHS and investment properties - The fair values of the Bank's NCAHS and investment properties have been determined based on valuations made by accredited independent or in-house appraisers on the basis of recent sales of similar properties in the same areas and taking into account the economic conditions prevailing at the time the valuations were made.

As of December 31, 2018 and 2017, the classification under the fair value hierarchy of the Bank's assets and liabilities measured at fair value or with disclosure of fair values are presented below:

	December 31, 2018				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements					
Financial assets at FVOCI					
Government debt securities	**₱1,053,071,928**	**₱1,053,004,955**	**₱–**	**₱–**	**₱1,053,004,955**
Fair values of assets carried at amortized cost					
Investment securities at amortized cost					
Government debt securities	**₱7,193,439,895**	**₱6,975,887,319**	**₱–**	**₱–**	**₱6,975,887,319**
Private debt securities	**1,519,383,036**	**1,374,870,799**	**–**	**–**	**1,374,870,799**
Loans and receivables					
Loans and discounts					
Consumer lending	**34,432,783,942**	**–**	**–**	**38,472,520,026**	**38,472,520,026**
Corporate and commercial lending	**29,835,089,657**	**–**	**–**	**32,455,390,920**	**32,455,390,920**
Others	**11,716,709**	**–**	**–**	**12,850,022**	**12,850,022**
Sales contract receivable	**851,767,167**	**–**	**–**	**923,455,254**	**923,455,254**
	₱74,897,252,334	**₱9,403,763,073**	**₱–**	**₱71,864,216,222**	**₱81,267,979,295**
Nonrecurring fair value measurement					
NCAHS	**₱379,192,579**	**₱–**	**₱–**	**₱379,192,579**	**₱379,192,579**
Fair values of assets carried at cost					
Investment properties					
Land	**₱2,241,278,234**	**₱–**	**₱–**	**₱2,865,573,398**	**₱2,865,573,398**
Condominium properties, buildings and improvements	**955,813,151**	**–**	**–**	**1,329,810,375**	**1,329,810,375**
	₱3,197,091,385	**₱–**	**₱–**	**₱4,195,383,773**	**₱4,195,383,773**
Fair values of liabilities carried at amortized cost					
Deposit liabilities - Time	**₱55,767,866,280**	**₱–**	**₱–**	**₱55,786,226,503**	**₱55,786,226,503**

	December 31, 2017				
	Carrying Value	Level 1	Level 2	Level 3	Total
Recurring fair value measurements					
Financial assets at FVPL					
Government debt securities	₱135,397,767	₱84,908,783	₱50,488,984	₱–	₱135,397,767
AFS financial assets					
Government debt securities	1,734,267,611	1,443,080,297	291,187,314	–	1,734,267,611
Private debt securities	440,453,241	440,453,241	–	–	440,453,241
	₱2,310,118,619	₱1,968,442,321	₱341,676,298	₱–	₱2,310,118,619
Fair values of assets carried at amortized cost					
HTM financial assets					
Government debt securities	₱2,734,817,726	₱1,005,036,231	₱1,729,241,820	₱–	₱2,734,278,051
Private debt securities	768,000,000	–	756,201,297	–	756,201,297
Loans and receivables					
Loans and discounts					
Consumer lending	29,119,090,672	–	–	32,343,165,606	32,343,165,606
Corporate and commercial lending	33,154,769,037	–	–	35,238,912,995	35,238,912,995
Others	38,733,209	–	–	40,324,214	40,324,214
Unquoted debt securities	102,911,415	–	–	102,898,514	102,898,514
Sales contract receivable	728,819,747	–	–	791,950,511	791,950,511
	₱66,647,141,806	₱1,005,036,231	₱2,485,443,117	₱68,517,251,840	₱72,007,731,188
Nonrecurring fair value measurement					
NCAHS	₱212,031,191	₱–	₱–	₱212,031,191	₱212,031,191
Fair values of assets carried at cost					
Investment properties					
Land	₱2,337,789,063	₱–	₱–	₱3,049,029,030	₱3,049,029,030
Condominium properties, buildings and improvements	819,356,475	–	–	1,376,744,511	1,376,744,511
	₱3,157,145,538	₱–	₱–	₱4,425,773,541	₱4,425,773,541
Fair values of liabilities carried at amortized cost					
Deposit liabilities - Time	₱51,496,682,274	₱–	₱–	₱51,501,993,831	₱51,501,993,831

As of December 31, 2018 and 2017, there were no transfers into and out of Level 3 fair value measurement. Level 2 securities in 2017 that met the Level 1 criteria were transferred to Level 1 in 2018.

The inputs used in the fair value measurement based on Level 2 are as follows:

Government securities - interpolated rates based on market rates of benchmark securities as of reporting date.

Private bonds and commercial papers - quoted market price of comparable investments with credit risk premium that is insignificant to the entire fair value measurement.

Inputs used in estimating fair values of financial instruments carried at amortized cost and categorized under Level 3 include risk-free rates and applicable risk premium.

Description of the valuation techniques and significant unobservable inputs (Note 11) used in the valuation of the Bank's NCAHS and investment properties are as follows:

Valuation Techniques	
Market Data Approach	A process of comparing the subject property being appraised to similar comparable properties recently sold or being offered for sale.
Replacement Cost Approach	It is an estimate of the investment required to duplicate the property in its present condition. It is reached by estimating the value of the land and adding the depreciated cost of the improvement.

5. Financial Risk Management Objectives and Policies

The Bank's activities are principally related to the profitable use of financial instruments. Risks are inherent in these activities but are managed by the Bank through a rigorous, comprehensive and continuous process of identification, measurement, monitoring and mitigation of these risks, partly through the effective use of risk and authority limits, process controls and monitoring, and independent controls. As reflected in its corporate actions and organizational improvements, the Bank has placed due importance to expanding and strengthening its risk management process and considers it as a vital component to the Bank's continuing profitability and financial stability.

Central to the Bank's risk management process is its adoption of a risk management program intended to avoid unnecessary risks, manage and mitigate unavoidable risks and maximize returns from taking acceptable risks necessary to sustain its business viability and good financial position in the market.

The key financial risks that the Bank faces are: credit risk, market risk (i.e., interest rate risk), and liquidity risk. The Bank's risk management objective is primarily focused on controlling and mitigating these risks. The gravity of the risks, the magnitude of the financial instruments involved, and the regulatory requirements are the primary considerations to the scope and extent of the risk management processes put in place for the Bank.

Risk Management Structure

The BOD of the Bank has the primary responsibility for the establishment of a risk management system and is ultimately accountable for all risks taken within the Bank. The BOD has established, among others, the following committees to directly handle the Bank's risk management framework, policies and implementation in their respective risk management areas: the Executive Committee (ExeCom), Audit Committee (AudCom), Credit Committee (CreCom), Corporate Governance Committee (CGC) and the Risk Management Committee (RMC). All Board committees report regularly to the BOD on their activities as follows:

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

The Bank's RMC shall be responsible for the oversight and development of all risk management functions within the Bank. The RMC develops appropriate strategies through a written practical risk management plan for managing the major categories of risk events and minimizing the magnitude of expected losses, giving priority to the risk events with the largest expected losses. The Risk Management Unit assists the RMC with all of its responsibilities.

The Bank's AudCom, on the other hand, focuses on checking whether adequate process and operational controls are in place and functioning as designed, as well as monitoring compliance thereto by the business and support units. The role of the AudCom is very critical in the proper corporate governance and effective risk management because of its independence from the Bank's top and middle level management. The AudCom is comprised of independent directors who neither participate in the Bank's daily activities nor take decision-making responsibilities. The AudCom delegates its daily control and monitoring functions to the Internal Audit Department (IAD). The IAD is likewise independent from the business and support units and reports exclusively to the AudCom.

The IAD undertakes its control function through regular process, operational and financial audits which it conducts all throughout the year. The audit covers all processes and controls in the Head Office and the branches. The audit results and exceptions, including recommendations for their resolution or improvement, are discussed initially with the business units concerned before these are presented to the AudCom on a quarterly basis.

Risk Management Reporting
The RMC discusses risk management issues on a quarterly basis. The RMC discusses key risk indicators and specific risk management issues that would need resolution from top management. The key risk indicators were formulated on the basis of the financial risks faced by the Bank. The key risk indicators contain information from all business units that provide measurements on the level of the risks taken by the Bank with its transactions, products and financial structure. Among others, the report on key risk indicators includes information on the Bank's aggregate credit exposure, credit metric forecasts, market risk analysis, utilization of market and credit limits, liquidity ratios, overall loan loss provisioning and risk profile changes.

The CreCom reviews and resolves credit-related issues such as credit facility approval, credit and collection strategies on a particular account, and credit monitoring. Loan loss provisioning and credit limit utilization are also discussed in more detail in the CreCom. On a weekly basis, the CreCom discusses detailed reporting of industry, customer and geographic risks arising from the Bank's existing loan portfolio. A comprehensive risk report is submitted to the BOD every quarter for an overall assessment of the level of risks taken by the Bank.

Risk Mitigation
The Bank uses financial instruments to manage exposures resulting from changes in interest rates, foreign currencies, credit risks and exposures arising from forecast transactions. However, the nature and extent of use of these financial instruments to mitigate risks are limited to those allowed by the BSP for a thrift bank.

To further mitigate risk throughout its different business and supporting units, the Bank is in the continuous process of improving its existing risk management policies. These policies further serve as the framework and set the guidelines in the creation or revisions of operating policies and manuals for each business unit. In the process design and implementation, process controls are preferred over detection controls. Clear delineation of responsibilities and separation of incompatible duties among officers and staff as well as among business units are reiterated in these policies. To the extent possible, reporting and accounting responsibilities are segregated from units directly involved in operations and front line activities (i.e., players must not be scorers). This is to improve the credibility and accuracy of management information. Any inconsistencies in the operating policies and manuals with the risk framework established by risk management policies are taken up and resolved in the RMC and ExeCom.

Monitoring and controlling risks are primarily performed based on various limits established by the top management covering the Bank's transactions and dealings. These limits reflect the Bank's business strategies and market environment as well as the levels of risks that the Bank is willing to tolerate, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Excessive Risk Concentration
Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines focusing on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

The Bank's AudCom is responsible for monitoring compliance with the risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank's AudCom is assisted in these functions by IAD. The IAD undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the AudCom.

Credit Risk
Credit Risk and Concentration of Assets and Liabilities and Off - Balance Sheet Items
Credit risk is the risk of financial loss due to one party to a financial product failing to discharge an obligation. The Bank faces potential credit risks every time it extends funds to borrowers, commits funds to counterparties, guarantees the paying performance of its clients, invests funds to issuers (i.e., investment securities issued by either sovereign or corporate entities) and through implied or actual contractual agreements (i.e., on or off-balance sheet exposures). The Bank manages its credit risk at various levels (i.e., strategic level, portfolio level down to individual credit or transaction).

Collateral and other credit enhancements
The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented with regard to the acceptability of types of collateral and valuation parameters.

The Bank has risk limits setting for purposes of monitoring and managing credit risk from individual counterparties and groups of counterparties. It also conducts periodic assessment of the creditworthiness of its counterparties. In addition, the Bank obtains collateral where appropriate, enters into master netting agreements and collateral arrangements with counterparties, and limits the duration of exposures.

The Bank adopted an internal credit scoring system for the purpose of measuring credit risk for retail borrowers in a consistent manner, as accurately as possible, and thereafter uses the risk information for business and financial decision making.

The details of the composition of the loans and receivable and investment securities portfolios (net of unearned interest and discounts and allowance for impairment and credit losses) and the corresponding information on credit concentration as to industry are disclosed below (in thousands):

	2018						
	Loans and receivables	%	Other financial assets*	%	Off-balance sheet exposures	%	Total
Real estate, renting and business services	₱24,446,653	36.13	₱1,699,869	7.38	₱–	–	₱26,146,522
Consumer	20,145,151	29.77	244,341	1.06	–	–	20,389,492
Government	–	–	18,053,581	78.33	–	–	18,053,581
Wholesale and retail trade	6,048,506	8.94	73,362	0.32	628,102	93.29	6,749,970
Financial intermediaries	1,610,678	2.38	1,953,985	8.48	34,462	5.11	3,599,125
Manufacturing	3,201,156	4.73	38,823	0.17	9,237	1.37	3,249,216
Transportation, storage and communication	2,793,739	4.13	33,882	0.15	171	0.03	2,827,792
Construction	2,090,991	3.09	25,362	0.11	–	–	2,116,353
Electricity, gas, steam and air-conditioning supply	1,675,457	2.48	20,323	0.09	–	–	1,695,780
Agriculture	1,836,052	2.71	22,268	0.10	1,179	0.18	1,859,499
Hotels and restaurant	1,338,171	1.98	16,227	0.07	–	–	1,354,398
Education	855,637	1.26	128,375	0.56	–	–	984,012
Other community, social and personal services	599,795	0.89	7,272	0.03	–	–	607,067
Health and social work	496,811	0.73	6,025	0.03	–	–	502,836
Others	531,794	0.78	724,460	3.14	151	0.02	1,256,405
Total	67,670,591	100.00	23,048,155	100.00	673,302	100.00	91,392,048
Allowance for impairment and credit losses	(2,492,075)		(567,825)		–	–	(3,059,900)
Unearned interest and discount	(47,159)		–		–	–	(47,159)
Net	₱65,131,357		₱22,480,330		₱673,302		₱88,284,989

* *Other financial assets include the following: due from BSP, due from other banks, SPURA, financial assets at FVOCI, investments securities at amortized cost and other financial assets.*

	2017						
	Loans and receivables	%	Other financial assets*	%	Off-balance sheet exposures	%	Total
Real estate, renting and business services	₱22,418,436	34.22	₱1,124,981	6.44	₱538	0.02	₱23,543,955
Consumer	17,243,260	26.32	149,360	0.85	–	–	17,392,620
Government	–	–	13,001,085	74.46	–	–	13,001,085
Wholesale and retail trade	7,713,385	11.77	152,179	0.87	1,331,867	52.26	9,197,431
Financial intermediaries	2,692,896	4.11	2,105,001	12.06	208,725	8.19	5,006,622
Manufacturing	4,027,113	6.15	14,756	0.08	77,400	3.04	4,119,269
Transportation, storage and communication	2,119,982	3.24	11,386	0.07	324,916	12.75	2,456,284
Hotels and restaurant	2,003,291	3.06	10,819	0.06	1,000	0.04	2,015,110
Agriculture	1,533,951	2.34	24,178	0.14	215,350	8.45	1,773,479
Construction	1,404,241	2.14	4,868	0.03	109,650	4.30	1,518,759
Electricity, gas, steam and air-conditioning supply	1,307,586	1.99	203,111	1.16	50,000	1.96	1,560,697
Education	1,040,148	1.59	125,029	0.72	–	–	1,165,177
Other community, social and personal services	554,961	0.85	–	–	–	–	554,961
Health and social work	536,777	0.82	1,763	0.01	2,000	0.08	540,540
Fishing	107,405	0.16	1,167	0.01	–	–	108,572
Others	811,737	1.24	530,495	3.04	226,978	8.91	1,569,210
Total	65,515,169	100.00	17,460,178	100.00	2,548,424	100.00	85,523,771
Allowance for impairment and credit losses	(2,338,301)		(562,769)		–		(2,901,070)
Unearned interest and discount	(32,544)		–		–		(32,544)
Net	₱63,144,324		₱16,897,409		₱2,548,424		₱82,590,157

* *Other financial assets include the following: due from BSP, due from other banks, SPURA, financial assets at FVPL, AFS financial assets, HTM financial assets and other financial assets.*

Real estate, renting and business services include exposure to consumer housing loans amounting to ₱5.44 billion and ₱3.93 billion as of December 31, 2018 and 2017, respectively, which are mostly covered with retail loan guaranty from Home Guaranty Corporation (HGC). HGC guaranteed loans are considered as non-risk item for regulatory reporting purposes.

Maximum exposure to credit risk
The tables below provide the analysis of the maximum exposure to credit risk of the Bank's financial instruments.

	December 31, 2018		
	Gross maximum exposure	**Net exposure**	**Financial effect of collateral or credit enhancement**
Credit risk exposure relating to on-balance sheet items are as follows:			
SPURA	**₱3,000,000,000**	**₱–**	**₱3,000,000,000**
Loans and receivables			
Loans and discounts			
Consumer lending	**34,432,783,942**	**16,332,914,803**	**18,099,869,139**
Corporate and commercial lending	**29,835,089,657**	**9,715,385,878**	**20,119,703,779**
Others	**11,716,709**	**11,716,709**	**–**
Sales contract receivable	**851,767,167**	**–**	**851,767,167**
	₱68,131,357,475	**₱26,060,017,390**	**₱42,071,340,085**

	December 31, 2017		
	Gross maximum exposure	Net exposure	Financial effect of collateral or credit enhancement
Credit risk exposure relating to on-balance sheet items are as follows:			
SPURA	₱1,404,323,202	₱–	₱1,404,323,202
Loans and receivables			
Loans and discounts			
Consumer lending	29,119,090,672	19,062,625,005	10,056,465,667
Corporate and commercial lending	33,154,769,037	8,526,096,961	24,628,672,076
Others	38,733,209	38,733,209	–
Unquoted debt securities	102,911,415	–	102,911,415
Sales contract receivable	728,819,747	–	728,819,747
	₱64,548,647,282	₱27,627,455,175	₱36,921,192,107

An analysis of the maximum credit risk exposure relating to financial assets under Stage 3 as of December 31, 2018 is shown below:

	December 31, 2018		
	Gross maximum exposure	**Net exposure**	**Financial effect of collateral or credit enhancement**
Credit risk exposure relating to on-balance sheet items are as follows:			
Loans and receivables			
Loans and discounts			
Consumer lending	**₱545,083,433**	**₱–**	**₱545,083,433**
Corporate and commercial lending	**1,177,047,021**	**–**	**1,177,047,021**
Others	**1,213,453**	**1,213,453**	**–**
Sales contract receivable	**50,757,845**	**–**	**50,757,845**
	₱1,774,101,752	**₱1,213,453**	**₱1,772,888,299**

The maximum exposure to credit risks for the other financial assets is limited to the carrying value as of December 31, 2018 and 2017. The fair values of financial assets at FVOCI, FVPL and AFS financial assets represent the credit risk exposure as of the reporting date but not the maximum risk exposure that could arise in the future as a result of changes in fair value of the said instruments.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions - cash or securities
- For consumer lending - real estate and chattel over vehicle
- For corporate and commercial lending - real estate, chattel over properties, assignment of deposits, shares of stocks, bonds, and guarantees

Foreclosed collateral
The Bank's policy is to determine whether a foreclosed collateral is best used for its internal operations or should be sold. Foreclosed collateral determined to be useful for the internal operations are transferred to their relevant asset category at lower of their repossessed value or the carrying value of the original secured asset. Foreclosed collaterals that are determined better to be sold are immediately transferred to assets held for sale at fair value or fair value less cost to sell for non-financial assets at the repossession date in line with the Bank's policy. Foreclosed collaterals that pertain to real estate properties are accounted for as investment properties.

Collateral valuation
The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The Bank collateral comes in various forms such as cash, securities, letter of credits/guarantees, real estate, receivables and other non-financial assets and credit enhancements. The fair value of collateral is generally assessed, at a minimum, at inception. To the extent possible, the Bank use active market data for valuing financial assets held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate and chattel, is valued based on data provided by third parties such as independent appraisers.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment and credit losses.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In most cases, the Bank does not occupy repossessed properties for business use. Collaterals (i.e., NCAHS and ROPA) foreclosed in 2018 and 2017 that are still held by the Bank as of December 31, 2018 and 2017 amounted to ₱703.46 million and ₱691.24 million, respectively. These collaterals consist of real properties and vehicles.

Credit quality per class of financial assets
The credit quality of financial assets is managed by the Bank using the BSP guidelines in identifying and monitoring problematic loans and other risk assets particularly Appendix 18 of the Manual of Regulations for Banks.

For loans and receivables, risk rating is made based on the loan classification of BSP. High grade comprised of unclassified loans which may include technical past-due accounts, which under BSP regulations are not considered as outright past-due.

Standard grade comprised of loans that have loan classification of miscellaneous exception and loans especially mentioned. Standard grade may also include matured loans subject to renewal. Sub-standard grade are accounts that are watch listed based on internal credit assessment, accounts that have the tendency to turn past due and were initially assessed to be specifically impaired but in the end were collectively assessed for impairment. Loans with classification of doubtful and loss are included under past-due or individually impaired.

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly. The standard credit rating equivalent grades are relevant only for certain of the exposures in each risk rating class.

The financial assets are also grouped according to stage whose description is explained as follows:

Stage 1 - those that are considered current and up to 30 days past due, and based on change in rating, delinquencies and payment history, do not demonstrate significant increase in credit risk.

Stage 2 - those that, based on change in rating, delinquencies and payment history, demonstrate significant increase in credit risk, and/or are considered more than 30 days past due but does not demonstrate objective evidence of impairment as of reporting date.

Stage 3 - those that are considered in default or demonstrate objective evidence of impairment as of reporting date.

The following tables illustrate the Bank's credit exposures.

Loans and receivables

	2018				2017
	ECL Staging				
	Stage 1	**Stage 2**	**Stage 3**		
Consumer lending	12-month ECL	Lifetime ECL	Lifetime ECL	**Total**	Total
Neither past due nor impaired					
High grade	**₱33,577,866,070**	**₱–**	**₱–**	**₱33,577,866,070**	₱26,822,649,300
Standard grade	**142,321,826**	**–**	**–**	**142,321,826**	112,075,916
Sub-Standard	**3,058,947**	**–**	**–**	**3,058,947**	4,966,864
Past due but not impaired	**–**	**315,392,099**	**–**	**315,392,099**	1,421,176,638
Past due and impaired	**–**	**–**	**1,104,932,295**	**1,104,932,295**	1,480,812,632
Gross carrying amount	**₱33,723,246,843**	**₱315,392,099**	**₱1,104,932,295**	**₱35,143,571,237**	₱29,841,681,350

	2018				2017
	ECL Staging				
Corporate and commercial	**Stage 1**	**Stage 2**	**Stage 3**		
lending	12-month ECL	Lifetime ECL	Lifetime ECL	**Total**	Total
Neither past due nor impaired					
High grade	**₱27,756,341,121**	**₱–**	**₱–**	**₱27,756,341,121**	₱30,631,380,317
Standard grade	**–**	**–**	**–**	**–**	66,801,139
Sub-Standard	**59,538,157**	**–**	**–**	**59,538,157**	176,435,213
Past due but not impaired	**–**	**962,623,337**	**–**	**962,623,337**	1,562,602,556
Past due and impaired	**–**	**–**	**2,659,001,473**	**2,659,001,473**	2,148,500,654
Gross carrying amount	**₱27,815,879,278**	**₱962,623,337**	**₱2,659,001,473**	**₱31,437,504,088**	₱34,585,719,879

	2018				2017
	ECL Staging				
	Stage 1	**Stage 2**	**Stage 3**		
Others	12-month ECL	Lifetime ECL	Lifetime ECL	**Total**	Total
Neither past due nor impaired					
High grade	**₱12,221,107**	**₱–**	**₱–**	**₱12,221,107**	₱25,475,321
Past due but not impaired	**–**	**82,048**	**–**	**82,048**	4,638,772
Past due and impaired	**–**	**–**	**4,659,984**	**4,659,984**	8,638,680
Gross carrying amount	**₱12,221,107**	**₱82,048**	**₱4,659,984**	**₱16,963,139**	₱38,752,773

Unquoted debt securities	2018 ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	2017 Total
Neither past due nor impaired					
High grade	**₱–**	**₱–**	**₱–**	**₱–**	₱102,911,415
Past due and impaired	**–**	**–**	**151,836,309**	**151,836,309**	151,836,309
Gross carrying amount	**₱–**	**₱–**	**₱151,836,309**	**₱151,836,309**	₱254,747,724

Sales contract receivable	2018 ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	2017 Total
Neither past due nor impaired					
High grade	**₱643,741,133**	**₱–**	**₱–**	**₱643,741,133**	₱606,136,479
Past due but not impaired	**–**	**165,321,214**	**–**	**165,321,214**	38,396,511
Past due and impaired	**–**	**–**	**111,654,373**	**111,654,373**	149,734,353
Gross carrying amount	**₱643,741,133**	**₱165,321,214**	**₱111,654,373**	**₱920,716,720**	₱794,267,343

Other financial assets

Accounts receivable and accrued interest receivable	2018 ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	2017 Total
Neither past due nor impaired					
High grade	**₱770,815,442**	**₱–**	**₱–**	**₱770,815,442**	₱886,789,244
Standard grade	**1,788,624**	**–**	**–**	**1,788,624**	2,057,734
Sub-Standard	**786,687**	**–**	**–**	**786,687**	905,048
Past due but not impaired	**–**	**39,897,268**	**–**	**39,897,268**	74,133,639
Past due and impaired	**–**	**–**	**744,717,882**	**744,717,882**	434,758,483
Gross carrying amount	**₱773,390,753**	**₱39,897,268**	**₱744,717,882**	**₱1,558,005,903**	₱1,398,644,148

The tables below show the aging analysis of gross past due but not individually impaired loans and receivables that the Bank held as of December 31, 2018 and 2017:

	December 31, 2018				
	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**More than 90 days**	**Total**
Loans and receivables					
Loans and discounts					
Corporate and commercial lending	**₱658,656,862**	**₱29,130,063**	**₱8,921,827**	**₱265,914,585**	**₱962,623,337**
Consumer lending	**–**	**230,638,204**	**84,753,895**	**–**	**315,392,099**
Others	**–**	**69,108**	**12,940**	**–**	**82,048**
Sales contract receivable	**100,193,425**	**64,797,741**	**–**	**330,048**	**165,321,214**
	₱758,850,287	**₱324,635,116**	**₱93,688,662**	**₱266,244,633**	**₱1,443,418,698**

	December 31, 2017				
	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Loans and receivables					
Loans and discounts					
Corporate and commercial lending	₱176,439,628	₱64,340,942	₱84,878,919	₱1,236,943,067	₱1,562,602,556
Consumer lending	14,805,169	20,658,742	169,782,241	1,215,930,486	1,421,176,638
Others	204,681	172,281	291,869	3,969,941	4,638,772
Sales contract receivable	44,552	146,624	8,705,348	29,499,987	38,396,511
	₱191,494,030	₱85,318,589	₱263,658,377	₱2,486,343,481	₱3,026,814,477

<u>Depository accounts with the BSP and counterparty banks and investment securities</u>

For these financial assets, outstanding exposure is rated primarily based on external risk rating (i.e., Standard and Poor's (S&P), otherwise, rating is based on risk grades by a local rating agency or included under "Unrated", when the counterparty has no available risk grade.

The external risk rating of the Bank's depository accounts with the BSP and counterparty banks and investment securities, is grouped as follows:

Credit Quality Rating	External Credit Risk Rating	Credit Rating Agency
High grade	AAA, AA+, AA, AA−	S&P
	Aaa, Aa1, Aa2, Aa3	Moody's
	AAA, AA+, AA, AA−	Fitch
Standard grade	A+, A, A−, BBB+, BBB, BBB−	S&P
	A1, A2, A3, Baa1, Baa2, Baa3	Moody's
	A+, A, A−, BBB+, BBB, BBB−	Fitch
Substandard grade	BB+, BB, BB−, B/B+, CCC, R, SD & D	S&P
	Ba1, Ba2, Ba3, B1, B2, R, SD & D	Moody's
	BB+, BB, BB−, B/B+, CCC, R, SD & D	Fitch

Following is the credit rating scale applicable for foreign banks, and government securities (aligned with S&P ratings):

AAA - An obligor has extremely strong capacity to meet its financial commitments.

AA - An obligor has very strong capacity to meet its financial commitments. It differs from the highest-rated obligors at a minimal degree.

A - An obligor has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.

BBB and below:

BBB - An obligor has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

BB - An obligor is less vulnerable in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitments.

B - An obligor is more vulnerable than the obligors rated 'BB', but the obligor currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitments.

CCC - An obligor is currently vulnerable and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitments.

CC - An obligor is currently vulnerable. The rating is used when a default has not yet occurred, but expects default to be a virtual certainty, regardless of the anticipated time to default.

R - An obligor is under regulatory supervision owing to its financial condition. During the pendency of the regulatory supervision, the regulators may have the power to favor one class of obligations over others or pay some obligations and not others.

SD and D - An obligor is in default on one or more of its financial obligations including rated and unrated financial obligations but excluding hybrid instruments classified as regulatory capital or in non-payment according to terms.

Due from other banks and government securities
The external risk rating of the Bank's depository accounts with counterparty banks, trading and investment securities, is grouped as follows (aligned with the Philippine Ratings System):

Credit Quality Rating	**External Credit Risk Rating**
High grade	PRSAAA, PRSAa+, PRSAa, PRSAa−
Standard grade	PRSA+, PRSA, PRSA−, PRSBaa+, PRSBaa, PRSBaa−
Substandard grade	PRSBa+, PRSBa, PRSBa−, PRSB+, PRSB, PRSB−, PRSCaa+, PRSCaa, PRSCaa−, PRSCa+, PRSCa, PRSCa−, PRSC+, PRSC, PRSC−

PRSAaa - The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

PRSAa - The obligor's capacity to meet its financial commitment on the obligation is very strong.

PRSA - With favorable investment attributes and are considered as upper-medium grade obligations. Although obligations rated 'PRSA' are somewhat more susceptible to the adverse effects of changes in economic conditions, the obligor's capacity to meet its financial commitments on the obligation is still strong.

PRSBaa - An obligation rated 'PRS Baa' exhibits adequate protection parameters. However, adverse economic conditions and changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation. PRSBaa-rated issues may possess certain speculative characteristics.

PRSBa - An obligation rated 'PRSBa' is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties relating to business, financial or economic conditions, which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

PRSB - An obligation rated 'PRSB' is more vulnerable to nonpayment than obligations rated 'PRSBa', but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse economic conditions will likely impair the obligor's capacity to meet its financial commitment on the obligation. The issue is characterized by high credit risk.

PRSCaa - An obligation rated 'PRSCaa' is presently vulnerable to nonpayment and is dependent upon favorable business, financial and economic conditions for the obligor to meet its financial commitments on the obligation. In the event of adverse economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation. The issue is considered to be of poor standing and is subject to very high credit risk.

PRSCa - An obligation rated "PRSCa" is presently highly vulnerable to nonpayment. Likely already in or very near default with some prospect for partial recovery of principal or interest.

PRSC - An obligation is already in default with very little prospect for any recovery of principal or interest.

The succeeding tables show the credit exposure of the Bank related to these financial assets.

	2018				2017*
		ECL Staging			
	Stage 1	Stage 2	Stage 3		
Financial assets at FVOCI - debt	12-month ECL	Lifetime ECL	Lifetime ECL	**Total**	Total
Neither past due nor impaired					
High grade	**₱1,053,071,928**	**₱–**	**₱–**	**₱1,053,071,928**	₱2,174,720,852

** 2017 refers to AFS financial assets under PAS 39*

	2018				2017
		ECL Staging			
Investment securities at	Stage 1	Stage 2	Stage 3		
amortized cost	12-month ECL	Lifetime ECL	Lifetime ECL	**Total**	Total
Neither past due nor impaired					
High grade	**₱8,721,031,740**	**₱–**	**₱–**	**₱8,721,031,740**	₱3,502,817,725

** 2017 refers to HTM financial assets under PAS 39*

	2018				
	High Grade	**Standard Grade**	**Substandard Grade**	**Unrated**	**Total**
Due from BSP	**₱6,800,827,709**	**₱–**	**₱–**	**₱–**	**₱6,800,827,709**
Due from other banks	**1,934,450,369**	**–**	**–**	**–**	**1,934,450,369**
SPURA	**3,000,000,000**	**–**	**–**	**–**	**3,000,000,000**
	₱11,735,278,078	**₱–**	**₱–**	**₱–**	**₱11,735,278,078**

	2017				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
Due from BSP	₱6,772,976,958	₱–	₱–	₱–	₱6,772,976,958
Due from other banks	1,856,049,625	–	–	–	1,856,049,625
SPURA	1,404,323,202	–	–	–	1,404,323,202
Financial assets at FVPL	135,397,767	–	–	–	135,397,767
	₱10,168,747,552	₱–	₱–	₱–	₱10,168,747,552

Impairment assessment (prior to adoption of PFRS 9)
The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than ninety (90) days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed impairment and collectively assessed impairment.

Individually assessed impairment
The Bank determines the allowances appropriate for each significant loan or advances on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed impairment
Allowances are assessed collectively for losses on loans and advances that are not individually significant (including residential mortgages and unsecured consumer lending) and for individually significant loans and advances that have no objective evidence as a result of individual impairment assessment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no objective evidence of impairment yet in an individual assessment. Impairment losses are estimated by taking the following information into consideration: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

Management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Impairment assessment (PFRS 9)
The Bank recognizes a credit loss allowance on a financial asset based on whether it has had a significant increase in credit risk since initial recognition. Accordingly, the Bank categorizes its financial assets into three categories:
- stage 1 - financial asset that has not had a significant increase in credit risk;
- stage 2 - financial asset that has had a significant increase in credit risk; and
- stage 3 - financial asset in default.

Generally, the Bank applies a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

Further, the Bank considers a financial asset as in default when (a) as a result of one or more loss events, there is objective evidence that its recoverable value is less than its carrying amount; (b) it is classified as doubtful or loss under prudential reporting; (c) it is in litigation; and/or (d) full repayment of principal and interest is unlikely without foreclosure of collateral, if any. When applicable, the Bank also applies a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless the Bank has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

The Bank then measures the credit loss allowance on a financial instrument at an amount equal to 12-month expected credit losses for items categorized as stage 1 and lifetime credit losses to items categorized as stage 2 and stage 3.

Two modeling approaches were employed to build a consistent framework for the development of all ECL models of the Bank. Both modeling approaches consider past events, current conditions and forecast of economic conditions in assessing impairment.

The complex model approach is used for portfolios with a significant number of historical defaults. This approach was applied to the consumer loan portfolios. These quantitative models are built by applying statistical, economic, financial or mathematical theories, techniques and assumptions to calculate provisions. Where historical data are insufficient to develop statistical models, the simplified ECL approach was employed.

Default and Cure
As a part of a qualitative assessment of whether a customer is in default, the Bank considers a variety of instances that may indicate unlikeliness to pay. The Bank's definition of default is aligned with the non-performing loan criteria as prescribed in BSP Circular No. 941. Defaults refer to loans, investments, receivables, or any financial asset, even without missed contractual payments, that satisfy any of the following conditions (1) impaired under existing accounting standards, (2) classified as doubtful or loss, (3) in litigation, (4) and/or there is evidence that full repayment of

principal and 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 (5) 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. (6) Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due. (7) Restructured loans shall be considered nonperforming. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained. Defaults are characterized by financial assets that have objective evidence of impairment at the reporting date and as such classified under Stage 3 ECL treatment.

An instrument is considered to be no longer in default, i.e., to have cured, when it no longer meets any of the default criteria above and there is sufficient evidence to support full collection through payments received for at least 6 months. Cured accounts are classified under Stage 1 ECL treatment.

Restructuring
In certain circumstances, the Bank modifies the original terms and conditions of a credit exposure to form a new loan agreement or payment schedule. The modifications can be given depending on the borrower's or counterparty's current or expected financial difficulty. The modifications may include, but are not limited to, changes in maturity date, principal amount from capitalization of accrued interest, terms and conditions from conversion/consolidation or interest rates/repricing cycle that results in an extension in the loan maturity. Distressed restructuring with indications of unlikeliness to pay are categorized as impaired accounts and are initially moved to Stage 3.

The Bank implements a curing policy for restructured accounts compliant with the BSP Circular No. 1011. Restructured accounts that have exhibited improvements in creditworthiness may be moved from Stage 3 after a total of one-year probation period. These accounts are transferred to Stage 2 after six months of full payments and consequently transferred to Stage 1 after making the next six months full payments.

The Bank modeled the following inputs to the expected credit loss formula separately. The formula is applied to each financial asset, with certain exceptions wherein a collective or other general approach is applied:

Exposure at Default (EAD)
The Bank defines EAD as the principal and interests that would not be collected assuming the borrower's defaults during a future point in time. The Bank computes for a financial asset's EAD using the expected contractual cash flows during the contractual life of the financial instrument. A financial asset's EAD is defined as the sum of EAD from principal and EAD from interest.

Probability of default (PD)
The Bank uses forward-looking PD estimates that are unbiased and probability-weighted using a range of possible outcomes. The PD for each individual instrument is modelled based on historical data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The Bank segmented its credit exposures based on homogenous risk characteristics and developed a corresponding PD methodology for each portfolio. The PD methodology for each relevant portfolio is determined based on the underlying nature or characteristic of the portfolio, behavior of the accounts and materiality of the segment as compared to the total portfolio. The Bank's PDs are mainly categorized into the following: (a) corporate and commercial loans; (b) small and medium-size enterprise financing; (c) auto and housing loans; and (d) personal and consumption loans.

Loss given default (LGD)
The Bank's LGD model considers certain factors such as the historical cash flow recovery and reasonable and supportable information about future economic conditions, where appropriate. Generally, the model utilizes the Bank's existing loan exposure rating system which is designed to capture these factors as well as the characteristics of collaterals related to an exposure. In cases wherein this does not apply, the Bank looks into the standard characteristics of collaterals (e.g., auto and housing loans) in order to estimate an LGD factor.

Economic Overlays
The Bank's incorporates economic overlays into the measurement of ECL to add a forward-looking risk measure parallel to the expected future macroeconomic atmosphere. A broad range of economic indicators were considered for the economic inputs. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To address this, quantitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. The Bank's loans and receivables consist of different portfolios, such as corporate and commercial loans and consumer loans, as well as other receivables (e.g., sales contract receivables). In compliance with PFRS 9, the Bank developed ECL parameters and methodologies for each portfolio, using historical data as well as forward-looking inputs and assumptions.

Credit Review
In accordance with BSP Circular 855, credit reviews are conducted on loan accounts to evaluate whether loans are granted in accordance with the Bank's policies, to assess loan quality and appropriateness of classification and adequacy of loan loss provisioning. Results of credit reviews are promptly reported to management to apprise them of any significant findings for proper corrective actions.

Market Risk
Market risk is the risk of loss that may result from changes in the price of a financial product. Thevalue of a financial product may change as a result of changes in interest rates, foreign exchange rates, equity prices and other market changes. The Bank's market risk originates from its holdings of foreign exchange instruments, debt securities, and loans and receivables.

a. *Interest rate risk*
   The Bank's interest rate risk originates from its holdings of interest rate sensitive assets and interest rate sensitive liabilities. The Bank follows prudent policies in managing its exposures to interest rate fluctuations, and constantly monitors its assets and liabilities.

   The table below presents the interest rate sensitive loans' composition as to maturity as of December 31, 2018 and 2017:

	2018	2017
Long-term retail loans with monthly amortization	**52.68%**	45.24%
Commercial loans with monthly or quarterly amortization	**32.71%**	43.24%
Commercial loans payable at maturity (mostly maturing for less than 6 months)	**14.61%**	11.52%
	100.00%	100.00%

The table below represents the percentage of interest bearing demand, savings and time deposit accounts over total deposit liabilities for the year ended December 31, 2018 and 2017:

	2018	2017
Demand	**18.96%**	20.01%
Savings	**15.13%**	12.23%
Time	**65.92%**	67.37%
	100.00%	99.61%

Interest rates on savings accounts are set by reference to prevailing market rates, while interest rates on time deposits and special savings accounts are usually priced by reference to prevailing rates of short-term government bonds and other money market instruments or, in the case of foreign currency deposits, inter-bank deposit rates and other benchmark deposit rates in international money markets with similar maturities.

The Bank is likewise exposed to fair value interest rate risk due to its holdings of fixed rate government bonds as part of its financial assets at FVOCI, FVPL and AFS portfolio. Market values of these investments are sensitive to fluctuations in interest rates.

The asset-liability gap analysis method is used by the Bank to measure the sensitivity of its assets and liabilities to interest rate fluctuations. This analysis measures the Bank's susceptibility to changes in interest rates. The repricing gap is calculated by first distributing the assets and liabilities contained in the Bank's statement of financial position into tenor buckets according to the time remaining to the next repricing date (or the time remaining to maturity if there is no repricing), and then obtaining the difference between the total of the repricing (interest rate sensitive) assets and the total of repricing (interest rate sensitive) liabilities.

A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities.

Accordingly, during a period of rising interest rates, a bank with a positive gap would be in a position to invest in higher yielding assets earlier than it would need to refinance its interest rate sensitive liabilities. During a period of falling interest rates, a bank with a positive gap would tend to see its interest rate sensitive assets repricing earlier than its interest rate sensitive liabilities, restraining the growth of its net income or resulting in a decline in net interest income.

The following table sets forth the repricing gap position of the Bank as of December 31, 2018 and 2017 (in millions):

	December 31, 2018					
	Up to 1 Month	**>1 to 3 Months**	**>3 to 6 Months**	**>6 to 12 Months**	**>12 Months**	**Total**
Financial Assets						
Loans and receivables	**₱8,881**	**₱6,758**	**₱6,899**	**₱9,098**	**₱33,428**	**₱65,065**
Investment securities	**105**	**1**	**930**	**2,160**	**6,607**	**9,803**
Total financial assets	**8,986**	**6,759**	**7,829**	**11,258**	**40,035**	**74,868**
Financial Liabilities						
Deposit liabilities	**29,370**	**16,499**	**1,648**	**741**	**36,358**	**84,616**
Repricing gap	**(₱20,384)**	**(₱9,740)**	**₱6,181**	**₱10,517**	**₱3,677**	**(₱9,748)**

	December 31, 2017					
	Up to 1 Month	>1 to 3 Months	>3 to 6 Months	>6 to 12 Months	>12 Months	Total
Financial Assets						
Loans and receivables	₱14,806	₱6,919	₱4,646	₱4,657	₱28,521	₱59,549
Investment securities	–	–	–	–	1,929	1,929
Total financial assets	14,806	6,919	4,646	4,657	30,450	61,478
Financial Liabilities						
Deposit liabilities	56,620	8,840	995	1,099	7,925	75,479
Repricing gap	(₱41,814)	(₱1,921)	₱3,651	₱3,558	₱22,525	(₱14,001)

The Bank also monitors its exposure to fluctuations in interest rates by using scenario analysis to estimate the impact of interest rate movements on its interest income. This is done by modeling the impact to the Bank's interest income and interest expenses of different parallel changes in the interest rate curve, assuming the parallel change only occurs once and the interest rate curve after the parallel change does not change again for the next twelve months.

The following table sets forth the estimated change in the Bank's annualized net interest income due to a parallel change in the interest rate curve as of December 31, 2018 and 2017 (amounts in thousands):

	December 31, 2019			
	Change in interest rates (in basis points)			
	100bp rise	**50bp rise**	**50bp fall**	**100bp fall**
Change in annualized net interest income	**(₱220,550)**	**(₱110,275)**	**₱110,275**	**₱220,550**
As a percentage of the Bank's net interest income	**(6.75%)**	**(3.33%)**	**3.33%**	**6.66%**

	December 31, 2017			
	Change in interest rates (in basis points)			
	100bp rise	50bp rise	50bp fall	100bp fall
Change in annualized net interest income	(₱253,455)	(₱126,728)	₱126,728	₱253,455
As a percentage of the Bank's net interest income	(6.76%)	(3.38%)	3.81%	7.62%

The table below demonstrates the sensitivity, to a reasonably possible change in interest rates with all other variables held constant, of the Bank's net income before tax through the impact on unrealized gain/loss on financial assets at FVPL and the Bank's equity through the impact on unrealized gain/loss on financial assets at FVOCI and AFS financial assets in fixed rate debt securities (amounts in thousands).

	December 31, 2018			
	Change in interest rates (in basis points)			
	25bp rise	**10bp rise**	**10bp fall**	**25bp fall**
Change in equity	**(₱11,081)**	**(₱4,458)**	**₱4,493**	**₱11,299**

	December 31, 2017			
	Change in interest rates (in basis points)			
	25bp rise	10bp rise	10bp fall	25bp fall
Change in income	(₱766)	(₱304)	₱321	₱795
Change in equity	(32,827)	(13,246)	13,317	33,587

b. Foreign currency risk

The Bank's foreign exchange risk originates from its holdings of foreign currency-denominated assets and liabilities (foreign exchange assets and liabilities). Foreign currency risk is the risk to earnings or capital arising from changes in the foreign exchange rates.

The Bank's policy is to maintain foreign currency exposure within existing regulations, and within acceptable risk limits. The Bank believes in ensuring its foreign currency is at all times within limits prescribed for financial institutions who are engaged in the same types of businesses in which the Bank is engaged.

The monetary assets and liabilities carried in the RBU and FCDU books are all denominated in their respective functional currencies, except for small non-recurring other monetary items. Thus, risk is minimal.

Liquidity Risk and Funding Management

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligations when they become due without incurring unacceptable losses or costs**.**

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

Liquidity risk is monitored and controlled primarily by a gap analysis of maturities of relevant assets and liabilities reflected in the maximum cumulative outflow report, as well as an analysis of available liquid assets. Furthermore, monthly internal liquidity ratio equivalent to the ratio of volatile deposits has been set to determine sufficiency of liquid assets over deposit liabilities.

Liquidity is managed by the Bank on a daily basis, while scenario stress tests are conducted monthly. The tables below show the maturity profile of the Bank's financial assets and financial liabilities, based on contractual undiscounted cash flows:

	December 31, 2018			
	On demand	**Within 1 year**	**Over 1 year**	**Total**
Financial Assets				
Cash and cash equivalents				
Cash and other cash items	**₱1,815,975,245**	**₱–**	**₱–**	**₱1,815,975,245**
Due from BSP	**6,800,827,709**	–	–	**6,800,827,709**
Due from other banks	**1,713,256,002**	**236,108,791**	–	**1,949,364,793**
SPURA	–	**3,001,979,167**	–	**3,001,979,167**
Financial assets at FVOCI	–	**195,341,090**	**1,080,161,835**	**1,275,502,925**
Investment securities at amortized cost	–	**3,515,965,067**	**6,761,274,377**	**10,277,239,444**
Loans and receivables	–	**36,601,023,742**	**56,183,457,675**	**92,784,481,417**
Other assets				
Accrued interest receivable	–	**820,791,284**	**–**	**820,791,284**
Accounts receivable	–	**737,214,619**	**–**	**737,214,619**
Returned checks and other cash items	**11,914,478**	**–**	**–**	**11,914,478**
Total financial assets	**₱10,341,973,434**	**₱45,108,423,760**	**₱64,024,893,887**	**₱119,475,291,081**

(Forward)

	December 31, 2018			
	On demand	**Within 1 year**	**Over 1 year**	**Total**
Financial Liabilities				
Deposit liabilities				
Demand	**₱16,036,991,323**	**₱–**	**₱–**	**₱16,036,991,323**
Savings	**12,796,615,183**	–	–	**12,796,615,183**
Time	–	**46,416,691,104**	**8,467,143,193**	**54,883,834,297**
Manager's checks	**484,179,921**	–	–	**484,179,921**
Accrued interest and other expenses	–	**418,850,987**	–	**418,850,987**
Other liabilities				
Accounts payable	–	**836,030,557**	–	**836,030,557**
Other credits - dormant	–	–	**95,167,204**	**95,167,204**
Security deposit	–	–	**79,325,328**	**79,325,328**
Due to the Treasurer of the Philippines	–	**8,059,717**	–	**8,059,717**
Bills purchased	–	**1,297,783**	–	**1,297,783**
Other payable	–	**6,224,905**	–	**6,224,905**
Total financial liabilities	**₱29,317,786,427**	**₱47,687,155,053**	**₱8,641,635,725**	**₱85,646,577,205**

	December 31, 2017			
	On demand	Within 1 year	Over 1 year	Total
Financial Assets				
Cash and cash equivalents				
Cash and other cash items	₱1,501,172,842	₱–	₱–	₱1,501,172,842
Due from BSP	6,772,976,958	–	–	6,772,976,958
Due from other banks	1,295,937,378	563,856,540	–	1,859,793,918
SPURA	–	1,404,674,283	–	1,404,674,283
Financial assets at FVPL	–	141,272,757	–	141,272,757
AFS financial assets	–	95,392,107	2,335,286,754	2,430,678,861
HTM financial assets	–	179,014,447	3,879,617,576	4,058,632,023
Loans and receivables	–	25,025,570,186	54,609,209,908	79,634,780,094
Other assets				
Accounts receivable	–	713,387,674	–	713,387,674
Accrued interest receivable	–	685,256,474	–	685,256,474
Returned checks and other cash items	–	96,299,176	–	96,299,176
Total financial assets	₱9,570,087,178	₱28,904,723,644	₱60,824,114,238	₱99,298,925,060
Financial Liabilities				
Deposit liabilities				
Demand	₱15,589,330,155	₱–	₱–	₱15,589,330,155
Savings	9,351,070,190	–	–	9,351,070,190
Time	–	43,737,970,618	10,016,816,338	53,754,786,956
Manager's checks	731,802,306	–	–	731,802,306
Accrued interest and other expenses	–	266,842,282	–	266,842,282
Other liabilities				
Accounts payable	–	889,378,524	–	889,378,524
Other credits - dormant	–	–	83,919,568	83,919,568
Security deposit	–	–	3,885,646	3,885,646
Due to the Treasurer of the Philippines	–	9,224,406	–	9,224,406
Bills purchased	–	7,842,548	–	7,842,548
Other payable	–	5,437,792	–	5,437,792
Total financial liabilities	₱25,672,202,651	₱44,916,696,170	₱10,104,621,552	₱80,693,520,373

6. Cash and Cash Equivalents

	2018	2017
Cash and other cash items	**₱1,815,975,245**	₱1,501,172,842
Due from BSP (Note 15)	**6,800,827,709**	6,772,976,958
Due from other banks (Notes 24 and 28)	**1,934,450,369**	1,856,049,625
SPURA (Note 28)	**3,000,000,000**	1,404,323,202
	₱13,551,253,323	₱11,534,522,627

Due from BSP
Due from BSP represents the Bank's placements in the term deposit facilities (TDF) of the BSP that have original maturity of one (1) to seven (7) days and the demand deposits maintained by the Bank in compliance with the BSP's reserve requirement (Note 15).

As of December 31, 2018 and 2017, the Bank's demand deposits with the BSP amounted to ₱6.80 billion and ₱6.77 billion, respectively. TDF deposit accounts earn annual interest rates ranging from 2.50% to 4.25% in 2018 and 2.50% in 2017 and 2016.

Due from other banks
Due from other banks represent savings and demand deposits. USD-denominated deposits amounted to USD3.95 million (₱207.68 million) and USD8.86 million (₱442.26 million) as of December 31, 2018 and 2017, respectively.

Peso denominated deposits earn interest at annual rates ranging from 0.10% to 1.25% in 2018 and 2017 and from 0.10% to 1.50% in 2016. USD-denominated deposits earn interest at an annual rate of 0.25% in 2018 and from 0.25% to 1.63% in 2017.

SPURA
Deposits in reverse repurchase facility, classified as SPURA, earn interest at annual rates ranging from 3.00% to 4.75% in 2018 and 3.00% in 2017 with tenor of five (5) days.

7. Investment Securities

Financial assets at FVPL
As of December 31, 2017, financial assets at FVPL pertain to the peso-denominated and USD-denominated government securities of the Bank. Peso-denominated government securities amounted to ₱100.57 million, while USD-denominated government securities amounted to USD0.70 million (₱34.83 million) as of December 31, 2017.

The carrying amount of financial assets at FVPL includes unrealized gain of ₱4.20 million as of December 31, 2017.

Financial Assets at FVOCI
As of December 31, 2018, this account consists of:

Quoted government debt securities	**₱1,053,071,928**
Unquoted securities	**28,792,519**
	₱1,081,864,447

Unquoted equity securities
This account comprises of shares of stocks of various unlisted private corporations. The Bank has designated these equity securities as at FVOCI because they will not be sold in the foreseeable future. The carrying amount of these investments is presented net of unrealized market valuation loss of ₱47.25 million as of December 31, 2018.

Net unrealized losses
Financial assets at FVOCI include fair value losses of ₱85.31 million as of December 31, 2018. The fair value losses are recognized under OCI. Impairment loss on debt financial assets at FVOCI amounted to ₱0.90 million in 2018.

Effective interest rates for peso-denominated financial assets at FVOCI range from 2.73% to 4.25% in 2018. Effective interest rates for foreign currency-denominated financial assets at FVOCI range from 2.20% to 7.02% in 2018.

AFS Financial Assets
As of December 31, 2017, this account consists of:

Quoted	
Government debt securities	₱1,734,267,611
Private debt securities	440,453,241
	2,174,720,852
Unquoted securities	118,948,359
	2,293,669,211
Allowance for impairment losses (Note 14)	(73,043,127)
	₱2,220,626,084

Unquoted equity securities
This account comprises of shares of stocks of various unlisted private corporations. As of December 31, 2017, these securities are carried at cost, net of allowance for impairment losses of ₱73.04 million.

Net unrealized losses
AFS financial assets include fair value losses of ₱132.52 million and ₱157.71 million as of December 31, 2017 and 2016, respectively. The fair value losses are recognized under OCI.

Government debt securities have effective interest rates ranging from 2.73% to 4.50% in 2017 and from 1.45% to 3.84% in 2016. These investments have maturity dates ranging from 2 to 24 years in 2017 and from 1 to 18 years in 2016.

Private debt securities earn effective interest rate ranging from 3.89% to 6.72% and from 3.89% to 6.73% in 2017 and 2016, respectively. These securities have maturity dates ranging from 2 to 8 years in 2017 and from 6 to 10 years in 2016.

Investment Securities at Amortized Cost
As of December 31, 2018, this account consists of

Quoted	
Government debt securities (Note 23)	**₱7,199,681,740**
Private debt securities	**1,521,350,000**
	8,721,031,740
Allowance for impairment losses (Note 14)	**(8,208,809)**
	₱8,712,822,931

Peso-denominated government securities and private bonds carry a yield-to-maturity ranging from 3.19% to 6.88%, with maturities ranging from 1 to 20 years in 2018.

USD-denominated government securities and private bonds carry a yield-to-maturity ranging from 2.80% to 3.88%, with maturities ranging from 11 to 25 years in 2018.

As of December 31, 2018, government securities with face and carrying value of ₱250.00 million and ₱251.19 million, respectively, are pledged to CBC in compliance with DOSRI rules.

HTM Financial Assets
As of December 31, 2017, peso-denominated government securities and private bonds amounted to ₱1.91 billion (Note 23). These financial assets carry a yield-to-maturity ranging from 2.40% to 4.62% and from 2.26% to 7.25% in 2017 and 2016, respectively, with maturities ranging from 1 to 20 years and from 1 to 22 years for 2017 and 2016, respectively.

As of December 31, 2017, USD-denominated government securities and private bonds amounted to USD31.95 million (₱1.59 billion). These financial assets carry a yield-to-maturity ranging from 3.01% to 4.62% in 2017 with maturities ranging from 3 to 20 years for 2017.

As of December 31, 2017, government securities with face and carrying value of ₱250.00 million and ₱252.50 million, respectively, are pledged to CBC in compliance with DOSRI rules.

Reclassification of Financial Assets
2016 Reclassification
On November 18, 2016, the Bank reclassified certain AFS financial assets with fair value of ₱274.12 million and USD 8.72 million (₱434.29 million) for peso-denominated and USD-denominated government bonds, respectively. The decision to effect this transfer was reached by balancing the need to reduce the market risk sensitivity of the statement of financial position without reducing the Bank's portfolio of liquid assets. The previous valuation losses amounting to ₱11.86 million and USD 0.92 million (₱45.94 million) that have been recognized in OCI will be amortized to profit or loss over the remaining life of the HTM financial assets using the effective interest rates ranging from 4.21% to 5.04% and from 3.72% to 3.85% for peso-denominated and USD-denominated government bonds, respectively.

As of December 31, 2017, the transferred assets had the following balances:

	Face Value at reclassification Date	Carrying Value at reclassification Date	Carrying Value as of December 31	Fair Value as of December 31	Unamortized Net Unrealized Loss in Equity	Amortization
(in original currency)						
Philippine peso-denominated government bonds	₱250,000,000	₱274,122,724	₱273,035,350	₱261,817,072	(₱10,881,112)	₱822,974
US dollar-denominated government bonds	USD6,500,000	USD8,724,285	USD8,617,548	USD8,778,600	(USD868,065)	USD48,730

Had these securities not been transferred to HTM financial assets, the statement of comprehensive income would have decreased from fair value loss by ₱7.40 million on peso-denominated government bonds and increased from fair value gain by USD0.23 million (₱11.48 million) on USD-denominated government bonds in 2017.

The effective interest rates on the reclassified financial assets at reclassification date range from 4.21% to 5.04% for peso-denominated government bonds. The effective interest rates on the reclassified financial assets range from 3.72% to 3.85% for USD-denominated bonds at the time of their reclassification. The Bank expects to recover 100.00% of the principal and the interest due on these reclassified financial assets. These securities are also unimpaired as of December 31, 2017.

Interest Income on Investment Securities
Interest income on investment securities follows:

	2018	2017	2016
Investment securities at amortized cost	**₱248,255,449**	₱–	₱–
Financial assets at FVOCI	**33,839,212**	–	–
HTM financial assets	–	147,744,287	98,071,192
AFS financial assets	–	102,951,714	88,855,071
Financial assets at FVPL	–	12,112,361	25,475,318
	₱282,094,661	₱262,808,362	₱212,401,581

Trading and Securities Gains (Losses) - Net
Details of trading and securities gains (losses) - net are as follows:

	2018	2017	2016
Net unrealized gain (loss) on changes in fair value of financial assets at FVPL	**₱–**	(₱1,646,852)	₱1,307,647
Net realized gain (loss) on sale of:			
Financial assets at FVPL	–	7,163,595	26,869,097
Financial assets at FVOCI	**(866,221)**	–	–
AFS financial assets	–	63,355,179	61,119,743
	(₱866,221)	₱68,871,922	₱89,296,487

8. **Loans and Receivables**

This account consists of:

	2018	2017
Loans and discounts		
Consumer lending	**₱35,143,571,237**	₱29,841,681,350
Corporate and commercial lending	**31,437,504,088**	34,585,719,879
Others	**16,963,138**	38,752,773
	66,598,038,463	64,466,154,002
Unearned interest and discounts	**(47,159,148)**	(32,544,387)
	66,550,879,315	64,433,609,615
Unquoted debt securities	**151,836,309**	254,747,724
Sales contract receivable	**920,716,720**	794,267,343
	67,623,432,344	65,482,624,682
Allowance for credit losses (Note 14)	**(2,492,074,869)**	(2,338,300,602)
	₱65,131,357,475	₱63,144,324,080

As of December 31, 2018 and 2017, 38.13% and 47.91% of the total loans and receivables, respectively, are subject to periodic interest repricing. In 2018, 2017 and 2016, the remaining loans and receivables bear annual fixed interest rates ranging from 2.50% to 39.43%, from 2.00% to 39.43% and from 3.25% to 39.43%, respectively.

Unquoted debt securities
Included in unquoted debt securities are notes issued by First Sovereign Asset Management Inc. (FSAMI) as part of the payment it made to the Bank in exchange for its selected investment properties, non-performing loans, AFS financial assets and other assets as identified in the Omnibus Agreement. As of December 31, 2018 and 2017, these securities amounting to ₱151.84 million are fully provided with allowance for credit losses.

Regulatory Reporting
The BSP considers that loan concentration exists when total loan exposure to a particular industry or economic sector exceeds 30.00% of total loan portfolio. Identified concentration of credit risks are managed and controlled (Note 5).

Information on the amounts of secured and unsecured loans and receivables (gross of unearned interests and discounts and allowance for credit losses) follows:

	2018		2017	
	Amounts	**%**	Amounts	%
Loans secured by				
Real estate	**₱27,945,631,337**	**41.30**	₱28,980,785,226	44.24
Chattel mortgage	**14,956,028,340**	**22.10**	13,374,018,339	20.41
Deposit hold out and others	**1,768,850,516**	**2.61**	2,225,876,981	3.40
	44,670,510,193	**66.01**	44,580,680,546	68.05
Unsecured loans	**23,000,081,299**	**33.99**	20,934,488,523	31.95
	₱67,670,591,492	**100.00**	₱65,515,169,069	100.00

Prior to January 1, 2018, non-performing loans (NPLs) generally refer to loans whose principal and/or interest is unpaid for thirty (30) days or more after due date or after they have become past due in accordance with existing BSP rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof shall be considered nonperforming.

In the case of loans that are payable in monthly installments, the total outstanding balance thereof shall be considered nonperforming when three (3) or more installments are in arrears.

In the case of loans that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered nonperforming at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches twenty percent (20.00%) of the total loan balance.

Loans are classified as nonperforming in accordance with BSP regulations, or when, in the opinion of management, collection of interest or principal is doubtful. Loans are not reclassified as performing until interest and principal payments are brought current or the loans are restructured in accordance with existing BSP regulations, and future payments appear assured.

Loans which do not meet the requirements to be treated as performing loans shall also be considered as NPLs.

With the issuance of BSP Circular 941 *Amendments to the Regulations on Past Due and Non-Performing Loans* effective January 1, 2018, loans shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, 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.

As of December 31, 2018 and 2017, secured and unsecured NPLs of the Bank follow:

	2018	2017
Secured	**₱2,380,831,069**	₱2,745,788,782
Unsecured	**1,106,447,484**	1,180,751,002
	₱3,487,278,553	₱3,926,539,784

Restructured loans as of December 31, 2018 and 2017 amounted to ₱713.68 million and ₱828.87 million, respectively. The Bank's loan portfolio includes non-risk loans as defined under BSP regulations totaling ₱6.85 billion and ₱5.50 billion as of December 31, 2018 and 2017, respectively.

Interest Income on Loans and Receivables

Interest income on loans and receivables consist of interest income on:

	2018	2017	2016
Loans and discounts			
Consumer lending	**₱2,561,785,861**	₱2,237,979,198	₱2,303,853,620
Corporate and commercial lending	**2,103,068,999**	1,945,444,015	1,411,825,952
Others	**803,012**	2,011,277	882,422
Unquoted debt securities	**724,297**	6,076,951	9,294,803
Sales contract receivable	**57,480,670**	78,011,889	99,649,576
	₱4,723,862,839	₱4,269,523,330	₱3,825,506,373

9. Non-current Assets Held for Sale

Non-current assets held for sale consist of vehicles foreclosed in settlement of loans receivable which are expected to be sold within one year from the reporting date.

	2018	2017
Balance at beginning of year	**₱212,031,191**	₱225,139,735
Additions	**565,676,547**	556,689,819
Disposals	**(398,515,159)**	(569,798,363)
Balance at end of year	**₱379,192,579**	₱212,031,191

Gain on asset exchange
Gain on asset exchange includes:

	2018	2017	2016
NCAHS			
Gain (loss) on foreclosure	**₱9,734,249**	(₱45,211,019)	(₱57,458,603)
Gain (loss) on sale	**16,171,897**	(85,179,458)	(14,442,252)
	25,906,146	(130,390,477)	(71,900,855)
Investment properties (Note 11)			
Gain on foreclosure	**97,981,741**	112,233,652	68,214,992
Gain on sale	**146,252,693**	138,687,608	125,094,009
	244,234,434	250,921,260	193,309,001
	₱270,140,580	₱120,530,783	₱121,408,146

10. Property and Equipment

The composition of and movements in this account follow:

	December 31, 2018				
	Land	Condominium Properties, Buildings and Improvements	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost					
Balance at beginning of year	**₱390,937,334**	**₱871,847,116**	**₱1,163,373,363**	**₱378,879,099**	**₱2,805,036,912**
Additions	**1,779,000**	**2,776,631**	**124,544,933**	**92,400,648**	**221,501,212**
Disposal	**–**	**–**	**(62,102,331)**	**–**	**(62,102,331)**
Balance at end of year	**392,716,334**	**874,623,747**	**1,225,815,965**	**471,279,747**	**2,964,435,793**
Accumulated Depreciation					
Balance at beginning of year	**–**	**529,760,229**	**863,137,433**	**163,388,184**	**1,556,285,846**
Depreciation and amortization	**–**	**42,826,065**	**128,638,750**	**62,809,252**	**234,274,067**
Disposal	**–**	**–**	**(54,425,224)**	**–**	**(54,425,224)**
Balance at end of year	**–**	**572,586,294**	**937,350,959**	**226,197,436**	**1,736,134,689**
Net Book Value at End of Year	**₱392,716,334**	**₱302,037,453**	**₱288,465,006**	**₱245,082,311**	**₱1,228,301,104**

	December 31, 2017				
	Land	Condominium Properties, Buildings and Improvements	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost					
Balance at beginning of year	₱390,937,334	₱857,231,899	₱1,080,062,273	₱267,476,886	₱2,595,708,392
Additions	–	33,378,466	188,885,440	121,396,100	343,660,006
Disposal	–	(18,763,249)	(105,574,350)	(9,993,887)	(134,331,486)
Balance at end of year	390,937,334	871,847,116	1,163,373,363	378,879,099	2,805,036,912
Accumulated Depreciation					
Balance at beginning of year	–	490,430,979	809,593,963	95,513,016	1,395,537,958
Depreciation and amortization	–	43,164,253	126,338,667	67,875,168	237,378,088
Disposal	–	(3,835,003)	(72,795,197)	–	(76,630,200)
Balance at end of year	–	529,760,229	863,137,433	163,388,184	1,556,285,846
Net Book Value at End of Year	₱390,937,334	₱342,086,887	₱300,235,930	₱215,490,915	₱1,248,751,066

The details of depreciation and amortization under the statements of income follow:

	2018	2017	2016
Property and equipment	**₱234,274,067**	₱237,378,088	₱229,665,564
Investment properties (Note 11)	**75,248,497**	88,305,477	67,471,265
Software costs (Note 12)	**15,962,004**	20,140,452	29,092,299
	₱325,484,568	₱345,824,017	₱326,229,128

As of December 31, 2018 and 2017, the gross carrying amount of fully depreciated building and furniture, fixtures and equipment still in use amounted to ₱677.95 million and ₱579.98 million, respectively.

There are no restrictions on titles on property and equipment and the Bank does not have any contractual commitments for acquisition of property and equipment as of December 31, 2018 and 2017.

11. Investment Properties

The composition of and movements in this account follow:

	December 31, 2018		
	Land	Condominium Properties, Buildings and Improvements	Total
Cost			
Balance at beginning of year	**₱2,483,564,130**	**₱1,586,297,361**	**₱4,069,861,491**
Additions	**137,769,870**	**146,378,264**	**284,148,134**
Disposals	**(234,280,699)**	**(133,710,000)**	**(367,990,699)**
Balance at end of year	**2,387,053,301**	**1,598,965,625**	**3,986,018,926**
Accumulated Depreciation			
Balance at beginning of year	–	**423,692,870**	**423,692,870**
Depreciation (Note 10)	–	**75,248,497**	**75,248,497**
Disposals	–	**(8,182,821)**	**(8,182,821)**
Balance at end of year	–	**490,758,546**	**490,758,546**
Accumulated Impairment Losses (Note 14)			
Balance at beginning of year	**145,775,067**	**343,248,016**	**489,023,083**
Reclassification	–	**(190,854,088)**	**(190,854,088)**
Balance at end of year	**145,775,067**	**152,393,928**	**298,168,995**
Net Book Value at End of Year	**₱2,241,278,234**	**₱955,813,151**	**₱3,197,091,385**

	December 31, 2017		
	Land	Condominium Properties, Buildings and Improvements	Total
Cost			
Balance at beginning of year	₱2,461,399,498	₱1,590,186,100	₱4,051,585,598
Additions	259,233,480	193,203,804	452,437,284
Disposals	(237,068,848)	(197,092,543)	(434,161,391)
Balance at end of year	2,483,564,130	1,586,297,361	4,069,861,491
Accumulated Depreciation			
Balance at beginning of year	–	360,936,156	360,936,156
Depreciation (Note 10)	–	88,305,477	88,305,477
Disposals	–	(25,548,763)	(25,548,763)
Balance at end of year	–	423,692,870	423,692,870
Accumulated Impairment Losses (Note 14)			
Balance at beginning of year	40,546,836	440,909,699	481,456,535
Reclassification	105,228,231	(97,661,683)	7,566,548
Balance at end of year	145,775,067	343,248,016	489,023,083
Net Book Value at End of Year	₱2,337,789,063	₱819,356,475	₱3,157,145,538

The table below summarizes the valuation techniques used and the significant unobservable inputs to the valuation for each type of investment properties held by the Bank:

	Valuation Techniques	**Significant Unobservable Inputs**
Land	Market Data Approach	Price per square meter, size, location, shape, time, element and corner influence
Land and Building	Market Data Approach and Cost Approach	Reproduction cost new - the cost to create a virtual replica of the existing structure, employing the same design and similar building materials

Details of rent income earned and direct operating expense incurred on investment properties of the Bank follow:

	2018	2017	2016
Rent income on investment properties (included under income from property rentals)	**₱24,328,731**	₱25,657,843	₱22,255,495
Direct operating expenses on investment properties not generating rent income (included under miscellaneous expenses)	**36,426,409**	18,624,718	5,274,892

Expenses on investment properties generating rent income are shouldered by the lessee.

12. Intangible Assets

Branch Licenses

This pertains to branch licenses recognized by the Bank in connection with its merger with PDB (Note 29). The recoverable amounts of these branch licenses have been determined using fair market value less cost to sell approach. The fair market value is based on special licensing fee of BSP for branches operating in restricted areas. As of December 31, 2018 and 2017, the branch licenses are not impaired.

Software Costs

Movements in software costs are as follows:

	2018	2017
Cost		
Balance at beginning of year	**₱155,264,618**	₱138,720,197
Additions	**5,857,179**	16,544,421
Balance at end of year	**161,121,797**	155,264,618
Accumulated amortization		
Balance at beginning of year	**81,826,626**	61,686,174
Amortization (Note 10)	**15,962,004**	20,140,452
Balance at end of year	**97,788,630**	81,826,626
Net Book Value at End of Year	**₱63,333,167**	₱73,437,992

13. **Other Assets**

This account consists of:

	2018	2017
Financial		
Accrued interest receivable	**₱820,791,284**	₱685,256,474
Accounts receivable (Note 24)	**737,214,619**	713,387,674
Returned checks and other cash items (RCOCI)	**11,914,478**	96,299,176
	1,569,920,381	1,494,943,324
Nonfinancial		
Non-performing Asset Pool (NPAP)	**1,241,290,224**	1,242,740,568
Creditable withholding taxes (CWT)	**316,892,344**	310,133,158
Documentary stamp tax	**66,617,968**	89,326,535
Advance rental deposits	**62,068,783**	42,471,238
Prepaid expenses	**42,473,897**	12,170,255
Stationery and supplies	**36,810,771**	34,683,648
Other equity investments	**21,792,208**	21,792,208
Retirement asset (Note 20)	**6,095,512**	–
Miscellaneous	**240,489,403**	74,568,625
	2,034,531,110	1,827,886,235
	3,604,451,491	3,322,829,559
Allowance for impairment and credit losses (Note 14)	**(1,857,839,782)**	(1,786,752,347)
	₱1,746,611,709	₱1,536,077,212

Accounts Receivable
As of December 31, 2017, accounts receivable includes receivable from Philippine Deposit Insurance Corporation (PDIC) amounting to ₱58.20 million which was acquired as a result of the merger with PDB. This receivable represents the proceeds of the sale of certain assets of Region Bank to PDIC under the Asset Purchase and Assumption of Liability Agreement of PDB with Region Bank. The proceeds were temporarily placed in escrow until PDIC accepts the transfer of the assets. On August 10, 2018, the full proceeds were already received by the Bank from PDIC.

Non-performing Asset Pool (NPAP)
As of December 31, 2018 and 2017, miscellaneous assets include NPAP which was acquired as a result of the merger with PDB. The NPAP represents the non-performing assets of PDB which were purchased by PDIC under a buy-back arrangement following the terms and conditions of the Financial Assistance Agreement dated June 28, 2002 between PDIC and PDB. This consists of the following (in thousands):

	2018	2017
Loans and receivables	**₱991,514**	₱992,965
Investment properties	**175,763**	175,762
Other assets*	**74,014**	74,014
	₱1,241,290	₱1,242,741

* *Other assets include various property and equipment, various rental deposits of PDB's branches and other miscellaneous assets.*

As of December 31, 2018 and 2017, the above NPAP are fully provided with allowance for impairment losses.

Other equity investments
This account comprises of investments acquired by the Bank from its merger with PDB. The investments include the 100% owned subsidiary, Filrice Inc. (Filrice), with investment cost of ₱2.19 million, and 49% owned investee, PDB SME Solutions, Inc. (PDB SME), with investment cost of ₱19.60 million. Filrice was established for the business of rice milling and warehousing but ceased operations in 2011 and has not begun formal winding up process. Its principal place of business is in Bulacan, Philippines. Investment in Filrice is classified under prudential regulations as a nonfinancial allied undertaking. Accordingly, for prudential reporting purposes, such investments are accounted for under the equity method of accounting instead of consolidated on a line-by-line basis.

PDB SME (SME.com.ph) provides web-based solutions to help SME-entrepreneurs to manage businesses better and to expand to new markets. Its principal place of business is in Makati City, Philippines. In 2013, PDB SME was dissolved and is currently under liquidation.

Filrice and PDB SME are non-operating private companies and as such, have no available quoted market prices. As of December 31, 2018 and 2017, investment in PDB SME is fully provided with ₱19.60 million allowance for impairment losses while investment in Filrice is carried at original acquisition cost of ₱2.19 million where majority of its assets represent cash that is deposited with the Bank.

Miscellaneous assets
As of December 31, 2018 and 2017, miscellaneous assets include prepayments to contractors for construction of leasehold improvements, security deposits and postage stamps.

Allowance for impairment and credit losses
Allowance for impairment and credit losses includes provision against impaired accrued interest receivable (AIR) and long-outstanding advances amounting to ₱559.62 million and ₱489.73 million as of December 31, 2018 and 2017, respectively (Note 14).

14. Allowance for Impairment and Credit Losses

Changes in the allowance for impairment and credit losses are as follows:

	2018	2017
Balance at beginning of year		
Loans and receivables	**₱2,338,300,602**	₱2,460,325,896
Investment properties	**489,023,083**	481,456,535
AFS financial assets	**73,043,127**	63,153,755
Other assets	**1,786,752,347**	1,709,390,723
	4,687,119,159	4,714,326,909
Effect of PFRS 9 adoption (Note 2)	**282,049,298**	–
Balance at beginning of year, *as restated*	**4,969,168,457**	4,714,326,909
Provisions charged to operations	**104,649,096**	295,680,313
Accounts charged off and others	**(417,525,098)**	(322,888,063)
	(312,876,002)	(27,207,750)

(Forward)

	2018	2017
Balance at end of year		
Loans and receivables (Note 8)	**₱2,492,074,869**	₱2,338,300,602
Investment properties (Note 11)	**298,168,995**	489,023,083
Investment securities at amortized cost (Note 7)	**8,208,809**	–
AFS financial assets (Note 7)	–	73,043,127
Other assets (Note 13)	**1,857,839,782**	1,786,752,347
	₱4,656,292,455	₱4,687,119,159

At the current level of allowance for impairment and credit losses, management believes that the Bank has sufficient allowance to cover any losses that may be incurred from the non-collection or non-realization of its loans and receivables and other risk assets.

Below is the breakdown of provision for impairment and credit losses:

	2018	2017	2016
Loans and receivables	**₱79,357,501**	₱287,706,251	₱235,175,829
Investment securities at amortized cost	**2,482,969**	–	–
Financial assets at FVOCI	**241,535**	–	–
Investment properties (Note 11)	–	–	3,622,869
Other assets	**22,567,091**	7,974,062	66,201,968
	₱104,649,096	₱295,680,313	₱305,000,666

The tables below illustrate the movements of the allowance for impairment and credit losses of the financial assets for the year ended December 31, 2018 (effect of movements in ECL due to transfers between stages are shown in the total column):

Loans and receivables

	ECL Staging			
	Stage 1	Stage 2	Stage 3	
Consumer lending	12-month ECL	Lifetime ECL	Lifetime ECL	**Total**
Loss allowance at January 1, 2018	**₱149,361,693**	**₱118,306,184**	**₱899,633,679**	**₱1,167,301,556**
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	**(627,073)**	**5,310,801**	–	**4,683,728**
Transfer from Stage 1 to Stage 3	**(399,292)**	–	**48,782,074**	**48,382,782**
Transfer from Stage 2 to Stage 1	**4,373,405**	**(37,039,174)**	–	**(32,665,769)**
Transfer from Stage 2 to Stage 3	–	**(2,597,274)**	**37,466,711**	**34,869,437**
Transfer from Stage 3 to Stage 1	**526,168**	–	**(64,282,697)**	**(63,756,529)**
Transfer from Stage 3 to Stage 2	–	**446,480**	**(6,440,653)**	**(5,994,173)**
New financial assets originated or purchased	**51,241,601**	**13,832,260**	**216,515,061**	**281,588,922**
Changes in PDs/LGDs/EADs	**(52,534,747)**	**(44,108,337)**	**(28,303,363)**	**(124,946,447)**
Financial assets derecognized during the period	**(12,081,240)**	**(14,284,498)**	**(377,093,332)**	**(403,459,070)**
Total net P&L charge during the period	**(9,501,178)**	**(78,439,742)**	**(173,356,199)**	**(261,297,119)**
Other movements without P&L impact				
Write-offs, foreclosures and other movements	–	**(28,788,524)**	**(166,428,618)**	**(195,217,142)**
Loss allowance at December 31, 2018	**₱139,860,515**	**₱11,077,918**	**₱559,848,862**	**₱710,787,295**

	ECL Staging			
	Stage 1	Stage 2	Stage 3	
Corporate and commercial lending	12-month ECL	Lifetime ECL	Lifetime ECL	**Total**
Loss allowance at January 1, 2018	**₱57,938,016**	**₱15,490,662**	**₱1,161,763,604**	**₱1,235,192,282**
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	**(1,559,543)**	**2,289,637**	**–**	**730,094**
Transfer from Stage 1 to Stage 3	**(625,209)**	**–**	**131,421,410**	**130,796,201**
Transfer from Stage 2 to Stage 1	**1,031,363**	**(1,514,191)**	**–**	**(482,828)**
Transfer from Stage 2 to Stage 3	**–**	**(2,275,714)**	**325,828,811**	**323,553,097**
Transfer from Stage 3 to Stage 1	**48,885**	**–**	**(10,275,856)**	**(10,226,971)**
Transfer from Stage 3 to Stage 2	**–**	**284,825**	**(40,780,318)**	**(40,495,493)**
New financial assets originated or purchased	**14,274,028**	**113,262**	**5,719,779**	**20,107,069**
Changes in PDs/LGDs/EADs	**16,411,587**	**(7,975,342)**	**(7,048,585)**	**1,387,660**
Financial assets derecognized during the period	**(13,966,612)**	**(1,924,253)**	**(63,753,918)**	**(79,644,783)**
Total net P&L charge during the period	**15,614,499**	**(11,001,776)**	**341,111,323**	**345,724,046**
Other movements without P&L impact				
Write-offs, foreclosures and other movements	**–**	**(751,823)**	**(24,909,222)**	**(25,661,045)**
Loss allowance at December 31, 2018	**₱73,552,515**	**₱3,737,063**	**₱1,477,965,705**	**₱1,555,255,283**

	ECL Staging			
	Stage 1	Stage 2	Stage 3	
Others	12-month ECL	Lifetime ECL	Lifetime ECL	**Total**
Loss allowance at January 1, 2018	**₱3,865,729**	**₱4,638,772**	**₱8,638,680**	**₱17,143,181**
Movements with P&L impact				
Transfers:				
Transfer from Stage 2 to Stage 1	**188,870**	**(1,244,663)**	**–**	**(1,055,793)**
Transfer from Stage 2 to Stage 3	**–**	**(764,873)**	**764,873**	**–**
New financial assets originated or purchased	**178,373**	**231,065**	**318,259**	**727,697**
Changes in PDs/LGDs/EADs	**(11,527)**	**225,991**	**(680,544)**	**(466,080)**
Financial assets derecognized during the period	**(1,251,797)**	**(1,502,122)**	**(2,797,369)**	**(5,551,288)**
Total net P&L charge during the period	**(896,081)**	**(3,054,602)**	**(2,394,781)**	**(6,345,464)**
Other movements without P&L impact				
Foreclosures and other movements	**(1,251,797)**	**(1,502,122)**	**(2,797,369)**	**(5,551,288)**
Loss allowance at December 31, 2018	**₱1,717,851**	**₱82,048**	**₱3,446,530**	**₱5,246,429**

	ECL Staging			
	Stage 1	Stage 2	Stage 3	
Unquoted debt securities	12-month ECL	Lifetime ECL	Lifetime ECL	**Total**
Loss allowance at January 1, 2018	**₱92,510**	**₱–**	**₱151,836,309**	**₱151,928,819**
Movements with P&L impact				
Financial assets derecognized during the period	**(92,510)**	–	–	**(92,510)**
Total net P&L charge during the period	**(92,510)**	–	–	**(92,510)**
Loss allowance at December 31, 2018	**₱–**	**₱–**	**₱151,836,309**	**₱151,836,309**

	ECL Staging			
	Stage 1	Stage 2	Stage 3	
Sales contract receivable	12-month ECL	Lifetime ECL	Lifetime ECL	**Total**
Loss allowance at January 1, 2018	**₱5,827,343**	**₱383,965**	**₱61,369,697**	**₱67,581,005**
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	**(566,200)**	**588,938**	**–**	**22,738**
Transfer from Stage 3 to Stage 2	**–**	**619,181**	**(25,377,564)**	**(24,758,383)**
New financial assets originated or purchased	**1,993,383**	**127,015**	**27,014,844**	**29,135,242**
Changes in PDs/LGDs/EADs	**(463,670)**	**(40,121)**	**2,007,751**	**1,503,960**
Financial assets derecognized during the period	**(391,043)**	**(25,766)**	**(4,118,200)**	**(4,535,009)**
Total net P&L charge during the period	**572,470**	**1,269,247**	**(473,169)**	**1,368,548**
Loss allowance at December 31, 2018	**₱6,399,813**	**₱1,653,212**	**₱60,896,528**	**₱68,949,553**

Investment securities at amortized cost

	ECL Staging			
	Stage 1	Stage 2	Stage 3	
Debt securities	12-month ECL	Lifetime ECL	Lifetime ECL	**Total**
Loss allowance at January 1, 2018	**₱5,725,840**	**₱–**	**₱–**	**₱5,725,840**
Movements with P&L impact				
New financial assets originated or purchased	**3,249,456**	–	–	**3,249,456**
Changes in PDs/LGDs/EADs	**(717,945)**	–	–	**(717,945)**
Financial assets derecognized during the period	**(48,542)**	–	–	**(48,542)**
Total net P&L charge during the period	**2,482,969**	–	–	**2,482,969**
Loss allowance at December 31, 2018	**₱8,208,809**	**₱–**	**₱–**	**₱8,208,809**

Financial assets at FVOCI

	ECL Staging			
	Stage 1	Stage 2	Stage 3	
Debt securities	12-month ECL	Lifetime ECL	Lifetime ECL	**Total**
Loss allowance at January 1, 2018	**₱661,013**	**₱–**	**₱–**	**₱661,013**
Movements with P&L impact				
New financial assets originated or purchased	**329,862**	–	–	**329,862**
Changes in PDs/LGDs/EADs	**(46,024)**	–	–	**(46,024)**
Financial assets derecognized during the period	**(42,303)**	–	–	**(42,303)**
Total net P&L charge during the period	**241,535**	–	–	**241,535**
Loss allowance at December 31, 2018	**₱902,548**	**₱–**	**₱–**	**₱902,548**

Other financial assets

	ECL Staging			
	Stage 1	Stage 2	Stage 3	
Accounts receivable and accrued interest receivable	12-month ECL	Lifetime ECL	Lifetime ECL	**Total**
Loss allowance at January 1, 2018	**₱60,289,523**	**₱51,893,547**	**₱426,063,314**	**₱538,246,384**
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	**(352,276)**	**3,639,224**	–	**3,286,948**
Transfer from Stage 1 to Stage 3	**(224,314)**	-	**3,244,213**	**3,019,899**
Transfer from Stage 2 to Stage 1	**1,474,131**	**(15,228,650)**	–	**(13,754,519)**
Transfer from Stage 2 to Stage 3	–	**(63,576,669)**	**89,007,337**	**25,430,668**
Transfer from Stage 3 to Stage 1	**295,590**	–	**(4,275,070)**	**(3,979,480)**
Transfer from Stage 3 to Stage 2	–	**21,192,223**	**(29,669,112)**	**(8,476,889)**
New financial assets originated or purchased	**(9,097,927)**	**51,503,849**	**267,892,885**	**310,298,807**
Changes in PDs/LGDs/EADs	**(41,875,928)**	**(21,053,890)**	**(178,678,714)**	**(241,608,532)**
Financial assets derecognized during the period	**(5,076,868)**	**(21,429,180)**	**(25,143,763)**	**(51,649,811)**
Total net P&L charge during the period	**(54,857,592)**	**(44,953,093)**	**122,377,776**	**22,567,091**
Other movements without P&L impact				
Write-offs, foreclosures and other movements	–	**477,556**	**(1,675,041)**	**(1,197,485)**
Total movements without P&L impact	–	**477,556**	**(1,675,041)**	**(1,197,485)**
Loss allowance at December 31, 2018	**₱5,431,931**	**₱7,418,010**	**₱546,766,049**	**₱559,615,990**

The corresponding movement of the gross carrying amount of the financial asset are shown below:

Loans and receivables

Consumer lending	ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at January 1, 2018	**₱26,939,692,080**	**₱1,421,176,638**	**₱1,480,812,632**	**₱29,841,681,350**
Transfers:				
Transfer from Stage 1 to Stage 2	**(151,200,303)**	**151,200,303**	**–**	**–**
Transfer from Stage 1 to Stage 3	**(96,277,572)**	**–**	**96,277,572**	**–**
Transfer from Stage 2 to Stage 1	**1,054,517,901**	**(1,054,517,901)**	**–**	**–**
Transfer from Stage 2 to Stage 3	**–**	**(73,945,277)**	**73,945,277**	**–**
Transfer from Stage 3 to Stage 1	**126,870,005**	**–**	**(126,870,005)**	**–**
Transfer from Stage 3 to Stage 2	**–**	**12,711,440**	**(12,711,440)**	**–**
Movements in outstanding balance	**(4,326,720,778)**	**(17,618,981)**	**(43,707,560)**	**(4,388,047,319)**
Financial assets derecognized during the period	**(2,179,038,467)**	**(171,595,378)**	**(227,119,207)**	**(2,577,753,052)**
New financial assets purchased or originated	**12,355,403,977**	**393,809,142**	**427,319,763**	**13,176,532,882**
Write-offs	**–**	**–**	**(219,895,034)**	**(219,895,034)**
Foreclosures	**–**	**(345,827,887)**	**(343,119,703)**	**(688,947,590)**
Gross carrying amount as at December 31, 2018	**₱33,723,246,843**	**₱315,392,099**	**₱1,104,932,295**	**₱35,143,571,237**

Corporate and commercial lending	ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at January 1, 2018	**₱30,874,616,669**	**₱1,562,602,556**	**₱2,148,500,654**	**₱34,585,719,879**
Transfers:				
Transfer from Stage 1 to Stage 2	**(589,783,426)**	**589,783,426**	**–**	**–**
Transfer from Stage 1 to Stage 3	**(236,439,670)**	**–**	**236,439,670**	**–**
Transfer from Stage 2 to Stage 1	**390,037,749**	**(390,037,749)**	**–**	**–**
Transfer from Stage 2 to Stage 3	**–**	**(586,197,153)**	**586,197,153**	**–**
Transfer from Stage 3 to Stage 1	**18,487,247**	**–**	**(18,487,247)**	**–**
Transfer from Stage 3 to Stage 2	**–**	**73,367,687**	**(73,367,687)**	**–**
Movements in outstanding balance	**(596,475,641)**	**(46,124,321)**	**(66,602,842)**	**(709,202,804)**
Financial assets derecognized during the period	**(7,442,674,551)**	**(194,106,806)**	**(117,902,931)**	**(7,754,684,288)**
New financial assets purchased or originated	**5,398,110,901**	**29,174,956**	**10,290,428**	**5,437,576,285**
Foreclosures	**–**	**(75,839,259)**	**(46,065,725)**	**(121,904,984)**
Gross carrying amount as at December 31, 2018	**₱27,815,879,278**	**₱962,623,337**	**₱2,659,001,473**	**₱31,437,504,088**

Others	ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at January 1, 2018	**₱25,475,321**	**₱4,638,772**	**₱8,638,680**	**₱38,752,773**
Transfers:				
Transfer from Stage 2 to Stage 1	**1,244,663**	**(1,244,663)**	**–**	**–**
Transfer from Stage 2 to Stage 3	**–**	**(764,873)**	**764,873**	**–**
Movements in outstanding balance	**(7,518,460)**	**(1,276,131)**	**(2,376,511)**	**(11,171,102)**
Financial assets derecognized during the period	**(8,249,393)**	**(1,502,122)**	**(2,797,369)**	**(12,548,884)**
New financial assets purchased or originated	**1,268,976**	**231,065**	**430,310**	**1,930,351**
Gross carrying amount as at December 31, 2018	**₱12,221,107**	**₱82,048**	**₱4,659,983**	**₱16,963,138**

Unquoted debt securities	ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at January 1, 2018	**₱102,911,415**	**₱–**	**₱151,836,309**	**₱254,747,724**
Financial assets derecognized during the period	**(102,911,415)**	**–**	**–**	**(102,911,415)**
Gross carrying amount as at December 31, 2018	**₱–**	**₱–**	**₱151,836,309**	**₱151,836,309**

Sales contract receivable	ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at January 1, 2018	**₱606,136,479**	**₱38,396,511**	**₱149,734,353**	**₱794,267,343**
Transfers:				
Transfer from Stage 1 to Stage 2	**(58,893,812)**	**58,893,812**	**–**	**–**
Transfer from Stage 3 to Stage 2	**–**	**61,918,069**	**(61,918,069)**	**–**
Movements in outstanding balance	**(63,336,236)**	**(4,012,117)**	**(15,645,998)**	**(82,994,351)**
Financial assets derecognized during the period	**(40,674,650)**	**(2,576,589)**	**(10,047,890)**	**(53,299,129)**
New financial assets purchased or originated	**200,509,352**	**12,701,528**	**49,531,977**	**262,742,857**
Gross carrying amount as at December 31, 2018	**₱643,741,133**	**₱165,321,214**	**₱111,654,373**	**₱920,716,720**

Investment securities at amortized cost

Debt securities	ECL Staging Stage 1 12-month ECL	 Stage 2 Lifetime ECL	 Stage 3 Lifetime ECL	Total
Gross carrying amount as at January 1, 2018	**₱5,201,830,514**	**₱–**	**₱–**	**₱5,201,830,514**
Movements in outstanding balance	**111,082,189**	–	–	**111,082,189**
Financial assets derecognized during the period	**(44,100,000)**	–	–	**(44,100,000)**
New financial assets purchased or originated	**3,452,219,037**	–	–	**3,452,219,037**
Gross carrying amount as at December 31, 2018	**₱8,721,031,740**	**₱–**	**₱–**	**₱8,721,031,740**

Financial assets at FVOCI

Debt securities	ECL Staging Stage 1 12-month ECL	 Stage 2 Lifetime ECL	 Stage 3 Lifetime ECL	Total
Gross carrying amount as at January 1, 2018	**₱735,290,352**	**₱–**	**₱–**	**₱735,290,352**
Movements in outstanding balance	**(20,036,683)**	–	–	**(20,036,683)**
Financial assets derecognized during the period	**(47,056,935)**	–	–	**(47,056,935)**
New financial assets purchased or originated	**384,875,194**	–	–	**384,875,194**
Gross carrying amount as at December 31, 2018	**₱1,053,071,928**	**₱–**	**₱–**	**₱1,053,071,928**

Other financial assets

Accounts receivable and accrued interest receivable	ECL Staging Stage 1 12-month ECL	 Stage 2 Lifetime ECL	 Stage 3 Lifetime ECL	Total
Gross carrying amount as at January 1, 2018	**₱889,752,026**	**₱74,133,639**	**₱434,758,483**	**₱1,398,644,148**
Transfers:				
Transfer from Stage 1 to Stage 2	**(5,198,892)**	**5,198,892**	–	–
Transfer from Stage 1 to Stage 3	**(3,310,421)**	–	**3,310,421**	–
Transfer from Stage 2 to Stage 1	**21,755,214**	**(21,755,214)**	–	–
Transfer from Stage 2 to Stage 3	–	**(90,823,813)**	**90,823,813**	–
Transfer from Stage 3 to Stage 1	**4,362,316**	–	**(4,362,316)**	–
Transfer from Stage 3 to Stage 2	–	**30,274,604**	**(30,274,604)**	–
Movements in outstanding balance	**(74,328,638)**	**73,576,928**	**273,360,086**	**272,608,376**
Financial assets derecognized during the period	**(74,924,360)**	**(30,613,115)**	**(25,656,901)**	**(131,194,376)**
New financial assets purchased or originated	**15,283,510**	**(776,877)**	**(8,688,107)**	**5,818,526**
Write-offs	–	–	**4,470,824**	**4,470,824**
Foreclosures	–	**682,223**	**6,976,182**	**7,658,405**
Gross carrying amount as at December 31, 2018	**₱773,390,753**	**₱39,897,268**	**₱744,717,882**	**₱1,558,005,903**

Movement in allowance for impairment and credit losses of financial assets for the year ended December 31, 2017 follow (amounts in thousands):

	December 31, 2017 Loans and Receivables Consumer Lending and others	 Corporate and Commercial Lending	 Unquoted Debt Securities	 Sales Contract Receivable	 Total	 AFS Financial Assets	 Other Assets*
Balance at beginning of year	₱804,848	₱1,448,675	₱151,837	₱54,966	₱2,460,326	₱63,154	₱398,569
Provision	–	287,706	–	–	287,706	–	7,974
Accounts charged off	(216,133)	(106,755)	–	–	(322,888)	–	–
Reclassification	118,810	(216,133)	–	10,480	(86,843)	9,889	83,183
Balance at end of year	₱707,525	₱1,413,493	₱151,837	₱65,446	₱2,338,301	₱73,043	₱489,726
Individual impairment	₱21,561	₱1,082,149	₱151,837	₱59,078	₱1,314,625	₱73,043	₱434,758
Collective impairment	685,964	331,344	–	6,368	1,023,676	–	54,968
	₱707,525	₱1,413,493	₱151,837	₱65,446	₱2,338,301	₱73,043	₱489,726
Gross amount of loans and receivables individually determined to be impaired	₱22,450	₱1,997,786	₱151,837	₱149,734	₱2,321,807	₱73,043	₱434,758

**Excludes allowance for impairment losses on nonfinancial assets amounting to ₱1.30 billion.*

15. **Deposit Liabilities**

BSP Circular No. 832 provides for an 8.00% reserve requirement for deposit liabilities of thrift banks. As of December 31, 2018 and 2017, Due from BSP amounting to ₱6.80 billion and ₱6.77 billion, respectively, was set aside as reserves for deposit liabilities to comply with the reserve requirement (Note 6).

Foreign currency-denominated deposit liabilities bear annual fixed interest rates ranging from 0.50% to 3.00% in 2018, from 0.25% to 1.50% in 2017 and from 0.25% to 1.75% in 2016, while peso-denominated deposit liabilities bear interest rates ranging from 0.25% to 7.50% in 2018, from 0.50% to 4.75% in 2017 and from 0.25% to 5.50% in 2016.

16. **Accruals and Other Liabilities**

Accrued Interest and Other Expenses
This account consists of:

	2018	2017
Accrued interest payable	**₱224,511,939**	₱105,725,782
Accrued other expenses	**194,339,048**	161,116,500
	₱418,850,987	₱266,842,282

Accrued other expenses include accrual for employee benefits, utilities, janitorial and security services.

Other Liabilities
This account consists of:

	2018	2017
Financial		
Accounts payable (Note 24)	**₱836,030,557**	₱889,378,524
Other credits – dormant	**95,167,204**	83,919,568
Security deposit (Note 24)	**79,325,328**	3,885,646
Due to the Treasurer of the Philippines	**8,059,717**	9,224,406
Bills purchased	**1,297,783**	7,842,548
Other payable	**6,224,905**	5,437,792
	₱1,026,105,493	₱999,688,484
Nonfinancial		
Accrued gross receipts tax	**56,228,058**	16,754,796
Taxes payable	**49,041,011**	41,586,661
Retirement liability (Note 20)	–	106,046,713
Miscellaneous	**54,263,296**	211,775,450
	159,532,365	376,163,620
	₱1,185,637,858	₱1,375,852,104

Accounts payable consists mainly of mortgage and vehicle registration fees held for the account of loan borrowers which will be remitted to various government agencies, liability to automated tellering machine interbank network service provider, registration fees, insurance premium, documentary stamps and notarial fee.

Bills purchased pertains to credit accommodation where check payments in the form of manager's check, demand draft and cashier's check are purchased by the Bank and will be paid after the credit period. Other payable consists of SSS, medicare and employee compensation premium.

Miscellaneous includes sundry credits, inter-office float items, dormant deposit accounts and deposit for keys on safety deposit boxes.

17. Maturity Analysis of Assets and Liabilities

The table below presents the Bank's assets and liabilities as of December 31, 2018 and 2017, analyzed according to when they are expected to be recovered or settled within one year and beyond one year from the respective reporting dates (in thousands):

	December 31, 2018			December 31, 2017		
	Within twelve months	**Over twelve months**	**Total**	Within twelve months	Over twelve months	Total
Financial assets						
Cash and cash equivalents	**₱13,551,253**	**₱–**	**₱13,551,253**	₱11,534,523	₱–	₱11,534,523
Financial assets at FVPL	–	–	–	135,398	–	135,398
Financial assets at FVOCI	**49,592**	**1,032,272**	**1,081,864**	–	–	–
AFS financial assets	–	–	–	31,966	2,261,703	2,293,669
Investment securities at amortized cost	**3,041,187**	**5,679,845**	**8,721,032**	–	–	–
HTM financial assets	–	–	–	–	3,502,818	3,502,818
Loans and receivables	**23,870,264**	**43,800,327**	**67,670,591**	22,040,434	43,474,735	65,515,169
Other assets						
AIR	**820,791**	–	**820,791**	685,256	–	685,256
Accounts receivable	**737,215**	–	**737,215**	713,388	–	713,388
RCOCI	**11,914**	–	**11,914**	96,299	–	96,299
	42,082,216	**50,512,444**	**92,594,660**	35,237,264	49,239,256	84,476,520
Nonfinancial assets						
NCAHS	**379,193**	–	**379,193**	212,031	–	212,031
Property and equipment	–	**2,968,385**	**2,968,385**	–	2,805,037	2,805,037
Investment properties	–	**3,986,019**	**3,986,019**	–	4,069,861	4,069,861
Branch licenses	–	**74,480**	**74,480**	–	74,480	74,480
Software costs	–	**161,122**	**161,122**	–	155,265	155,265
Deferred tax asset	–	**613,401**	**613,401**	–	338,325	338,325
Other assets						
NPAP	–	**1,241,290**	**1,241,290**	–	1,242,740	1,242,740
CWT	**316,892**	–	**316,892**	310,133	–	310,133
Documentary stamp tax	**66,618**	–	**66,618**	89,326	–	89,326
Advance rental deposits	**62,069**	–	**62,069**	42,471		42,471
Prepaid expenses	**36,811**	–	**36,811**	12,170	–	12,170
Stationery and supplies	–	**21,792**	**21,792**	34,684	–	34,684
Other equity investments	**42,474**	–	**42,474**	–	21,792	21,792
Retirement asset	**6,096**	–	**6,096**	–	–	–
Miscellaneous	**240,489**	–	**240,489**	74,569	–	74,569
	1,150,642	**9,062,540**	**10,213,182**	775,384	8,707,500	9,482,884
	43,232,858	**59,574,984**	**102,807,842**	36,012,648	57,946,756	93,959,404
Allowances for impairment and credit losses (Note 14)			**(4,656,292)**			(4,687,119)
Unearned interest and discounts (Note 8)			**(47,159)**			(32,544)
Accumulated depreciation and amortization (Notes 10, 11 and 12)			**(2,328,631)**			(2,061,805)
			(7,073,842)			(6,781,468)
			₱95,779,703			₱87,177,936

(Forward)

	December 31, 2018			December 31, 2017		
	Within twelve months	**Over twelve months**	**Total**	Within twelve months	Over twelve months	Total
Financial liabilities						
Deposit liabilities	**₱77,082,720**	**₱7,518,752**	**₱84,601,472**	₱63,532,626	₱12,904,457	₱76,437,083
Manager's checks	**484,180**	–	**484,180**	731,802	–	731,802
Accrued interest and other expenses	**418,851**	–	**418,851**	266,842	–	266,842
Other liabilities						
Accounts payable	**836,031**	–	**836,031**	889,379	–	889,379
Other credits - dormant	–	**95,167**	**95,167**	–	83,920	83,920
Security deposit	–	**79,325**	**79,325**	–	3,886	3,886
Due to the Treasurer of the Philippines	**8,060**	–	**8,060**	9,224	–	9,224
Bills purchased	**1,298**	–	**1,298**	7,842	–	7,842
Other payable	**6,225**	–	**6,225**	5,438	–	5,438
	78,837,365	**7,693,244**	**86,530,609**	65,443,153	12,992,263	78,435,416
Nonfinancial liabilities						
Income tax payable	**345**	–	**345**	293	–	293
Retirement liability	–	–	–	–	106,047	106,047
Other liabilities	**159,533**	–	**159,533**	270,116	–	270,116
	159,878	–	**159,878**	270,409	106,047	376,456
	₱78,997,243	**₱7,693,244**	**₱86,690,487**	₱65,713,562	₱13,098,310	₱78,811,872

18. **Equity**

The Bank's authorized common shares amounted to 134.00 million in 2018 and 2017 and 74.00 million in 2016. The Bank's authorized preferred shares amounted to 6.00 million in 2018, 2017 and 2016.

As of December 31, 2018, 2017 and 2016, the Bank's capital stock consists of:

	2018		2017		2016	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Preferred stock - ₱100 par value						
Balance at beginning and end of year	**21,642**	**₱2,164,200**	21,642	₱2,164,200	21,642	₱2,164,200
Common stock - ₱100 par value						
Balance at beginning of year	**100,414,149**	**10,041,414,900**	74,000,000	7,400,000,000	37,056,482	3,705,648,200
Issuance of capital stock	**5,000,000**	**500,000,000**	–	–	–	–
Application of DFFS to issued stock	–	–	26,414,149	2,641,414,900	36,943,518	3,694,351,800
Balance at end of year	**105,414,149**	**10,541,414,900**	100,414,149	10,041,414,900	74,000,000	7,400,000,000
	105,435,791	**₱10,543,579,100**	100,435,791	₱10,043,579,100	74,021,642	₱7,402,164,200

The Bank's Amended Articles of Incorporation disclosed the following features of its preferred stock:

a. Non-voting and non-participating;
b. Preference at liquidation, including declared dividends which have not been distributed;
c. Non-cumulative dividend rate as determined by the BOD, provided not to exceed twice the current ninety-day Treasury bill rate at date of approval by the BOD;
d. Convertible to common shares, at the option of the stockholder, if no dividends are declared for three consecutive years, at book value of common shares at the time of the conversion; and
e. Re-issuable.

The summarized information on the Bank's registration of securities under the Securities Regulation Code follows:

Date of SEC Approval	Type/Class	Authorized Shares	Par Value
December 7, 2017	Common	134,000,000	₱100
	Preferred	6,000,000	100
December 17, 2015	Common	74,000,000	100
	Preferred	6,000,000	100
March 1, 1973	Common	24,000,000	100
	Preferred	6,000,000	100

As of December 31, 2018 and 2017, the total number of stockholders is 1,545.

Capital Infusions
Details of the Parent Bank's capital infusions to the Bank in support of the Bank's planned business growth and expansion follow:

Date	Amount
June 6, 2018	₱500,000,000
December 31, 2016	1,500,000,000
September 29, 2016	1,000,000,000
December 16, 2015	2,000,000,000

The capital infusion to the Bank in 2018 amounting to ₱500.00 million was approved by the Parent Bank's BOD on June 6, 2018.

Amendment to the Articles of Incorporation
On June 26, 2014, the BOD of the Bank approved the increase in its authorized capital stock from ₱3.00 billion to ₱8.00 billion. The increase in capitalization aims to enable the Bank in meeting the minimum capital requirement under Basel III and the planned merger with PDB then. The SEC approved the increase in authorized capital stock on December 17, 2015.

On July 21, 2016, the BOD and two-thirds (2/3) of the stockholders of the Bank approved a further increase in the Bank's authorized capital stock from ₱8.00 billion to ₱14.00 billion. The increase was approved by the BSP and the SEC on August 10, 2017 and December 7, 2017, respectively.

Surplus and Surplus Reserves
Surplus
As of December 31, 2018 and 2017, surplus included the amount of ₱5.68 million and ₱15.96 million, respectively, representing the transfer of revaluation increment on condominium properties, net of deferred tax liability, which was carried at deemed cost when the Bank transitioned to PFRS in 2005. This amount will be available to be declared as dividends upon sale of the underlying condominium properties.

Surplus reserves
In compliance with BSP regulations, 10.00% of the Bank's profit from trust business is appropriated to surplus reserve as of December 31, 2017. In 2018, with the surrender of the its trust license, the Bank transferred surplus reserves of ₱22.76 million to free surplus.

Capital Management

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

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

Capital Allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risks associated with different activities. In such cases, the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken by the ExeCom.

Although maximization of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision-making. Also taken into account are synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's longer term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the BOD.

The issuance of BSP Circular No. 639 covering the ICAAP in 2009 supplements the BSP's risk-based capital adequacy framework under Circular No. 538. In compliance with this circular, the Parent Bank has adopted and developed its ICAAP framework to ensure that appropriate level and quality of capital are maintained by the Group. Under this framework, the assessment of risks extends beyond the Pillar 1 set of credit, market and operational risks and onto other risks deemed material by the Parent Bank. The level and structure of capital are assessed and determined in light of the Parent Bank's business environment, plans, performance, risks and budget, as well as regulatory edicts. The BSP requires submission of an ICAAP document every March 31. The Group has complied with this requirement.

Regulatory Qualifying Capital

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

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00%. Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by deposit hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the MB of the BSP.

On August 4, 2006, the BSP, under Circular No. 538, issued the prescribed guidelines implementing the revised risk-based capital adequacy framework for the Philippine banking system to conform to Basel II capital adequacy framework. The new BSP guidelines took effect on July 1, 2007. Thereafter, banks were required to compute their capital adequacy ratio (CAR) using these guidelines.

On January 15, 2013, the BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The circular took effect on January 1, 2014.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.00% and Tier 1 capital ratio of 7.50%. It also introduces a capital conservation buffer of 2.50% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10.00% and this ratio shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

The Bank has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

The CAR of the Bank as reported to the BSP as of December 31, 2018 and 2017 are shown in the tables below (amounts in thousands).

	2018	2017
Tier 1 capital	**₱7,600,177**	₱7,514,474
Tier 2 capital	**678,978**	700,804
Total qualifying capital	**₱8,279,155**	₱8,215,278
Risk weighted assets	**₱73,010,289**	₱71,852,728
Capital adequacy ratio	**11.34%**	11.43%

The regulatory qualifying capital of the Bank consists of Tier 1 (core) capital, which comprises of paid-up common stock, DFFS, hybrid capital securities, deficit including results of current year operations, surplus reserves and non-controlling interest less required deductions such as unsecured credit accommodations to DOSRI, deferred income tax, and goodwill. Certain adjustments are made to PFRS-based results and reserves, as prescribed by the BSP. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes general loan loss provision and appraisal increment authorized by the MB.

Standardized credit risk weights were used in the credit assessment of asset exposures. Third party credit assessments were based on ratings by Standard & Poor's, Moody's and Fitch, while PhilRatings were used on peso-denominated exposures to Sovereigns, MDBs, Banks, Local Government Units, Government Corporations and Corporates.

On October 9, 2014, the BSP issued BSP Circular No. 854 which amends the provisions of the Manual of Regulations for Banks on the minimum capitalization of banks and on the prerequisites for the grant of authority to establish a branch. Based on this circular, the Bank is required to maintain a minimum capitalization of ₱2.00 billion.

Deposit for Future Stock Subscription
As of December 31, 2016, Tier 1 capital includes DFFS from the Parent Bank to the Bank amounting to ₱2.50 billion. On August 24, 2017, the BSP, pursuant to the MB Resolution No. 1462, approved the request of the Bank to account for the capital infusion of CBC as part of the Bank's equity and qualifying capital in computing for the CAR for the periods ended September 30, 2016, December 31, 2016 and March 31, 2017.

On October 19, 2017, the SEC, following Securities Regulation Code Rule 68, granted an exemptive relief for the Bank to classify the DFFS of ₱2.50 billion as part of Equity as of December 31, 2016 considering the approval of the same by the BSP, as the Bank's primary regulator.

On December 7, 2017, the Bank applied ₱2.65 billion of the above deposits against issued shares of 26,414,149 common shares. Documentary stamp taxes amounting to ₱12.12 million incurred from the issuance of the common shares were charged against APIC.

19. **Miscellaneous Income and Expenses**

Miscellaneous income comprise the following:

	2018	2017	2016
Bancassurance activities	**₱45,535,304**	₱26,605,451	₱14,735,877
Recovery on charged off assets	**44,407,274**	14,741,456	7,979,599
Net foreign exchange gain	**2,264,729**	728,740	25,547,803
Dividends	**1,262,000**	3,786,000	4,452,356
Trust fee income	**415,381**	4,365,005	4,288,480
Others (Note 13)	**6,861,823**	40,327,931	27,819,684
	₱100,746,511	₱90,554,583	₱84,823,799

On April 11, 2017, the Bureau of Treasury paid the Bank the final tax withheld from the proceeds of the Poverty Eradication and Alleviation Certificates (PEACe) bonds last October 18, 2011, plus 4.00% interest per annum from October 19, 2011 to April 10, 2017. Total settlement amount were paid in the form of 3-year Retail Treasury Bonds with interest of 4.25% per annum. The settlement resulted in gain amounting to ₱24.88 million which is presented under 'Miscellaneous income' in 2017.

Others include income from issuance of letters of credits and various non-recurring income transactions.

Miscellaneous expenses consist of:

	2018	2017	2016
Supervision and administrative expenses	**₱45,298,605**	₱52,380,309	₱55,974,037
Repairs and maintenance fees	**27,177,731**	33,935,818	20,137,202
Advertising	**12,774,411**	20,922,480	23,598,573
Clearing and processing fees	**4,668,605**	4,932,604	2,853,729
Others	**72,987,876**	52,977,630	46,778,419
	₱162,907,228	₱165,148,841	₱149,341,960

Supervision and administrative fees include BSP supervision and PDIC fees, and support operation service expenses.

Others pertain mainly to membership fees and dues, internal meeting expenses, printing expenses and expenditures for Christmas party, anniversary, team-building activities and various non-recurring expenses.

20. **Retirement Liability**

The Bank has two separate funded noncontributory defined benefit retirement plans, which is being managed by the trust department of CBC (Note 24). These retirement plans cover all the Bank's officers and regular employees who are entitled to cash benefits after satisfying certain age and service requirements.

The Bank's annual contribution to the retirement plan consists of a payment covering the current service cost, unfunded actuarial accrued liability and interest on such unfunded actuarial liability.

The latest actuarial valuation study of the retirement plans was made as of December 31, 2018. The principal actuarial assumptions as of December 31, 2018 and 2017 used in determining the retirement obligation for the Bank's retirement plans are shown below:

	2018	2017
Discount rate	**7.27%**	5.63%
Salary increase rate	**6.00%**	6.00%

As of December 31, 2018 and 2017, retirement asset (liability) comprised the following:

	2018	2017
Fair value of plan assets	**₱293,708,323**	₱210,827,701
Present value of defined benefit obligation	**287,612,811**	316,874,414
Net defined benefit asset (liability) (Note 16)	**₱6,095,512**	(₱106,046,713)

The movements in the defined retirement asset (liability), present value of defined benefit obligation and fair value of plan assets follow:

2018

		Net benefit cost					**Remeasurements in other comprehensive income**					
	January 1, 2018	**Current service cost**	**Net interest**	**Gain/Loss due to settlement**	**Net pension expense***	**Benefits paid**	**Return on plan assets (excluding amount included in net interest)**	**Actuarial changes arising from experience adjustments**	**Actuarial changes arising from changes in financial assumptions**	**Changes in remeasurement gains**	**Contribution by employer**	**December 31, 2018**
	(a)	**(b)**	**(c)**	**(d)**	**(e) = b + c + d**	**(f)**	**(g)**	**(h)**	**(i)**	**(j) = g + h + i**	**(k)**	**(l) = a + e + f + j + k**
Fair value of plan assets	**₱210,827,701**	**₱–**	**₱11,869,600**	**₱–**	**₱11,869,600**	**(₱20,759,123)**	**(₱17,817,755)**	**₱–**	**₱–**	**(₱17,817,755)**	**₱109,587,900**	**₱293,708,323**
Present value of defined benefit obligation	**316,874,414**	**88,207,080**	**17,840,029**	**–**	**106,047,109**	**(₱20,759,123)**	**–**	**(46,522,338)**	**(68,027,251)**	**(114,549,589)**	**–**	**287,612,811**
Net defined benefit asset (liability)	**(₱106,046,713)**	**(₱88,207,080)**	**(₱5,970,429)**	**₱–**	**(₱94,177,509)**	**₱–**	**(₱17,817,755)**	**₱46,522,338**	**₱68,027,251**	**₱96,731,834**	**₱109,587,900**	**₱6,095,512**

**Presented under Compensation and fringe benefits in the statements of income.*

2017

		Net benefit cost					Remeasurements in other comprehensive income					
	January 1, 2017	Current service cost	Net interest	Gain/Loss due to settlement	Net pension expense*	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Changes in remeasurement gains	Contribution by employer	December 31, 2017
	(a)	(b)	(c)	(d)	(e) = b + c + d	(f)	(g)	(h)	(i)	(j) = g + h + i	(k)	(l) = a + e + f + j + k
Fair value of plan assets	₱126,093,579	₱–	₱6,405,554	₱–	₱6,405,554	(₱9,617,856)	(₱10,053,576)	₱–	₱–	(₱10,053,576)	₱98,000,000	₱210,827,701
Present value of defined benefit obligation	256,279,080	86,542,444	13,018,977	–	99,561,421	(9,617,856)	–	(2,984,308)	(26,363,923)	(29,348,231)	–	316,874,414
Net defined benefit asset (liability)	(₱130,185,501)	(₱86,542,444)	(₱6,613,423)	₱–	(₱93,155,867)	₱–	(₱10,053,576)	₱2,984,308	₱26,363,923	₱19,294,655	₱98,000,000	(₱106,046,713)

** Presented under Compensation and fringe benefits in the statements of income*

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions.

The Bank expects to contribute ₱135.57 million to its defined retirement plan in 2019.

The carrying values of total plan assets which approximate their fair values as of the end of the reporting periods are as follows (in thousands):

	2018	2017
Cash and cash equivalents (Note 24)	**₱148,119**	₱137,105
Debt instruments	**145,120**	73,485
Accrued interest receivable	**917**	1,208
Other accountabilities	**(448)**	(970)
	₱293,708	₱210,828

The sensitivity analysis below has been determined based on the impact of reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2018 and 2017, assuming if all other assumptions were held constant (in thousands):

	2018	2017
Discount rate		
1.00%	**(₱28,746)**	(₱39,471)
(1.00%)	**37,942**	50,838
Salary increase rate		
1.00%	**36,802**	48,520
(1.00%)	**(28,456)**	(38,611)

Shown below is the maturity analysis of the undiscounted benefit payments (in thousands):

	2018	2017
Less than five years	**₱90,920**	₱82,734
More than five years to ten years	**210,666**	178,995
More than ten years to fifteen years	**715,067**	635,724
More than fifteen years to twenty years	**972,734**	1,034,331
More than twenty years	**11,606,160**	10,283,386

The average duration of the defined benefit obligation as at December 31, 2018 and 2017 is 17 and 18 years, respectively.

21. **Lease Contracts**

The Bank leases the premises occupied by its branches. The lease contracts are for periods ranging from one (1) to forty (40) years from the dates of contracts and are renewable under certain terms and conditions. Various lease contracts include escalation clauses, which generally bear an annual rent increase ranging from 5.00% to 15.00%.

For the years ended December 31, 2018, 2017 and 2016, annual rentals of the Bank on these lease contracts included in 'Occupancy costs' in the statements of income amounted to ₱194.87 million, ₱167.11 million and ₱185.13 million, respectively.

Future minimum rentals payable of the Bank under non-cancelable operating leases follow:

	2018	2017
Within one year	**₱13,908,533**	₱44,978,174
After one year but not more than five years	**451,281,010**	238,887,143
After more than five years	**405,493,219**	419,975,843
	₱870,682,762	₱703,841,160

The Bank has also entered into commercial property leases on its investment properties, most of which are with related parties (Note 24). These non-cancelable leases have remaining lease terms of between one to ten years.

Future minimum rentals receivable under non-cancelable operating leases follow:

	2018	2017
Within one year	**₱1,838,685**	₱8,285,993
After one year but not more than five years	**6,485,653**	16,802,167
After more than five years	**15,465,672**	5,998,491
	₱23,790,010	₱31,086,651

22. Income and Other Taxes

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

Republic Act (RA) No. 9337, *An Act Amending National Internal Revenue Code*, provides that RCIT rate shall be 30.00% while interest expense allowed as a deductible expense is reduced to 33.00% of interest income subject to final tax.

An MCIT of 2.00% on modified gross income is computed and compared with the RCIT. Any excess MCIT over RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years. In addition, the NOLCO is allowed as a deduction from taxable income in the next three years from the year of inception.

Effective in May 2004, RA No. 9294 restored the tax exemption of FCDUs and offshore banking units (OBUs). Under such law, the income derived by the FCDU from foreign currency transactions with nonresidents, OBUs, local commercial banks including branches of foreign banks is tax−exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% gross income tax.

Interest income on deposit placements with other FCDUs and OBUs is taxed at 7.50% (now 15.00% effective January 1, 2018), while all other income of the FCDU is subject to the 30.00% corporate tax.

Relevant Tax Updates
RA No. 10963, *The Tax Reform for Acceleration and Inclusion (TRAIN)*, is the first package of the comprehensive tax reform program of the government. The bill was signed into law on December 19, 2017 and took effect on January 1, 2018, amending some provisions of the old Philippine tax system.

Except for resident foreign corporations, which is still subject to the existing rate of 7.50%, tax on interest income of foreign currency deposit was increased to 15.00% under TRAIN. Documentary stamp tax on bank checks, drafts, certificate of deposit not bearing interest, all debt instruments, bills of exchange, letters of credit, mortgages, deeds and others are now subjected to a higher rate.

Revenue Regulations No. 4-2011
On March 15, 2011, the Bureau of Internal Revenue (BIR) issued Revenue Regulations (RR) No. 4−2011 which prescribed the attribution and allocation of expenses between FCDUs/EFCDUs or OBU and RBU and within RBU.

On April 6, 2015, the Parent Bank and other member banks of the Bankers Association of the Philippines (BAP), filed a Petition for Declaratory Relief with Application for Temporary Restraining Order (TRO) and/or Writ of Preliminary Injunction with the Regional Trial Court of Makati (Makati Trial Court). Further, in Civil Case No. 15-287, the Bank and other BAP member banks assailed the validity of RR 4-2011 on the ground, among others, that (a) the RR violates the petitioner-banks substantive due process rights; (b) it is not only illegal but also unfair; (c) that it serves as a deterrent to banks to invest in capital market transactions to the prejudice of the economy; (d) it sets a dangerous precedent for the disallowance of full deductions due to the prescribes method of allocation; and (e) it violates the equal protection clause of the Constitution.

On April 8, 2015, the Makati Trial Court issued a TRO enjoining the BIR from enforcing RR 4-2011. Also, on April 25, 2015, Makati Trial Court issued a Writ of Preliminary Injunction enjoining the BIR from enforcing, carrying out, or implementing in any way or manner RR 4-2011 against the Bank and other BAP member banks, including issuing Preliminary Assessment Notice or Final Assessment Notice against them during the pendency of the litigation, unless sooner dissolved.

On June 10, 2015, the Makati Trial Court issued a Confirmatory Order stating that the TRO and Writ of Preliminary Injunction also prohibits the BIR from ruling or deciding on any administrative matter pending before it in relation to the subject revenue regulations and insofar as the Bank and other BAP member banks are concerned.

On May 25, 2018, the Makati Trial Court issued a decision annulling RR 4-2011 and making the Writ of Preliminary Injunction permanent.

Current tax regulations also provide for the ceiling on the amount of entertainment, amusement and recreation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulations, EAR expense allowed as a deductible expense is limited to the actual EAR paid or incurred but not to exceed 1.00% of the Bank’s net revenue.

Benefit from income tax consists of:

	2018	2017	2016
Current			
RCIT	**₱–**	₱48,389,561	₱61,725,020
Final tax	**66,770,216**	58,912,148	54,814,973
Excess MCIT over RCIT	**46,643,385**	–	–
	113,413,601	107,301,709	116,539,993
Deferred*	**(307,637,017)**	(357,535,678)	(198,350,719)
	₱194,223,416	(₱250,233,969)	(₱81,810,726)

* *Includes effect of tax benefit of prior years' MCIT of ₱48.37 million and ₱61.72 million against 2017 and 2016 tax liability, respectively.*

Components of net deferred tax asset are as follows:

	2018	2017
Deferred tax asset on		
Allowance for impairment and credit losses	**₱597,500,029**	₱210,656,114
Difference between book base and tax base of investment property	**182,366,247**	256,055,219
Retirement liability	–	15,907,007
	779,866,276	482,618,340
Deferred tax liability on		
Fair value adjustment on investment property	**(160,070,026)**	(136,137,628)
Revaluation increment on condominium properties credited to surplus free	**(2,435,946)**	(6,695,755)
Retirement asset	**(1,828,654)**	–
Accrued lease receivable	**(2,130,478)**	(1,460,063)
	(166,465,104)	(144,293,446)
	₱613,401,172	₱338,324,894

The Bank did not set up deferred tax assets on the following temporary differences as it believes that it is highly probable that these temporary differences will not be realized in the near foreseeable future:

	2018	2017
Tax effects of		
Allowance for impairment and credit losses	**₱2,338,647,887**	₱3,337,499,761
NOLCO	**288,559,350**	–
Excess MCIT over RCIT	**46,643,385**	101,094
Unamortized past service cost	**4,879,741**	5,948,983
Retirement liability	–	53,023,357
Accruals	–	51,957,668
	₱2,678,730,363	₱3,448,530,863

Details of the Bank's NOLCO are as follows:

Inception year	Original amount	Used	Expired	Balance	Expiry year
2018	₱288,559,350	₱–	₱–	₱288,559,350	2021

Details of the Bank's excess MCIT over RCIT are as follows:

Inception year	CBS pre-merger	PDB pre-merger	CBS post-merger	Used*	Balance	Expiry year
2014	₱16,153,157	₱20,846,141	N/A	₱36,999,298	₱–	2017
2015	11,908,638	23,505,563	N/A	35,414,201	–	2018
2018	N/A	N/A	46,643,385	–	46,643,385	2021
	₱28,061,795	₱44,351,704	₱46,643,385	₱72,413,499	₱46,643,385	

* *Utilization and balances include unexpired MCIT of PDB pursuant to the merger.*

The reconciliation between the statutory income tax and effective income tax follows:

	2018	2017	2016
Statutory income tax	**₱52,692,059**	₱75,392,474	₱45,517,055
Tax effects of			
Movement in unrecognized deferred tax assets	**(193,685,105)**	(370,953,625)	(92,999,457)
Nontaxable and tax-paid income	**(118,015,818)**	(95,886,205)	(87,905,039)
Nondeductible expenses	**63,161,866**	146,459,332	90,574,684
FCDU loss (income)	**1,623,582**	(5,245,945)	(36,997,969)
Effective income tax	**(₱194,223,416)**	(₱250,233,969)	(₱81,810,726)

23. **Trust Operations**

Securities and other properties (other than deposits) held by the Bank, including those assumed from PDB, in fiduciary or agency capacities for clients and beneficiaries are not included in the accompanying statements of financial position since these are not assets of the Bank (Note 25).

In compliance with the requirements of current banking regulations relative to the Bank's trust functions: (a) government bonds included under HTM financial assets in the statements of financial position with total face value of ₱12.00 million as of December 31, 2017 are deposited with the BSP as security for the Bank's faithful compliance with its fiduciary obligations; and (b) 10.00% of the Bank's annual trust fee income is transferred to surplus reserve.

On December 11, 2014, the BOD of the Bank approved the winding down of the Bank's Trust business.

Under BSP Circular Letter No. CL-2019-001 dated January 8, 2019, the BSP approved the Bank's request to surrender its license to conduct trust and other fiduciary business effective immediately in accordance with MB Resolution No. 2050 dated December 6, 2018.

24. **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. The Bank's related parties include:

- key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members;

- significant investors;
- associates; and
- post-employment benefit plans for the benefit of the Bank's employees

Generally, the related party transactions are settled in cash. There are no provisions for credit losses in 2018 and 2017 in relation to amounts due from related parties.

Transactions with Retirement Plans
The Bank has a business relationship with its retirement plan pursuant to which it provides trust and management services. The total fair value of the retirement fund as of December 31, 2018 and 2017 amounted to ₱293.71 million and ₱210.83 million, respectively. The details of the assets of the fund as of December 31, 2018 and 2017 are disclosed in Note 20.

Significant transactions of the retirement fund, particularly with related parties, are approved by the Retirement Committee (RC) of the Bank. The members of the RC are directors and key management personnel of the Bank.

As of December 31, 2018 and 2017, cash and cash equivalents of the retirement plan amounting to ₱73.53 million and ₱134.39 million, respectively, are held by the Bank and earn interest ranging from 6.00% to 6.50% and from 3.00% to 4.25% in 2018 and 2017, respectively.

As of December 31, 2018 and 2017, cash and cash equivalents of the retirement plan amounting to ₱67.47 million and ₱2.72 million, respectively, are held by the Parent Bank and earn interest ranging from 5.60% to 6.75% and from 2.38% to 2.63% in 2018 and 2017, respectively.

Interest income on the retirement plan's cash and cash equivalents amounted to ₱3.08 million and ₱0.43 million in 2018 and 2017, respectively.

Remunerations of Directors and other Key Management Personnel
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The Bank considers the members of the Management Committee as key management personnel for purposes of PAS 24.

The compensation of key management personnel included under 'Compensation and benefits' in the statement of income are as follows (in thousands):

	2018	2017	2016
Short-term employee benefits	**₱38,055**	₱40,392	₱35,955
Post-employment benefits	**2,835**	3,223	2,465
	₱40,890	₱43,615	₱38,420

In 2018, 2017 and 2016, no remunerations were given to the directors of the Bank who are also occupying key management positions with the ultimate parent bank.

The Bank also provides banking services to key management personnel and persons connected to them. These transactions are presented in the tables below.

	December 31, 2018		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Key Management Personnel			
Loans		**₱–**	
Repayments	**(₱38,360)**		
Deposit liabilities		**64,671,792**	These are savings and time deposit accounts with annual interest rates ranging from 0.50% to 0.99%.
Deposits	**40,988,805**		
Withdrawals	**(19,318,496)**		
Other Related Party			
Deposit liabilities		**125,077,872**	These deposit accounts earns annual interest ranging from 0.50% to 2.63%.
Deposits	**107,654,784**		
Withdrawals	**(2,340,198)**		

	December 31, 2017		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Key Management Personnel			
Loans		₱38,360	Loans with interest rates ranging from 5.50% to 8.00% and maturities of 5 to 15 years and secured by real estate mortgage and unimpaired.
Issuances	₱–		
Repayments	(2,951,961)		
Deposit liabilities		43,001,483	These are checking and savings account with annual interest rates ranging from 0.25% to 0.75%.
Deposits	40,756,025		
Withdrawals	(6,490,543)		
Other Related Party			
Deposit liabilities		19,763,286	These deposit accounts earns annual interest ranging from 0.25% to 4.25%.
Deposits	2,103,663		
Withdrawals	(9,577,634)		

As of December 31, 2018 and 2017, all loans to related parties are secured and no provision for credit losses was recorded.

Interest income earned and interest expense incurred from the above loans and deposit liabilities, respectively, for the years ended December 31, 2018, 2017 and 2016 are as follows:

	2018	2017	2016
Interest income	**₱7,910**	₱9,701	₱201,132
Interest expense	**4,100,222**	1,230,828	507,635

Related party transactions of the Bank with the Parent Bank and affiliates are as follows:

	Parent Bank		
	2018	2017	**Nature, Terms and Conditions**
Statements of Financial Position			
Due from other banks	**₱309,861,476**	₱281,193,219	This pertains to cash in bank deposited with CBC that bears annual interest rates ranging from 0.10% to 0.25% in 2018 and from 0.13% to 0.25% in 2017.
Net movements	**28,668,257**	(434,938,545)	
Accounts receivable	**4,857,682**	9,835,384	This pertains to receivable from CBC for unpaid rental.
Security deposit	**2,269,687**	2,444,337	This pertains to the rental deposits for office space leased out to CBC presented under 'Other liabilities'(Note 16).
Accounts payable	–	1,111,153	This pertains to the various expenses advanced by CBC on behalf of the Bank.

	Parent Bank			
	2018	2017	2016	**Nature, Terms and Conditions**
Statements of Income				
Interest income	**₱747,418**	₱473,729	₱339,552	This pertains to interest income earned from cash in bank deposited with CBC.
Trading and securities gains	**–**	3,548,612	14,479,079	The Bank earned investment securities gain from its outright sale of securities to CBC.
Income from property rentals	**19,937,200**	24,209,412	19,940,719	Certain units of the condominium owned by the Bank are being leased to CBC for a term ranging from 5 to 10 years, with an escalation rate of 5%.

	Other Related Party		
	2018	2017	**Nature, Terms and Conditions**
Statements of Financial Position			
Accounts receivable	**₱1,279,428**	₱2,180,467	This pertains to receivable from China Bank Insurance Brokers (CIBI), a subsidiary of CBC, for unpaid rental.
Accounts payable	**32,303,681**	44,740,361	These are non-interest bearing insurance premiums held on behalf of loan borrowers to be subsequently remitted to CIBI.
Security deposit	**291,347**	291,347	These pertain to rental deposits for office space leased out to CIBI presented under 'Other liabilities' (Note 16).

	Other Related Party			
	2018	2017	2016	**Nature, Terms and Conditions**
Statements of Income				
Income from property rentals	**₱4,391,532**	₱3,806,582	₱3,806,582	Certain units of the condominium owned by the Bank are being leased to CIBI for a term of 5 years, with 10.00% escalation clause.

Outright purchases and outright sale of debt securities of the Bank with CBC are as follows:

	2018	2017	2016
Outright purchase	**₱3,455,943,314**	₱347,588,893	₱1,835,501,100
Outright sale	**–**	430,145,157	756,441,947

As of December 31, 2018, 2017 and 2016, the number of common shares held by the Parent Bank are 105.00 million, 99.63 million and 73.21 million, respectively. The Parent Bank does not hold preferred shares of the Bank in 2018, 2017 and 2016.

Regulatory Reporting

As required by the BSP, the Bank discloses loan transactions with investees and with certain directors, officers, stockholders and related interests (DOSRI). Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the lending company within the Bank. In the aggregate, loans to DOSRI generally should not exceed total equity or 15.00% of total loan portfolio, whichever is lower. BSP Circular No. 423 dated March 15, 2004 amended the definition of DOSRI accounts. The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to said Circular, and new DOSRI loans, other credit accommodations granted under said circular:

	2018	2017
Total outstanding DOSRI accounts*	**₱322,068,035**	₱303,066,462
Total outstanding DOSRI accounts prior to effectivity of BSP Circular No. 423	–	–
Percent of DOSRI accounts to total loans	**0.47%**	0.47%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**2.35%**	5.44%
Percent of nonperforming DOSRI accounts to total DOSRI accounts	–	0.01%

** Includes deposits with CBC*

The amounts of loans disclosed for related parties under PFRS differ with the amounts for DOSRI since the latter is more expansive than that of key management personnel identified for related party transaction reporting under PFRS.

BSP Circular No. 560 provides that the total outstanding loans, other credit accommodation and guarantees to each of the bank's/quasi-bank's subsidiaries and affiliates shall not exceed 10.00% of the net worth of the lending bank/quasi-bank, provided that the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank/quasi-bank; and the subsidiaries and affiliates of the lending bank/quasi-bank are not related interest of any director, officer and/or stockholder of the lending institution, except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as representative of the bank/quasi-bank. As of December 31, 2018 and 2017, the Bank is in compliance with these requirements.

25. Commitments and Contingencies

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

Summary of the Bank's contingencies and commitments follows:

	2018	2017
Credit lines	**₱524,162,035**	₱2,335,446,073
Standby domestic letters of credit	**148,988,582**	212,977,965
Late deposits/payments received	**36,672,003**	11,518,582
Outward bills for collection	**1,924,156**	1,829,009
Trust department accounts (Note 23)	–	235,267,741
Others	**151,625**	260,018
	₱711,898,401	₱2,797,299,388

The Bank has several suits and claims that remain unsettled. It is not practicable to estimate the potential financial statement impact of these contingencies. However, in the opinion of management, the suits and claims, if decided adversely, will not involve sums having a material effect on the financial statements.

26. Financial Performance

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

	2018	2017	2016
Return on average equity (ROE)	**4.24%**	6.19%	3.55%
Return on average asset (ROA)	**0.40%**	0.60%	0.30%
Net interest margin over average earning assets (NIM)	**4.13%**	4.74%	4.87%

27. Notes to Statements of Cash Flows

The following is a summary of non-cash activities:

	2018	2017	2016
Non-cash operating activities			
Recognition of investment properties from foreclosure of real estate mortgage on loans and receivables (Notes 9 and 11)	**₱284,148,134**	₱452,437,284	₱407,444,178
Recognition of NCAHS arising from foreclosure of chattel mortgage on loans and receivables (Note 9)	**575,410,796**	556,689,819	330,621,295
Payment of current tax expense using excess MCIT over RCIT (Note 22)	**–**	(48,367,048)	(61,725,020)
Non-cash investing activities			
Fair value losses on financial assets at FVOCI (Note 7)	**(8,999,107)**	–	–
Fair value gains (losses) on AFS financial assets (Note 7)	**–**	85,284,684	(73,138,076)
Remeasurement losses (gains) on retirement liability (Note 20)	**96,731,834**	(19,294,655)	68,467,785
Reclassification of AFS financial assets to HTM financial assets (Note 7)	**–**	–	708,417,631
Non-cash financing activities			
Application of DFFS to issued shares (Note 18)	**–**	2,635,821,132	3,826,675,040
Utilization of prepaid documentary stamps for additional DFFS	**–**	(12,121,010)	(37,882,818)
Utilization of prepaid documentary stamps for capital infusion	**5,000,000**	–	–

28. Offsetting of Financial Assets and Liabilities

The amendments to PFRS 7 require the Bank to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding table (amounts in thousands).

December 31, 2018						
Financial assets recognized at end of reporting period by type	**Gross carrying amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in statements of financial position [a-b]**	**Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial Instruments**	**Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Fair value of financial collateral**	**Net exposure [c-d]**
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
Financial assets						
SPURA (Note 6)	**₱3,000,000**	**₱–**	**₱–**	**₱3,000,000**	**₱3,000,000**	**₱–**

December 31, 2017						
Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial Instruments	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
Financial assets						
SPURA (Note 6)	₱1,404,323	₱–	₱–	₱1,404,323	₱1,404,323	₱–

The amounts disclosed in column (d) include those rights to set-off amounts that are only enforceable and exercisable in the event of default, insolvency or bankruptcy. This includes amounts related to financial collateral both received and pledged, whether cash or non-cash collateral, excluding the extent of over-collateralization.

29. Business Combination

In accordance with PIC Q&A 2012-01, the Bank elected to use the ‘pooling of interest’ method in accounting for its merger with PDB and Unity Bank in 2015 and 2014, respectively.

Merger with PDB
On June 26, 2014, the BOD approved the merger of the Bank with PDB. The terms of the Plan and Articles of Merger were approved by the Bank’s stockholders in their meeting held on August 14, 2014 with the Bank as the surviving entity.

On June 25, 2015, the MB, in its Resolution Nos. 789 and 1559, approved the Plan and Articles of Merger of the Bank and PDB subject to certain conditions. On December 17, 2015, the Bank obtained approval from the SEC for the merger to be effective. The actual merger took place on December 31, 2015. As of the effective date of merger, all common and preferred shares of PDB have been converted into fully paid China Bank Savings common shares totaling to 16,501,093 shares. The Bank recognized ‘Other equity reserves’ amounting to ₱1.94 billion as a result of the merger with PDB.

Merger with Unity Bank
On June 6, 2013, the BOD approved the merger of the Bank with Unity Bank. The terms of the Plan of Merger were approved by the Bank's stockholders in their meeting held on July 18, 2013 with the Bank as the surviving entity.

On November 22, 2013, the MB, in its Resolution No. 1949, approved the Plan of Merger and Articles of Merger of the Bank and Unity Bank subject to certain conditions. On January 20, 2014, the Bank obtained approval from the SEC for the merger to be effective. Under the approved plan of merger, all the issued and outstanding common stocks of Unity Bank ("Unity shares"), as well as shares that have been subscribed but have not been issued or covered by Stock Purchase Agreement, shall be convertible into fully-paid and non-assessable common stock of CBS at the approximate ratio of 1.144 Unity Bank common shares for every CBS common share (the "Exchange Ratio"). The actual merger took place on January 31, 2014. The Bank issued 5,173,881 common shares and recognized 'Other equity reserves' amounting to ₱303.96 million as a result of the merger with Unity Bank.

30. Approval of the Release of Financial Statements

The accompanying financial statements were authorized for issue by the Bank's BOD on March 21, 2019.

31. Supplementary Information Required Under Revenue Regulations 15-2010

In compliance with the requirements set forth by Revenue Regulations 15-2010, hereunder are the details of percentage and other taxes paid or accrued by the Bank in 2018.

<u>Taxes and Licenses</u>

Gross receipts tax	₱228,372,639
Local taxes	22,959,396
Others	4,900,503
	₱256,232,538

<u>Withholding Taxes</u>
Details of total remittances of withholding taxes in 2018 and amounts outstanding as of December 31, 2018 are as follows:

	Total Remittances	Amounts Outstanding
Final withholding taxes	₱279,167,040	₱35,999,305
Withholding taxes on compensation and benefits	101,359,059	7,482,768
Expanded withholding taxes	49,003,254	4,989,980
	₱429,529,353	₱48,472,053

<u>Tax Cases and Assessments</u>
As of December 31, 2018, there are no outstanding deficiency tax assessment and tax cases under investigation, litigation nor prosecution in courts or bodies outside the BIR.

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
China Bank Savings, Inc.
CBS Building, 314 Sen. Gil Puyat Avenue
Makati City

We have audited the financial statements of China Bank Savings, Inc. (the Bank), a majority-owned subsidiary of China Banking Corporation as at and for the year ended December 31, 2018, on which we have rendered the attached report, dated March 21, 2019.

In compliance with Securities Regulation Code Rule 68, we are stating that the Bank has a total of four hundred seventeen (417) stockholders owning one hundred (100) or more shares each.

SYCIP GORRES VELAYO & CO.

Ray Francis C. Balagtas

Ray Francis C. Balagtas
Partner
CPA Certificate No. 108795
SEC Accreditation No. 1510-AR-1 (Group A),
September 18, 2018, valid until September 17, 2021
Tax Identification No. 216-950-288
BIR Accreditation No. 08-001998-107-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 7332523, January 3, 2019, Makati City

March 21, 2019

CHINA BANK SAVINGS, INC.
INDEX TO THE FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2018

Schedules Required under Securities Regulation Code Rule 68

CHINA BANK SAVINGS, INC.
SCHEDULE II
LIST OF PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRS)
EFFECTIVE AS OF DECEMBER 31, 2018

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		**Adopted**	**Not Adopted**	**Not Applicable**
Philippine Financial Reporting Standards				
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards	✓		
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	Amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
PFRS 8	Operating Segments			✓
PFRS 9	Financial Instruments	✓		
PFRS 10	Consolidated Financial Statements	✓		
PFRS 11	Joint Arrangements			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
Philippine Accounting Standards				
PAS 1	Presentation of Financial Statements	✓		
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 12	Income Taxes	✓		
PAS 16	Property, Plant and Equipment	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 17	Leases	✓		
PAS 19	Employee Benefits	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
PAS 23	Borrowing Costs			✓
PAS 24	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Separate Financial Statements			✓
PAS 28	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
PAS 33	Earnings per Share			✓
PAS 34	Interim Financial Reporting			✓
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
PAS 40	Investment Property	✓		
	Amendments to PAS 40, Transfers of Investment Property	✓		
PAS 41	Agriculture			✓
Philippine Interpretations				
Philippine Interpretation IFRIC-1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Interpretation IFRIC-2	Members’ Shares in Co-operative Entities and Similar Instruments			✓
Philippine Interpretation IFRIC-4	Determining whether an Arrangement contains a Lease	✓		
Philippine Interpretation IFRIC-5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
Philippine Interpretation IFRIC-6	Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment			✓
Philippine Interpretation IFRIC-7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
Philippine Interpretation IFRIC-10	Interim Financial Reporting and Impairment			✓
Philippine Interpretation IFRIC-12	Service Concession Arrangements			✓
Philippine Interpretation IFRIC-14	PAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
Philippine Interpretation IFRIC-16	Hedges of a Net Investment in a Foreign Operation			✓
Philippine Interpretation IFRIC-17	Distributions of Non-cash Assets to Owners			✓
Philippine Interpretation IFRIC-19	Extinguishing Financial Liabilities with Equity Instruments			✓
Philippine Interpretation IFRIC-20	Stripping Costs in the Production Phase of a Surface Mine			✓
Philippine Interpretation IFRIC-21	Levies			✓
Philippine Interpretation IFRIC-22	Foreign Currency Transactions and Advance Consideration			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		**Adopted**	**Not Adopted**	**Not Applicable**
Philippine Interpretation SIC-7	Introduction of the Euro			✓
Philippine Interpretation SIC-10	Government Assistance—No Specific Relation to Operating Activities			✓
Philippine Interpretation SIC-15	Operating Leases—Incentives			✓
Philippine Interpretation SIC-25	Income Taxes—Changes in the Tax Status of an Entity or its Shareholders			✓
Philippine Interpretation SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
Philippine Interpretation SIC-29	Service Concession Arrangements: Disclosures			✓
Philippine Interpretation SIC-32	Intangible Assets—Web Site Costs			✓

CHINA BANK SAVINGS, INC.
Schedule A – Financial Assets
December 31, 2018

Name of issuing entity and association of each issue (i)	Number of shares or principal amount of bonds or notes	Amount shown in the Balance Sheet (ii)	Valued based on market quotation at end of reporting period (iii)	Income received and accrued
Financial assets at fair value through other comprehensive income				
Government bonds	₱1,006,683,860	₱1,053,071,928	₱1,053,004,955	
Unquoted securities	32,103,033 shares	28,792,519	–	
		₱1,081,864,447	₱1,053,004,955	₱33,839,212
Investment securities at amortized cost				
Government bonds	₱6,756,380,640	₱7,193,439,895	₱6,975,887,319	
Private debt securities	1,521,350,000	1,519,383,036	1,374,870,799	
		₱8,712,822,931	₱9,403,763,073	₱248,255,449

CHINA BANK SAVINGS, INC.
Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
December 31, 2018

Name of Debtor	Balance at beginning of period	Additions	Amounts Collected	Amounts Written-off	Current	Non- Current	Balance at end of period

None to report.

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

CHINA BANK SAVINGS, INC.
Schedule C – Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements
December 31, 2018

Name of Debtor	Balance at beginning of period	Additions	Amounts Collected (i)	Amounts Written-off (ii)	Current	Non-Current	Balance at end of period

None to Report.

(i) If collected was other than in cash, explain.
(ii) Give reasons to write-off.

CHINA BANK SAVINGS, INC.
Schedule D – Intangible Assets – Other Assets
December 31, 2018

Description [i]	Beginning Balance	Additions at Cost [ii]	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions) [iii]	Ending Balance
Branch Licenses	₱74,480,000	₱–	₱–	₱–	₱–	₱74,480,000
Software	73,437,992	5,857,179	15,962,004	–	–	63,333,167

(i) The information required shall be grouped into (a) intangibles shown under the caption intangible assets and (b) deferrals shown under the caption Other Assets in the related balance sheet. Show by major classifications.
(ii) For each change representing other than an acquisition, clearly state the nature of the change and the other accounts affected. Describe cost of additions representing other than cash expenditures.
(iii) If provision for amortization of intangible assets is credited in the books directly to the intangible asset account, the amounts shall be stated with explanations, including the accounts charged. Clearly state the nature of deductions if these represent anything other than regular amortization.

CHINA BANK SAVINGS, INC.
Schedule E - Long-Term Debt
December 31, 2018

Title of issue and type of obligation [i]	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt' in related balance sheet [ii]	Amount shown under caption "Long-Term Debt" in related balance sheet [iii]	Interest Rate %	Maturity Date

None to Report.

(i) Include in this column each type of obligation authorized.
(ii) This column is to be totaled to correspond to the related balance sheet caption.
(iii) Include in this column details as to interest rates, amounts or numbers of periodic instalments, and maturity dates.

CHINA BANK SAVINGS, INC.
Schedule F - Indebtedness to Related Parties
(Long Term Loans from Related Companies)
December 31, 2018

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

None to Report.

(i) The related parties named shall be grouped as in Schedule C. The information called for shall be stated for any persons whose investments shown separately in such related schedule.
(ii) For each affiliate named in the first column, explain in a note hereto the nature and purpose of any material increase during the period that is in excess of 10 percent of the related balance at either the beginning or end of the period.

CHINA BANK SAVINGS, INC.
Schedule G - Guarantees of Securities of Other Issuers
December 31, 2018

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

None to Report.

(i) Indicate in a note any significant changes since the date of the last balance sheet file. If this schedule is filed in support of consolidated financial statements, there shall be set forth guarantees by any person included in the consolidation except such guarantees of securities which are included in the consolidated balance sheet.
(ii) There must be a brief statement of the nature of the guarantee, such as "Guarantee of principal and interest", "Guarantee of Interest", or "Guarantee of Dividends". If the guarantee is of interest, dividends, or both, state the annual aggregate amount of interest or dividends so guaranteed.

CHINA BANK SAVINGS, INC.
Schedule H - Capital Stock
December 31, 2018

Title of Issue (i)	Number of shares authorized	Number of shares issued and outstanding as shown under the related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties (ii)	Directors, officers and employees	Others (iii)
Common stock - ₱100 par value	134,000,000 shares	105,414,149	–	104,995,882	24	418,243
Preferred stock - ₱100 par value	6,000,000 shares	21,642	–	–	–	21,642

(i) Include in this column each type of issue authorized
(ii) Related parties referred to include persons for which separate financial statements are filed and those included in the consolidated financial statements, other than the issuer of the particular security.
(iii) Indicate in a note any significant changes since the date of the last balance sheet filed

CHINA BANK SAVINGS, INC.
Schedule I - Financial Soundness Indicators
December 31, 2018

	2018	2017
PROFITABILITY (%)		
Return on Assets[1]	**0.40**	0.60
Return on Equity[2]	**4.24**	6.19
Net Interest Margin[3]	**4.13**	4.74
Cost to Income Ratio	**95.53**	93.51
LIQUIDITY (%)		
Liquid Assets to Total Assets	**24.37**	19.95
Loans (net) to Deposit Ratio	**76.99**	82.61
ASSET QUALITY (%)		
Gross Non-Performing Loans Ratio[4]	**5.24**	6.09
Non-performing Loan (NPL) Cover[5]	**71.46**	59.55
SOLVENCY RATIOS		
Debt to Equity Ratio	**9.54**	9.42
Asset to Equity Ratio	**10.54**	10.42
Interest Rate Coverage Ratio[6]	**1.09**	1.19
CAPITALIZATION (%)		
Capital Adequacy Ratio		
CET 1 / Tier 1	**10.41**	10.46
Total CAR	**11.34**	11.43

[1] Net income divided by average total assets for the period indicated.

[2] Net income divided by average total equity for the period indicated.

[3] Net interest income divided by average interest-earning assets. Interest-earning assets include due from other banks, due from BSP, securities purchased under resale agreement, financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment securities at amortized cost and loans and receivables.

[4] Total NPLs divided by loans and receivables, net of unearned discount and gross of allowance for credit and impairment losses.

[5] Total allowance for impairment and credit losses on receivables from customers divided by total NPLs.

[6] Net Income before Tax and Interest Expense divided by Interest Expense

China Bank Savings
A subsidiary of China Banking Corporation

CBS Building, 314 Sen. Gil Puyat Avenue, Makati City

www.cbs.com.ph

cbschinabanksavings