ANNUAL REPORT 2016

Dumaguete Bank

Dumaguete City Development Bank, Inc.

"Your responsible partner for growth"

TABLE OF CONTENTS

OUR VISION

DCDB is committed to become the leading development bank in the Visayas-Mindanao Region. We support the Philippine Countryside Development Program; our bank strives to be known as the "RESPONSIBLE PARTNER FOR GROWTH" amongst the local business community. DCDB Bank is dedicated to the pursuit of excellence. DCDB strives, NOT MERELY TO SURVIVE, BUT TO THRIVE.

OUR MISSION

To our OFFICERS and STAFF, a commitment to provide opportunities for self-actualization; continuous personal and professional development.

To our SHAREHOLDERS, a commensurate return on investment.

To our CLIENTS, a commitment to provide the highest standard of public trust; to provide quality and reliable service with a heart and smile; and to offer competitive and attractive interest rates.

To the LOCAL COMMUNITY, to be a responsible partner in the countryside economic growth and development, particularly in the Visayas-Mindanao Region.

OUR PHILOSOPHY

Dedicated to our service to God, our families and the business community.

Customer-oriented; prioritizing client satisfaction at all times.

Dependable and Dynamic; willing and unselfishly sharing our time, talent and effort for the advancement of the banking industry.

Business partner of the Filipino community; helping the Filipino entrepreneur achieve growth and stability.

THE PRESIDENT'S MESSAGE

Breaking Barriers

Competition from many institutions like ours continues to increase. To move ahead, or to remain competitive, it is vital that we recognize the landscape of our industry as it is today. This will enable us to view not only our own strengths and limitations but those of our competition. It will facilitate our ability to discover what new opportunities, possibilities and hazards that might lie ahead. Doing so effectively can give us an advantage over those we are in competition with. While we navigate the routes our business requires of us, we must always search for and recognize what new or infrequently traveled avenues are available to explore and exploit ahead of others.

Searching for new avenues of opportunity is a daunting task made even more challenging because other banks and financial institutions continue to do likewise. It is fair to say that coming up with a new and viable product or service is not an assurance that this innovation is exclusively ours. Others may come up with similar and even better offerings. Our efforts to improve the quality of our services are mirrored by these institutions. The initiatives which we put forth and how we react to our changing financial environment could very well determine being a step behind or being in step with others in our industry. This is the nature of our business.

Let us bear in mind that to be a step ahead, we must be able to respond quickly to offer *solutions* to our customers' needs. All the institutions in our industry offer comparable services. It may be in our approach to formulating and delivering these services which will ultimately set us apart, and in our ability to break any barriers preventing us from exploring new opportunities and the means of delivering these *solutions* to our customers, and realizing substantial gains from these efforts.

JULIO O. SY, SR.
President & Chairman of the Board

FINANCIAL HIGHLIGHTS

(Amounts in thousand pesos)

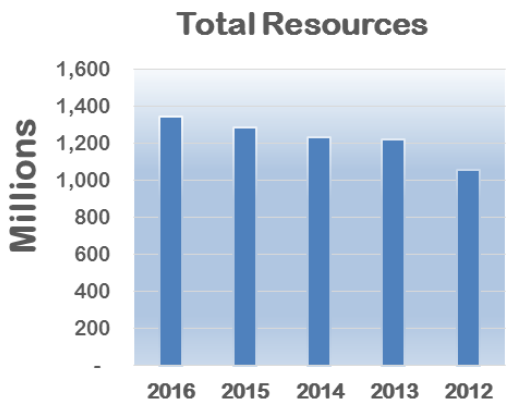
FOR THE YEAR	2016	2015	2014	2013	2012
Total Earnings	88,961	82,410	88,204	90,214	86,964
Total Expenses	72,560	68,153	73,936	70,587	71,840
Net Earnings	16,401	14,257	14,268	19,627	15,124
Earnings per Share	15.62	13.58	13.59	18.69	14.41

FOR THE YEAR	2016	2015	2014	2013	2012
Total Resources	1,344,299	1,289,597	1,236,617	1,224,628	1,059,567
Total Loan Portfolio - net	571,655	509,500	489,982	491,122	469,888
FA At Fair Value Through Profit of Loss	6,593	6,498	6,428	6,377	6,045
Available-for-Sale Securities	176,016	204,440	213,313	187,050	37,132
Held-To-Maturity Investments	52,068	52,540	44,741	44,219	71,095
ROPA-Investment Property/NCAHFS	29,392	30,415	27,224	36,291	29,542
Deposit Liabilities	1,071,139	1,029,058	984,160	993,977	831,802
Bills Payable	-	-	-	-	150
Capital Funds	262,749	250,565	243,164	218,387	214,067

FINANCIAL ANALYSIS

BALANCE SHEET

The Bank closed the year with total resources of P1.344 billion, a growth of 4.24percent from last year. Loans and receivables, net of allowance for credit losses, increased by 12.19 percent despite the tight competition with other banks. With the Bank's collective effort to improve credit quality, non-performing loan ratio was posted at 3.66 percent from 7.80 percent last year.



Investment securities consist of financial assets at fair value through profit or loss, held to maturity and available for sale securities declined by 10.93 percent.

Total liabilities at year-end increased by P42.517 million or 4.09percent. The growth was mainly driven by the increase on Deposit Liabilities.

Total capital funds or net worth ended the year at P262.749 million, up by 4.86 percent compared to the 2014 balance of P250.564 million. The Bank's total regulatory capital as a percentage of total risk-weighted assets as reported to Bangko Sentral ng Pilipinas as of December 31, 2016 and 2015 are shown in the table below (in millions):

	2016	2015
Tier 1 capital	**259.660**	242.411
Tier 2 capital	**3.665**	3.665
Total qualifying capital	**263.325**	246.076
Credit risk-weighted assets	**938.997**	874.097
Operational risk-weighted assets	**87.236**	86.539
Risk weighted-assets	**1,026.233**	960.635
Tier 1 capital ratio	**25.30%**	25.23%
Total capital ratio	**25.66%**	25.62%

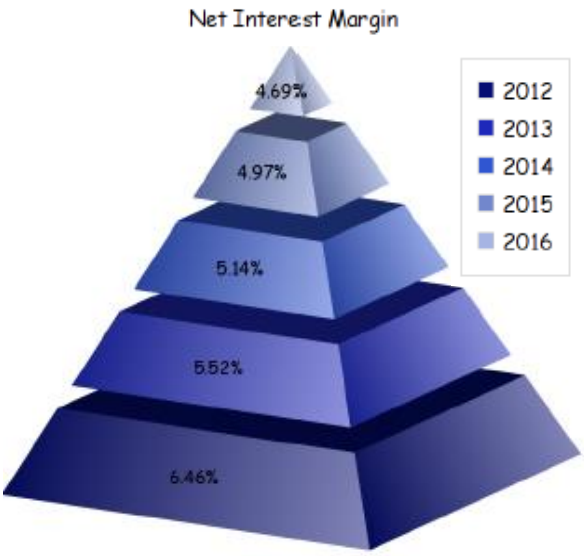
The regulatory qualifying capital of the Bank consists of Tier 1 (core) capital, which includes paid-up common stock, additional paid-in capital, retained earnings and undivided profits

less the required deduction–deferred income tax. The other component of the regulatory capital is Tier 2 (supplementary) capital, which is composed of the general loan loss provision. The components of Tier 1 capital and deductions are shown below (in millions):

	2016	2015
Tier 1 capital		
Paid-up common stock	**104.994**	104.994
Additional paid-in capital	**2.789**	2.789
Retained Earnings	**143.357**	129.051
Undivided profits	**21.171**	13.837
Sub-total	**272.311**	250.671
Deductions:		
Deferred Income Tax	**12.611**	8.183
Unsecured Credit Accommodations (DOSRI)	**0.040**	0.077
Total Tier 1 capital	**259.660**	242.411

INCOME STATEMENT

The year 2016 ended with a net profit of P16.401 million or an increase of 15.03 percent.



Interest income consist of income from loans and receivables, investment securities and deposits with other banks increased by 1.35 percent. Other income increased by 43.82 percent. The increase was mainly attributable to the gain on sale of available for sale financial assets. On the other hand, interest expense decreased by 11.12 percent relative to the decline on high cost deposits and reduction of interest rates.

Operating costs for the year increased by 6.40 percent consisting mainly on the increase of the following: compensation and employee benefits by 2.47 percent, taxes and licenses by 11.31 percent and other administrative expense by 14.63 percent.

Return on Average Capital Funds and Return on Average Assets registered at 6.39 percent and 1.25 percent respectively.

CORPORATE GOVERNANCE

Sound and effective corporate governance is the cornerstone of an institution's strength and long-term existence. DCDB subscribes to a philosophy of adhering to honesty, integrity, and professionalism in the conduct of its business, exercising prudence in arriving at decisions, enforcing internal discipline and a system of checks and balances in its operating processes, and providing transparency to its various publics regarding basic management policies and practices, major business strategies and decisions, and its operating results.

BOARD OF DIRECTORS

The Board of Directors (the Board) bears the primary responsibility for creating and enhancing the long-term franchise value of DCDB and ensuring that this objective is achieved in all its business activities. It must ensure the Bank's ability to satisfy the needs of its customers and uphold its reputation in order to maintain its long-term success and viability as a business entity. Its mandate consists of setting the strategic business directions of the Bank, appointing its senior executive officers, confirming its organizational structure, approving all major strategies and policies, overseeing all major risk-taking activities, monitoring the financial results, measuring and rewarding the performance of management, and generating a reasonable investment return to shareholders. It shall also provide an independent check on management.

BOARD COMPOSITION

The Board is composed of eleven members who shall be elected by the Bank's stockholders entitled to vote at the annual meeting, and shall hold office for one year and until their successors are elected and qualified in accordance with the By-Laws of the corporation.

As a financial institution, DCDB shall conform to the guidelines of the *Bangko Sentral ng Pilipinas* (BSP) regarding the qualifications of directors and the minimum number of independent directors, i.e., at least twenty percent (20%) but not less than two members of the Board of Directors shall be independent directors, provided that any fractional result from applying the required minimum proportion, shall be rounded-up to the nearest whole number. DCDB therefore shall have at least three independent directors and they shall be identified in the Annual Report.

Board of Directors

Julio O. Sy Sr.
Chairman/President,
Board of Directors

Gregorio L. Uymatiao Jr.
Vice *Chairman,Board of Directors*
Chairman, Executive Committee
Chairman, Assets and Liabilities Committee
Member, Nomination Committee

Gilbert Paul L. Uymatiao
Treasurer,*Board of Directors*
Member, Corporate Governance Committee
Member, Risk Oversight Committee
Member, Personnel Committee
Member, Information Technology Committee

Nicolas S. Ramas-Uypitching
Director
Chairman, Nomination Committee
Vice Chairman, Executive Committee
Member, Personnel Committee

Danford S. Sy
Director
Chairman, Risk Oversight Committee
Chairman, Personnel Committee
Chairman, Information Technology Committee
Member, Corporate Governance Committee

Susano O. Sy
Director
Alternate Member, Executive Committee

Edward Y.R. Sung
Director
Member, Executive Committee
Member, Assets and Liabilities Committee
Member, Risk Oversight Committee
Member, Information Technology Committee

Rodrigo G. Diaz
Independent Director
Chairman, Corporate Governance Committee
Member, Assets and Liabilities Committee
Member, Audit and Examination Committee
Member, Risk Oversight Committee
Member, Nomination Committee
Member, Information Technology Committee

Ruben D. Almendras
Director
Member, Corporate Governance Committee

Maria Lorna T. Labitan
Independent Director
Member, Audit & Examination Committee

Julie S. Tan
Independent Director
Chairman, Audit and Examination Committee
Member, Corporate Governance Committee

ADVISERS AND SENIOR MANAGEMENT

Alvin Y. Tan Unjo
Adviser

Christopher A. Bell - Knight
Adviser

Edgar L. Calinawagan
Executive Vice-President

Dolores C. Tan
Assistant Vice-President

Tertuliano B. Pacaña
Vice-President/Chief Compliance Officer

BOARD COMMITTEES

EXECUTIVE COMMITTEE

The Board shall appoint from its members an Executive Committee which shall in the interim between meetings of the Board of Directors, possess and exercise the delegated powers of the Board in the management and direction of the affairs of DCDB subject to the provisions of the DCDB By-Laws and the limitations prescribed by law. The Executive Committee shall be composed of not less than three (3) members of the Board. It may approve all major policies and oversees all major risk-taking activities on a more detailed basis. The Executive Committee functions as the Board's committee for the approval of all major credit risks and is changed with certain levels of approving and signing authorities for credit operations as reflected in its charter.

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee (CGC) shall assist the Board of Directors in fulfilling its corporate governance responsibilities. Among others, it shall ensure good governance of DCDB by establishing strategic objectives, policies and procedures that will guide and direct the activities of the Bank and the means to attain the same as well as the mechanism for monitoring management's performance. Furthermore, 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 composed of at least three (3) members of the Board of Directors, two (2) of whom shall be independent directors, including the chairperson. The Corporate Governance Committee shall meet *once every quarter* each year or more frequently as circumstances dictate.

AUDIT COMMITTEE

The audit committee is an advisory committee to assist and act on behalf of the Board of Directors of DCDB and provides oversight of the Bank's financial reporting and control and internal and external audit functions. It shall be responsible for the setting up of the internal audit department and for the appointment of the internal auditor as well as the independent external auditor who shall both report directly to the audit committee. It shall monitor and evaluate the adequacy and effectiveness of the internal control system.

The function also includes coordination with other Board committees and maintenance of strong, positive working relationships with management, external and internal auditors, counsel and other committee advisors.

The audit committee shall be composed of members of the Board of Directors, at least two (2) of whom shall be independent directors, including the chairman, preferably with accounting, auditing, or related financial management expertise or experience. Aside from the directors, the Head of the Bank's Internal Audit Unit shall also be a member of the committee.

With the setting up of an Audit Committee, the Board of Directors shall come up with a written charter on terms of reference which clearly sets out the Audit Committee's authority and duties, as well as the reporting relationship with the Board of Directors. Per BSP's regulation, this charter shall be approved by the Board of Directors and reviewed and updated periodically.

RISK OVERSIGHT COMMITTEE

The Risk Oversight Committee (ROC) shall assist the Board in the effective discharge of its responsibilities for risk management and internal controls. It shall be responsible for the development and oversight of the Bank's risk management program. It shall oversee the system of limits to discretionary authority that the Board delegates to management, ensure that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached.

The Risk Oversight Committee, shall, where appropriate, have access to external expert advice, particularly in relation to proposed strategic transactions, such as mergers and acquisitions.

The committee shall be composed of at least three (3) members of the Board of Directors including at least one (1) independent director, and a chairperson who is a non-executive member. The members of the Risk Oversight Committee shall possess a range of expertise as well as adequate knowledge of the Bank's risk exposures to be able to develop appropriate strategies for preventing losses and minimizing the impact of losses when they occur.

The Risk Oversight Committee shall meet at least once a month or more frequently as the need arises to discuss matters under their scope of responsibilities.

The core responsibilities of the committee are enumerated below:

1. ***Identify and evaluate exposures***. The committee shall assess the probability of each risk becoming a reality and shall estimate its possible effect and cost. Priority areas of concern are those risks that are the most likely to occur and are costly when they happen.
2. ***Develop risk management strategies***. The risk oversight committee shall develop a written "*Risk Management Plan*" which defines the strategies for managing and controlling the

major risks. It shall identify practical strategies to reduce the chance of harm and failure, or minimize losses if the risk becomes real.

3. ***Oversee the implementation of the risk management plan***. The committee shall conduct regular discussions on the institution's current risk exposure based on regular management reports and assess how the concerned units or offices reduced these risks.
4. ***Review and revise the plan as needed***. The committee shall evaluate the risk management plan to ensure its continued relevance, comprehensiveness and effectiveness. It shall revisit strategies, look for emerging or changing exposures, and stay abreast of developments that affect the likelihood of harm or loss. The committee shall report regularly to the Board of Directors the Bank's overall risk exposure, actions taken to reduce the risks, and recommend further action or plans as necessary.

The following are the list of risks that are tackled by the Risk Oversight Committee in its monthly meeting. Monthly meetings involve identification of risks, assessment of risks and the responses and strategies that will be employed by the Bank to mitigate or reduce the impact of risks to the Bank.

Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from loans and advances to customers and other banks' investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Liquidity Risk

Liquidity risk is the risk that the Bank will not be able to meet its obligations on its financial liabilities as they become due at a reasonable cost.

Market Risk

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

Operational Risk

Operational risk is a risk that may arise as a result of weaknesses in organizational structure, poor oversight function of the Board of Directors and senior management, defective personnel recruitments/selection criteria, weak internal control system, inadequate internal and external auditor coverage, and deficient management information system.

Technology Risk

Technology risk is any risk relating to information technology operations. It can also be defined as the potential that a given threat relating to technology will exploit vulnerabilities of an asset or group of assets and thereby cause harm to the organization.

Compliance Risk

Compliance risk is a risk a company faces for failing to adhere to laws, regulations, prescribed practices, internal policies, and procedures or ethical standards.

(For a complete discussion and quantitative information, please refer to Note 4 (Risk Management Objectives and Policies) of the Notes to Financial Statement.)

ASSETS & LIABILITIES COMMITTEE

The Bank's Assets & Liabilities Committee (ALCO) ensures compliance with sound written policies of the Bank regarding its assets and liabilities. The committee should adopt written policies on all major business activities, related to investments, loans, asset and liability management especially its acquisitions and disposal, business planning and budgeting. A mechanism to ensure compliance with said policies shall also be provided.

The committee shall also prescribe a clear assignment of responsibilities and decision-making authorities, incorporating a hierarchy of required approvals from individuals reporting to this committee. Written limits of the discretionary powers of each officer, sub-committees and such other groups created under this committee should be established by the Board for the purpose of lending, investing or committing the Bank to any financial undertaking or exposure to risks at any time.

The committee must have major authority in supervising and controlling major capital expenditures especially in the acquisition and disposal of its assets and in making equity investment and their divestment and to see to it that these decisions are carried to the Board for its confirmation through resolutions adopting it.

INFORMATION TECHNOLOGY COMMITTEE

The Information Technology Committee is formed for the purpose of overseeing, on behalf of the Board of Directors, the operations and technology processes, practices and result for the Bank. The committee monitors the operational aspects of the Bank that includes its business process and operations, information technology, management information system, project prioritization, its management and execution within the Bank. The committee promotes effective processes and practices for these functions and improvement thereto. The committee takes its authority from the Board of Directors to take any action on behalf of the

Board as described in this charter or as otherwise delegated by the Board, except as otherwise specifically reserved by law, by regulations, or the By-Laws for actions solely by the full Board.

NOMINATIONS COMMITTEE

The Nominations Committee shall be composed of at least three (3) members of the Board, one of whom shall be an independent director. The committee shall have the following functions:

1) Install and maintain a process to ensure that all directors to be nominated for election at the next Annual General Stockholders Meeting have the qualifications and none of the disqualifications stated above;
2) Encourage the selection of a mix of competent directors, each of whom can add value and create independent judgment as to the formulation of sound corporate strategies and policies;
3) Review and evaluate the qualifications of all persons nominated to positions in the Corporation which require appointments by the Board.

PERSONNEL COMMITTEE

The Personnel Committee provides oversight on the remuneration of senior management, other key personnel and the rank and file, ensuring that compensation is consistent with the Bank's strategy, its culture and its working environment. It also oversees conflicts that may arise between and among its employees, senior management and key personnel included.

The Personnel Committee shall be composed of at least five (5) members, three (3) of which shall be members of the Board of Directors.

The committee's duties and responsibilities are meant to establish a transparent procedure for developing a policy on executive remuneration; fixing the remuneration packages of all Bank personnel and provide oversight over remuneration and benefits of all Bank personnel, and to ensure that compensation is consistent with the interest of all stakeholders and the Bank's policies, culture, strategy and its working environment.

REPORT OF INDEPENDENT AUDITORS

Punongbayan & Araullo

The Board of Directors and Stockholders
Dumaguete City Development Bank, Inc.
Dr. V. Locsin corner Cervantes Streets, Dumaguete City

Report on the Financial Statements

We have audited the accompanying financial statements of Dumaguete City Development Bank, Inc., which comprise the statements of financial position as at December 31, 2016and 2015 and the statements of profit or loss, statements of comprehensive income, statements of changes in capital funds and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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

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

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

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

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

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 PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 as of 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 planes scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2016 required by the Bureau of Internal Revenue as disclosed in Note 32 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of the management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: **Sheryl G. Lovido**
Partner

CPA Reg. No. 0108392
TIN 221-750-103
PTR No. 5908632, January 3, 2017, Makati City
SEC Group A Accreditation
Partner – No. 1154-A (until April 14, 2019)
Firm – No. 002-FR-4 (until April 30, 2018)
BIR AN 08-002511-36-2015 (until Nov. 1, 2018)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until December 31, 2018)

March 18, 2017

DUMAGUETE CITY DEVELOPMENT BANK, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015
(Amounts in Philippine Pesos)

	Notes	2016	2015
R E S O U R C E S			
CASH AND OTHER CASH ITEMS	8	**P 17,741,171**	P 13,424,168
DUE FROM BANGKO SENTRAL NG PILIPINAS	8, 9	**103,348,339**	110,116,421
DUE FROM OTHER BANKS	8, 10	**331,331,064**	305,879,688
INVESTMENT SECURITIES			
At fair value through profit or loss	11	**6,593,023**	6,498,317
Held-to-maturity investments	12	**52,067,833**	52,540,264
Available-for-sale financial assets	13	**176,015,935**	204,440,023
LOANS AND OTHER RECEIVABLES - Net	14	**571,655,173**	509,500,013
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	15	**34,354,343**	36,325,876
NON-CURRENT ASSETS HELD-FOR-SALE	16	**32,595**	243,945
INVESTMENT PROPERTIES - Net	17	**29,359,498**	30,171,114
DEFERRED TAX ASSETS - Net	27	**13,343,648**	12,611,032
EQUITY INVESTMENT IN AN ASSOCIATE	18	**2,867,660**	2,835,932
OTHER RESOURCES - Net	19	**5,589,205**	5,010,964
TOTAL RESOURCES		**P 1,344,299,487**	P 1,289,597,757
LIABILITIES AND CAPITAL FUNDS			
DEPOSIT LIABILITIES	21	**P 1,071,138,656**	P 1,029,058,060
INCOME TAX PAYABLE		**2,101,114**	780,606
OTHER LIABILITIES	22	**8,310,683**	9,194,581
		1,081,550,453	1,039,033,247
CAPITAL FUNDS	23	**262,749,034**	250,564,510
TOTAL LIABILITIES AND CAPITAL FUNDS		**P 1,344,299,487**	P 1,289,597,757

See Notes to Financial Statements.

DUMAGUETE CITY DEVELOPMENT BANK, INC.
STATEMENTS OF PROFIT OR LOSS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Amounts in Philippine Pesos)

	Notes	2016	2015
INTEREST INCOME			
Loans and other receivables	14	**P 56,050,386**	P 53,705,520
Investment securities	12, 13	**9,010,640**	12,326,907
Due from other banks	10	**5,492,968**	3,578,656
		70,553,994	69,611,083
INTEREST EXPENSE			
Deposit liabilities	21	**14,926,780**	16,794,362
NET INTEREST INCOME		**55,627,214**	52,816,721
OTHER INCOME			
Service charges, fees and commission	2	**5,718,200**	4,404,215
Gain on sale of available-for-sale financial assets	13	**4,710,981**	-
Gain on sale of non-financial assets	16, 17	**3,654,101**	4,454,403
Rent	17, 31	**2,292,339**	2,319,350
Recovery on charged-off assets		**479,999**	401,500
Fair value gains on financial assets at fair value through profit or loss - net	11	**94,706**	70,191
Equity in net earnings of an associate	18	**31,728**	84,748
Miscellaneous income	24	**1,425,000**	1,064,492
		18,407,054	12,798,899
OTHER EXPENSES			
Compensation and employee benefits	26	**18,390,847**	17,948,324
Taxes and licenses	32	**6,823,841**	6,130,340
Depreciation and amortization	15, 17, 19	**3,951,741**	4,786,925
Other administrative expenses	25	**21,509,342**	18,763,389
		50,675,771	47,628,978
PROFIT BEFORE TAX		**23,358,497**	17,986,642
TAX EXPENSE	27	**6,957,419**	3,728,977
NET PROFIT		**P 16,401,078**	P 14,257,665
BASIC AND DILUTED EARNINGS PER SHARE	29	**P 15.62**	P 13.58

See Notes to Financial Statements.

DUMAGUETE CITY DEVELOPMENT BANK, INC.
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2016
(Amounts in Philippine Pesos)

	Notes	2016	2015
NET PROFIT		**P 16,401,078**	P 14,257,665
OTHER COMPREHENSIVE LOSS			
Items that will be reclassified to profit or loss:			
Fair valuation of available-for-sale (AFS) financial assets			
Fair value loss during the year - net	13	**(3,207,043)**	(8,872,874)
Fair value gains on disposed of AFS financial assets reclassifed to profit or loss	13	**(2,040,209)**	-
Tax income	27	**1,574,176**	2,661,862
		(3,673,076)	(6,211,012)
Items that will not be reclassified to profit or loss:			
Loss on remeasurements of post-employment defined benefit obligation	26	**(776,397)**	(923,162)
Tax income	27	**232,919**	276,949
		(543,478)	(646,213)
Other Comprehensive Loss - net of tax		**(4,216,554)**	(6,857,225)
TOTAL COMPREHENSIVE INCOME		**P 12,184,524**	P 7,400,440

See Notes to Financial Statements.

DUMAGUETE CITY DEVELOPMENT BANK, INC.
STATEMENTS OF CHANGES IN CAPITAL FUNDS
DECEMBER 31, 2016 AND 2015
(Amounts in Philippine Pesos)

	Note	Capital Stock	Additional Pain-in Capital	Revaluation Reserves	Retained Earnings			Capital Funds
					Appropriated	Unappropriated	Total	
Balance at January 1, 2016		P 104,994,000	P 2,789,350	(P 1,114,410)	P 12,000,000	P 131,895,570	P 143,895,570	P 250,564,510
Total comprehensive income for the year								
Net profit		-	-	-	-	16,401,078	16,401,078	16,401,078
Other comprehensive loss		-	-	(4,216,554)	-	-	-	(4,216,554)
		-	-	(P 4,216,554)	-	16,401,078	16,401,078	12,184,524
Balance at December 31, 2016	23	P 104,994,000	P 2,789,350	(P 5,330,964)	P 12,000,000	P 148,296,648	P 160,296,648	P 262,749,034
Balance at January 1, 2015		P 104,994,000	P 2,789,350	P 5,742,815	P 12,000,000	P 117,637,905	P 129,637,905	P 243,164,070
Total comprehensive income for the year								
Net profit		-	-	-	-	14,257,665	14,257,665	14,257,665
Other comprehensive loss		-	-	(6,857,225)	-	-	-	(6,857,225)
		-	-	(P 6,857,225)	-	14,257,665	14,257,665	7,400,440
Balance at December 31, 2015	23	P 104,994,000	P 2,789,350	(P 1,114,410)	P 12,000,000	P 131,895,570	P 143,895,570	P 250,564,510

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Amounts in Philippine Pesos)

	Notes	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**P 23,358,497**	P 17,986,642
Adjustments for:			
Interest income	10, 12, 13, 14	**(P 70,553,994)**	(P 69,611,083)
Interest expense	21	**P 14,926,780**	P 16,794,362
Gain on sale of available-for-sale financial assets	13	**(P 4,710,981)**	-
Depreciation and amortization	15, 17, 19	**P 3,951,741**	P 4,786,925
Gain on sale of non-financial assets	16, 17	**(P 3,654,101)**	(P 4,454,403)
Write-off of bank premises, furniture, fixtures and equipment	15	**P 404,971**	P 166
Fair value gains in financial assets at fair value through profit or loss	11	**(P 94,706)**	(P 70,191)
Equity in net earnings of an associate	18	**(P 31,728)**	(P 84,748)
Operating loss before working capital changes		**(P 36,403,521)**	(P 34,652,330)
Increase in loans and other receivables		**(P 80,479,494)**	(P 30,159,975)
Increase in other resources		**(P 1,835,611)**	(P 2,762,218)
Increase in deposit liabilities		**P 42,026,001**	P 44,858,448
Decrease (increase) in other liabilities		**(P 883,898)**	P 438,612
Net cash used in operations		**(P 77,576,523)**	(P 22,277,463)
Interest received		**P 81,788,581**	P 68,549,049
Interest paid		**(P 14,872,185)**	(P 16,754,429)
Cash paid for income taxes		**(P 3,681,328)**	(P 908,387)
Net Cash From (Used in) Operating Activities		**(P 14,341,455)**	P 28,608,770
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposals of available-for-sale financial assets	13	**P 96,813,195**	-
Acquisitions of available-for-sale financial assets	13	**(P 70,236,758)**	-
Proceeds from sale of non-financial assets	16, 17	**P 12,435,250**	P 9,302,030
Proceeds from maturity of held-to-maturity investments	12	**P 10,472,431**	P 8,400,648
Acquisitions of held-to-maturity investments	12	**(P 10,000,000)**	(P 16,200,000)
Acquisitions of bank premises, furniture, fixtures and equipment	15	**(P 1,508,843)**	(P 815,393)
Acquisitions of computer software	19	**(P 633,523)**	-
Net Cash From (Used in) Investing Activities		**37,341,752**	687,285
NET INCREASE IN CASH AND CASH EQUIVALENTS		**23,000,297**	29,296,055
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD			
Cash and other cash items		**13,424,168**	12,457,503
Due from BSP		**110,116,421**	94,717,830
Due from other banks		**305,879,688**	292,948,889
		429,420,277	400,124,222
CASH AND CASH EQUIVALENTS AT END OF PERIOD			
Cash and other cash items		**17,741,171**	13,424,168
Due from BSP		**103,348,339**	110,116,421
Due from other banks		**331,331,064**	305,879,688
		P 452,420,574	P 429,420,277

Supplemental Information on Non-Cash Investing Activity:

In 2016 and 2015, the Bank acquired real and other properties totalling to P8.4 million and P8.5 million, respectively, in settlement of certain loan accounts (see Notes 16 and 17).

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

(With Comparative Figures of 2015)
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Incorporation and Operations

Dumaguete City Development Bank, Inc. (the Bank) was incorporated in the Philippines on July 7, 1980. The Bank operates as a private development bank as provided for under Republic Act (R.A.) No. 337 (*The General Banking Act*) and R.A. No. 4093 (*The Private Development Banks' Act*) as amended. It also engages in other banking related activities as authorized by the Bangko Sentral ng Pilipinas (BSP).

The Bank's registered office, which is also the principal place of business of its Head Office, is located at Dr. V. Locsin corner Cervantes Streets, Dumaguete City. It has four Branches which are located in Dumaguete City, Negros Oriental; Lapu-Lapu City, Cebu; Valencia, Bukidnon; and Quezon, Bukidnon.

The Bank owns 30% equity interest in Rural Bank of Sibulan, Inc. (RBS), a domestic rural bank (see Note 18).

1.2 Merger

The Bank entered into a merger agreement with RBS on July 19, 2014 wherein the Bank will be the surviving entity (together, the Bank and RBS are referred to herein as the Parties). On August 18, 2014, the Parties submitted to BSP and Philippine Deposit Insurance Corporation (PDIC) their application for merger and related merger documents, which include the merger agreement, approved plan of merger executed on July 19, 2014 and the Articles of Merger. In 2015, PDIC has granted its consent to the proposed merger of the Parties based on its Board Resolution No. 2015-05-082 dated May 27, 2015. On the other hand, BSP approved the merger on June 2, 2016 in its Resolution No. 992. BSP released the Certificate of Authority on June 28, 2016 to register the approved merger with Securities and Exchange Commission (SEC). As at December 31, 2016, the merger is still pending for approval by SEC.

1.3 Approval of Financial Statements

The financial statements of the Bank as of and for the year ended December 31, 2016(including the comparative financial statements as of and for the year ended December 31, 2015) were authorized for issue by the Bank's Board of Directors (BOD) on March 18, 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) Presentation of Financial Statements

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

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

(c) Functional and Presentation Currency

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

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

2.2 Adoption of New and Amended PFRS

(a) *Effective in 2016 that are Relevant to the Bank*

The Bank adopted for the first time the following amendments and annual improvements to PFRS, which are mandatorily effective for financial statements for the annual reporting period beginning on or after January 1, 2016:

PAS 1 (Amendments)	:	Presentation of Financial Statements – Disclosure Initiative
PAS 16 and 38 (Amendments)	:	Property, Plant and Equipment and Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization
PAS 16 and PAS 41 (Amendments)	:	Property, Plant and Equipment and Agriculture – Bearer Plants
PAS 27 (Amendments)	:	Separate Financial Statements – Equity Method in Separate Financial Statements
PFRS 10, PFRS 12 and PAS 28 (Amendments)	:	Consolidated Financial Statements, Disclosure of Interests in Other Entities, and Investments in Associates and Joint Ventures – Investment Entities – Applying the ConsolidationException
Annual Improvements	:	Annual Improvements to PFRS (2012-2014 Cycle)

Discussed below and in the succeeding pages are the relevant information about these amendments and improvement.

(i) PAS 1 (Amendment), *Presentation of Financial Statements – Disclosure Initiative*. The amendment encourages entities to apply professional judgment in presenting and disclosing information in the financial statements. Accordingly, it clarifies that materiality applies to the whole financial statements and an entity shall not reduce the understandability of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. Moreover, the amendment clarifies that an entity's share of other comprehensive income of associates and joint ventures accounted for using equity method should be presented based on whether or not such other comprehensive income item will subsequently be reclassified to profit or loss. It further clarifies that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the financial statements.

(ii) PAS 16 (Amendments), *Property, Plant and Equipment*, and PAS 38 (Amendments), *Intangible Assets– Clarification of Acceptable Methods of Depreciation and Amortization*. The amendment in PAS 16 clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. In addition, amendment to PAS 38 introduces a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is not appropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of an intangible asset are highly correlated.

The amendment also provides guidance that the expected future reductions in the selling price of an item that was produced using the asset could indicate an expectation of technological or commercial obsolescence of an asset, which may reflect a reduction of the future economic benefits embodied in the asset.

(iii) PAS 16 (Amendments), *Property, Plant and Equipment*, and PAS 41 (Amendments), *Agriculture– Bearer Plants*. The amendments define a bearer plant as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales. On this basis, bearer plant is now included within the scope of PAS 16 rather than PAS 41, allowing such assets to be accounted for

as property, plant and equipment and to be measured after initial recognition at cost or revaluation basis in accordance with PAS 16. The amendments further clarify that produce growing on bearer plants remains within the scope of PAS 41.

(iv) PAS 27 (Amendments), *Separate Financial Statements –Equity Method in Separate Financial Statements*. These amendments introduce a third option which permits an entity to account for its investments in subsidiaries, joint ventures and associates under the equity method in its separate financial statements in addition to the current options of accounting those investments at cost or in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*, or PFRS 9, *Financial Instruments*. As of the end of the reporting period, the Bank has no plan to change the accounting policy for its investments in its associate.

(v) PFRS 10 (Amendments), *Consolidated Financial Statements*, PFRS 12 (Amendments), *Disclosure of Interests in Other Entities*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures–Investment Entities – Applying the Consolidation Exception*. These amendments address the concerns that have arisen in the context of applying the consolidation exception for investment entities. They clarify which subsidiaries of an investment entity are consolidated in accordance with paragraph 32 of PFRS 10 and clarify whether the exemption to present consolidated financial statements, set out in paragraph 4 of PFRS 10, is available to a parent entity that is a subsidiary of an investment entity. These amendments also permit a non-investment entity investor, when applying the equity method of accounting for an associate or joint venture that is an investment entity, to retain the fair value measurement applied by that investment entity associate or joint venture to its interests in subsidiaries.

(vi) Annual improvements to PFRS (2012-2014 Cycle). Among the improvements, the following amendments are relevant to the Bank but had no material impact on the Bank's financial statements as these amendments merely clarify the existing requirements:

(a) PFRS 5 (Amendments), *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal.* The amendment clarifies that when an entity reclassifies an asset (or disposal group) directly from being held for sale to being held for distribution (or vice-versa), the accounting guidance in paragraphs 27-29 of PFRS 5 does not apply.

It also states that when an entity determines that the asset (or disposal group) is no longer available for immediate distribution or that the

distribution is no longer highly probable, it should cease held-for-distribution accounting and apply the guidance in paragraphs 27-29 of PFRS 5.

(b) PFRS 7 (Amendments), *Financial Instruments – Disclosures – Servicing Contracts*. The amendment provides additional guidance to help entities identify the circumstances under which a contract to "service" financial assets is considered to be a continuing involvement in those assets for the purposes of applying the disclosure requirements of PFRS 7. Such circumstances commonly arise when, for example, the servicing is dependent on the amount or timing of cash flows collected from the transferred asset or when a fixed fee is not paid in full due to non-performance of that asset.

(c) PAS 19 (Amendments), *Employee Benefits – Discount Rate: Regional Market Issue*. The amendment clarifies that the currency and term of the high quality corporate bonds which were used to determine the discount rate for post-employment benefit obligations shall be made consistent with the currency and estimated term of the post-employment benefit obligations.

(b) Effective in 2016 that are not Relevant to the Bank

The following new standard, amendments and annual improvements to PFRS are mandatory for accounting periods beginning on or after January 1, 2016 but are not relevant to the Bank's financial statements:

PFRS 11 (Amendments)	:	Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations
PFRS 14	:	Regulatory Deferral Accounts
Annual Improvements to PFRS (2012-2014 Cycle)		
PFRS 7 (Amendments)	:	Financial Instruments: Disclosures – Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements
PAS 34 (Amendments)	:	Interim Financial Reporting Disclosure of Information "Elsewhere in the Interim Financial Report"

(c) Effective Subsequent to 2016 but not Adopted Early

There are new PFRS and amendments to existing standards effective for annual periods subsequent to 2016 which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Bank's financial statements:

(i) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative* (effective from January 1, 2017). The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes). They require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, they suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including: (a) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and, (b) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

(ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses* (effective from January 1, 2017). The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, (d) combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference.

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

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

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

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

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

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

Management is currently assessing the impact of PFRS 9 (2014) on the financial statements of the Bank and it will conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

(iv) PRFS 15, *Revenue from Contracts with Customers* (effective from January 1, 2018). This standard will replace PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers* and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize.

The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Management is currently assessing the impact of this new standard in its financial statements.

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

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

For lessors, lease accounting is similar to PAS 17's. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17's. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These

include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

Management is currently assessing the impact of this new standard in its financial statements.

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

2.3 Investment in an Associate

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

The Bank's investment in an associate is accounted for using the equity method, wherein the investment is initially recognized at cost and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. Such changes are credited or charged against the equity and is presented as Equity in Net Earnings of an Associate in the statement of profit or loss. Items that have been directly recognized in the associate's equity are recognized in the equity of the Bank. Distributions received from the associate are accounted as a reduction from the carrying value of the investment.

When the Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivable, the Bank does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

2.4 Financial Assets

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

(a) Classification and Measurement of Financial Assets

Financial assets are classified into the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and the related transaction costs are recognized in profit or loss. A more detailed description of the four categories of financial assets is as follows:

(i) Financial Assets at FVTPL

This category includes financial assets that are either classified as held for trading or that meets certain conditions and are designated by the entity to be carried at fair value through profit or loss upon initial recognition.

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets may be reclassified out of FVTPL category if they are no longer held for the purpose of being sold or repurchased in the near term.

(ii) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money or services directly to a debtor with no intention of trading the receivables.

The Bank's financial assets categorized as loans and receivables are presented as Cash and Other Cash Items, Due from BSP, Due from Other Banks and Loans and Other Receivables in the statements of financial position. Cash and other

cash items include cash on hand, in vault and other cash items, while due from other banks include demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

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

(iii) HTM Investments

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

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

(iv) AFS Financial Assets

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

All financial assets within this category are subsequently measured at fair value. Gains and losses from changes in fair value are recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Revaluation Reserves account in equity, except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, if any, which are recognized in profit or loss.

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

(b) Impairment of Financial Assets

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. The Bank recognizes impairment loss based on the category of financial assets as follows:

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

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

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

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

(ii) Carried at Fair Value – AFS Financial Assets

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

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

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

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Other Expenses or Other Income in the statement of profit or loss.

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

(d) Derecognition of Financial Assets

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

2.5 Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment are carried at acquisition cost less accumulated depreciation and amortization, and any impairment in value. As no finite useful life for land can be determined, related carrying amount are not depreciated.

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

Depreciation is computed on a straight-line basis over the estimated useful lives of the depreciable assets as follows:

Buildings and improvements	40 years
Furniture, fixtures and equipment	2 – 10 years
Transportation equipment	5 years

Leasehold improvements are amortized over the term of the lease or the estimated useful lives of the improvements of 12 years, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.16).

The residual values, estimated useful lives and method of depreciation of bank premises, furniture, fixtures and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.
An item of bank premises, furniture, fixtures and equipment, including the related accumulated depreciation and any impairment loss, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

2.6 Non-current Assets Classified as Held-for-Sale

Non-current assets classified as held-for-sale include real and other properties acquired through repossession or foreclosure that the Bank intends to sell within one year from the date of classification as held-for-sale.

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

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

If the Bank has classified an asset as held for sale, but the criteria for it to be recognized as held for sale are no longer satisfied, the Bank shall cease to classify the asset as held for sale.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.16).

2.7 Investment Properties

Investment properties include parcels of land and buildings and related improvements acquired by the Bank from defaulting borrowers not held for sale in the next 12 months. These are initially measured at acquisition cost which comprise the carrying amount of the related loan after adjustments for unamortized premium or discount less allowance for credit losses plus accrued interest and directly attributable costs. Subsequently, investment properties are stated at cost less accumulated depreciation and any impairment in value.
Direct operating expenses related to investment properties, such as repairs and maintenance and real estate taxes, are normally charged against current operations in the period in which these costs are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.16).

Investment properties are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment properties are recognized in profit or loss in the year of retirement or disposal.

2.8 Computer Software

The Bank's computer software used for administration purposes is accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire an asset at the time of its acquisition.

Acquired computer software are capitalized on the basis of the costs incurred to acquire and install the specific software. These costs are amortized on the basis of the expected useful lives of three years. Costs associated with maintaining computer software are expensed as incurred. Computer software is subject to impairment testing as described in Note 2.16and is presented as part of the Other Resources account in the statement of financial position (see Note 19).

When the computer software is disposed of, the gain or loss on disposal is determined as difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

2.9 Other Resources

These pertain to other resources controlled by the Bank as a result of past events. They are recognized in the financial statements when it is probable that the future economic

benefits will flow to the entity and the asset has a cost or value that can be measured reliably.

2.10 Financial Liabilities

Financial liabilities, which include deposit liabilities and other liabilities [except gross receipts tax (GRT), due to PDIC, due to the Treasurer of the Philippines, withholding tax payable, documentary stamp tax (DST) payable, fringe benefit tax (FBT) payable and contributions payable], are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges incurred on a financial liability are recognized as an expense in profit or loss under the caption Interest Expense in the statement of profit or loss.

Deposit liabilities are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Other liabilities are recognized initially at their fair value and subsequently measured at amortized cost less settlement payments.

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

2.11 Offsetting Financial Instruments

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

2.12 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of

the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events.

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

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

2.13 Revenue and Expense Recognition

Revenue 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. Costs and expenses are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on an accrual basis. Specific recognition criteria of income and expenses described below must also be met before the income or expense is recognized.

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

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral

part of the effective interest rate, transaction costs and all other premiums or discounts.

(b) *Gain on sale of AFS financial assets* – Income is recognized when the ownership of the financial assets is transferred to the buyer.

(c) *Gain on sale of non-financial assets* – Income is recognized when the risk and rewards to the assets are transferred to the buyer or when the collectability of the entire sales price is reasonably assured. This is included as part of Other Income in the statement of profit or loss.

(d) *Service charges, fees and commissions* – Revenue is generally recognized when the service has been provided.

(e) *Rent* – Rent arising from leased properties is accounted for on a straight-line basis over the lease terms on ongoing leases and is included under Other Income in the statement of profit or loss.

(f) *Trading gain* – Income is recognized when the ownership of the securities is transferred to the buyer (at an amount equal to the excess of the selling price over the carrying amount of securities) and as a result of the mark-to-market valuation of outstanding securities classified as FVTPL at the end of the reporting period.

2.14 Leases

The Bank accounts for its leases as follows:

(a) *Bank as Lessee*

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

(b) *Bank as Lessor*

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized as income in profit or loss on a straight-line basis over the lease term.

The Bank determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the 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.

2.15 Foreign Currency Transactions and Translation

The accounting records of the Bank are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.
Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

2.16 Impairment of Non-financial Assets

The Bank's bank premises, furniture, fixtures and equipment, investment properties, equity investment in an associate and computer software (presented as part of Other Resources in the statement of financial position) are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

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

Impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Bank's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

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

2.17 Employee Benefits

The Bank provides post-employment benefits to employees through a defined benefit plan and defined contribution plans, and other employee benefits which are recognized as follows:

(a) Post-employment Defined Benefit Plan

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Bank, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Bank's defined benefit post-employment plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.
The liability recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using a discount rate derived from the interest rates of a zero coupon government bond as published by Philippine Dealing and Exchange Corporation (PDEX), that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

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

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

(b) Post-employment Defined Contribution Plan

A defined contribution plan is a post-employment plan under which the Bank pays fixed contributions into an independent entity (i.e. Social Security System). The Bank has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred.

(c) Termination Benefits

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

(d) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in Other Liabilities account in the statement of financial position at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement.

(e) Bonus Plans

The Bank recognizes a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the Bank's shareholders after certain adjustments. The Bank recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

***2.18* Income Taxes**

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

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

Deferred tax is accounted for using the liability method, on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with

certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

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

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

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

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

2.19 Related Party Relationships and Transactions

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

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

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

2.20 Capital Funds

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

Additional paid-in capital includes any premiums received on the issuance of common stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital.
Revaluation reserves comprise of cumulative gains and losses on revaluation of AFS financial assets and remeasurements of post-employment defined benefit obligation.

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

2.21 Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net profit attributable to common shareholders of the Bank by the weighted number of common shares issued and outstanding, adjusted retroactively for any stock dividend, stock split or reverse stock split declared during the current period.

Diluted EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares. Currently, the Bank does not have dilutive potential shares outstanding, hence, the diluted EPS is equal to the basic EPS.

2.22 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Classification of Financial Assets as HTM Investments

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

(b) Impairment of AFS Financial Assets

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

Based on the recent evaluation of information and circumstances affecting the Bank's AFS financial assets, management concluded that the assets are not impaired as of December 31, 2016 and 2015. Future changes in those information and circumstances might significantly affect the carrying amount of the assets.

(c) Distinction between Investment Properties and Owner-managed Properties

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

(d) Distinction between Operating and Finance Leases

The Bank has entered into various lease agreements as a lessor and a lessee. Critical judgment was exercised by management to distinguish each lease agreement as a lessor and lessee either an operating or a finance lease by looking at the transfer or

retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

Management has determined that all of its agreements qualify under operating leases (see Note 2.14).

(e) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.12 and disclosures on relevant contingencies are presented in Note 31.

3.2 Key Sources of Estimation Uncertainty

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

(a) Impairment of Loans and Other Receivables

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

The carrying value of loans and other receivables and the analysis of allowance for impairment on such financial assets are shown in Notes 14 and 20, respectively.

(b) Fair Value Measurement for Financial Instruments

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated

fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the end of the reporting period.

The carrying values of the Bank's financial assets classified as FVTPL and AFS financial assets and the amounts of fair value changes recognized during the years on those assets are disclosed in Notes 11 and 13, respectively.

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

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

The carrying amounts of bank premises, furniture, fixtures and equipment, investment properties and computer software are analyzed in Notes 15, 17 and 19, respectively. Based on management's assessment as at December 31, 2016and 2015, there is no change in the estimated useful lives of those assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

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

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Management assessed that the deferred tax assets recognized as at December 31, 2016and 2015will be fully utilized in the coming years. The carrying value of deferred tax assets as of those dates is disclosed in Note 27.

(e) *Fair Value Measurement for Investment Properties*

Investment properties are measured using the cost model. The fair value of investment property held for capital appreciation disclosed in the financial statements is determined by the Bank based on the appraisal reports of a professional and independent appraiser. The fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at the valuation date. Such amount is influenced by different factors including the location and specific characteristics of the property, quantity

of comparable properties in the market, and economic condition and behavior of the buying parties. A significant change in these elements may affect prices and the value of the assets.

The fair value of the Bank's investment properties as of December 31, 2016 and 2015 is disclosed in Notes 6 and 17.

(f) Impairment of Non-financial Assets

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.16). Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Impairment losses recognized on Investment Properties are discussed in Note 20.

(g) Valuation of Post-employment Defined Benefit Obligation

The determination of the Bank's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by independent actuaries engaged by the Bank in calculating such amounts. Those assumptions include, among others, discount rates, salary rate increase, and employee turnover rate. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment defined benefit obligation in the next reporting period.

The amounts of post-employment defined benefit asset and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 26.2.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank is exposed to a variety of potential risks arising from its business activities. It enters into financial instruments contracts, which consist of financial assets at FVTPL, AFS financial assets, HTM investments, loans and receivables, and financial liabilities such as deposits to finance the Bank's operations. The Bank's

financial assets and liabilities by category are summarized in Note 5. The main types of risks to which the Bank is exposed to includes market risk, credit risk and liquidity risk.

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

4.1 Risk Management Structure

The BOD is primarily responsible for approving the credit policies and the overall risk capacity of the Bank. Board committees have been established by the BOD to oversee the increasingly varied risk management activities of the Bank with the active participation of senior management.

(a) Risk Oversight Committee

The Risk Oversight Committee (ROC) is responsible for the development and oversight of the Bank's risk management program. Among its specific duties are to identify and evaluate exposures, develop risk management strategies, implement risk management plans and review such plans as necessary.

(b) Audit Committee

The Audit Committee is an advisory committee to assist and act on behalf of the BOD and provides oversight of the Bank's financial reporting. It serves as principal agent of the BOD in ensuring independence of the Bank's external auditors and the internal audit function, the integrity of management, and the adequacy of disclosures and reporting to stockholders.

(c) Assets and Liabilities Committee

Assets and Liabilities Committee (ALCO) works in tandem with the ROC in assessing the liquidity position of the Bank to meet routine expenses and unexpected liquidity shocks such as large withdrawals and heavy loan demand. It is also tasked to review and take cognizant factors affecting market risks involving the financial market such as market values of assets and liabilities that will affect earnings and capital of the Bank.

(d) Corporate Governance Committee

The committee is responsible for ensuring the BOD's effectiveness and due observance of corporate governance principles and guidelines. It oversees the

periodic performance evaluation of the BOD and its committees and executive management.

(e) Credit Review Committee

The committee has been created with the main purpose of evaluating, making appraisals or studying and reviewing the loan applications presented by the lending units of the Bank, usually its branches and other business development units that the Bank may established.

In compliance with BSP Circular 747, the Bank has revised its compliance manual to incorporate the revised compliance framework for banks. The manual is designed to guide the identification of business risks to mitigate factors that might be detrimental to the Bank's business model and its ability to generate returns from operations.

4.2 Credit Risk

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Bank. The Bank is exposed to this risk for various financial instruments arising from granting loans to borrowers including placing deposits with banks and investing in bonds.

The risk may arise from lending, investments and other activities undertaken by the Bank. Credit risk is managed through strategies, policies and limits that are approved by the BOD. Further, the Bank has a well-structured and standardized credit approval process.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include guidelines for maintaining a diversified portfolio (e.g. concentration limit). Identified concentrations of credit risks are controlled and managed accordingly. The Bank also monitors compliance to the BSP's limit on exposure to any single person or group of connected persons to an amount not exceeding 25% of the Bank's adjusted capital accounts.

The Bank also manages credit risk through the establishment of an appropriate and sufficiently defined credit risk environment where the BOD is ultimately responsible for the Bank's focus and specialization in the granting of credit based on type, economic sector, geographical location, maturity and anticipated profitability.

Sound credit granting process is strictly implemented where neither the BOD nor the senior management can override the credit granting and monitoring process of the Bank. The Bank undertakes a comprehensive procedure for the credit evaluation and risk assessment of borrowers. The credit granting process shall be rooted to the

principle that the collateral offered cannot be a substitute for a comprehensive assessment of the borrower's financial capacity. Credit granting transactions shall be based primarily on the strength of the borrower's paying capacity. The Bank also maintains an appropriate credit administration, review and classification and monitoring process through regular and periodic evaluation of loan accounts. Adjudication of credit is centralized and approval authority limits are clearly defined and embodied in the Bank's operations manual.

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the statements of financial position or in the detailed analysis provided in the notes to the financial statements, as summarized below.

	Notes	**2016**	2015
Cash and cash equivalents	8	**P 452,420,574**	P 429,420,277
Financial Assets at FVTPL	11	**6,593,023**	6,498,317
HTM investments	12	**52,067,833**	52,540,264
AFS financial assets	13	**176,015,935**	204,440,023
Loans and other receivables	14	**571,655,173**	509,500,013
		P 1,258,752,538	P 1,202,398,894

The Bank's financial assets are in part secured by collateral and guarantees and are further described as follows:

(a) Cash and Cash Equivalents

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in the cash and cash equivalents are cash in banks and short-term placements which are insured by the PDIC up to a maximum coverage of P0.50 million for every depositor per banking institution.

(b) Financial Assets at FVTPL, HTM Investments and AFS Financial Assets

The carrying amount of trading and investment securities is the maximum possible credit risk exposure of the Bank in relation to the said investments.

(c) Loans and Other Receivables

The carrying amount of loans and other receivables as of December 31, 2016and 2015represents the maximum exposure to credit risk without taking into account the value of any collateral obtained. The Bank holds collateral against loans and receivables from customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of

collateral assessed at the time of borrowing and are updated periodically(e.g. annually for real estate properties),as provided in the Bank's Credit Policy Manual.

The Bank assesses the probability of default of individual counterparties using the following loan risk classification.

(i) Loans especially mentioned – these are loans that have potential weakness that deserve management's close attention. This potential weakness, if left uncorrected, may affect the payment of the loan and thus increase the credit risk of the Bank.

(ii) Substandard – these are loans which appear to involve a substantial degree of risk to the bank because of unfavourable record or unsatisfactory characteristics; further, these are loans with well-defined weakness which may include adverse trends or development of a financial, managerial, economic or political nature, or a significant deterioration in collateral.

(iii) Doubtful – there are loans which have the weaknesses similar to those of the substandard classification with added characteristics that existing facts, conditions, and values make collection or liquidation in full highly improbable and substantial loss is probable.

(iv) Loss – these are loans which are considered uncollectible and of such little value that their continuance is bankable assets is not warranted although the loans may have some recovery or salvage value.

(v) Current – these are loans that do not have a greater-than-normal risk and do not possess the characteristics of loans classified above. The counterparty has the ability to satisfy the obligation in full and therefore minimal loss, if any, is anticipated.

The table shows the credit quality by class of financial assets as of December 31, 2016.

	Neither past due nor impaired	**Past due or individually impaired**	**Total**
Cash and cash equivalents	P 452,420,574	P -	P 452,420,574
Financial Assets at FVTPL	6,593,023	-	6,593,023
HTM investments	52,067,833	-	52,067,833
AFS financial assets	176,015,935	-	176,015,935
Loans and receivables	549,050,578	22,604,595	571,655,173
	P1,236,147,943	**P 22,604,595**	**P1,258,752,538**

The table shows the credit quality by class of financial assets as of December 31, 2015.

	Neither past due nor impaired	Past due or individually impaired	Total
Cash and cash equivalents	P 429,420,277	P -	P 429,420,277
Financial Assets at FVTPL	6,498,317	-	6,498,317
HTM investments	52,540,264	-	52,540,264
AFS financial assets	204,440,023	-	204,440,023
Loans and receivables	469,773,258	39,726,755	509,500,013
	P1,162,672,139	**P 39,726,755**	**P1,202,398,894**

The table below shows the risk grade classification of past due or individually impaired loans and receivables as at December 31, 2016 and 2015.

	Unclassified	**Substandard**	**Doubtful**	**Loss**	**Total**
December 31, 2016					
Loans and receivables	**P 1,716,110**	**P16,651,986**	**P 774,842**	**P 3,461,657**	**P22,604,595**
December 31, 2015					
Loans and receivables	P 6,828,841	P21,117,576	P 8,964,760	P 2,815,578	P 39,726,755

An analysis of concentrations of credit risk for loans and receivables of the Bank by industry, as of December 31, 2016 and 2015 are shown in Note 14.

The Bank holds collateral against loans and receivables from borrowers in order to mitigate risk. The collateral may be in the form of mortgage over real estate property, chattels, sugar quedans, hold out deposits, securities and/or guarantees. The Bank regularly monitors and updates the fair value of the collateral depending on the type of credit exposure. Estimates of the fair value of collateral are considered in the review and assessment of the adequacy of allowance for credit losses. Fair values are determined by the Bank's internal appraisers or by external appraisers accredited by the BSP.

An estimate of the fair value of collateral and other security enhancements held by the Bank against loans and receivables as of December 31, 2016and 2015is shown below and on the next page.

	2016	2015
Against past due and already non-performing		
Property		
Real estate mortgage	**P 59,065,000**	P 78,600,172
Chattel mortgage	**6,750,001**	539,000
Others		
Joint and solidary signature	**13,052,384**	-

	2016	2015
Against current loans and receivables		
Property		
Real estate mortgage	**761,247,265**	772,203,605
Chattel mortgage	**103,860,810**	67,876,337
Others		
Hold-out deposits	**58,334,000**	50,154,165
Joint and solidary signature	**28,312,910**	-
Against items in litigation		
Real estate mortgage	**200,003**	310,000
Joint and solidary signature	**1,200,500**	-

An analysis of concentrations of credit risk for loans and other receivables of the Bank by industry as of December 31, 2016and 2015are shown in Note 14.

4.3 Liquidity Risk

The Bank's ALCO together with the ROC ensure that sufficient liquid assets are available to meet routine expenses and unexpected liquidity shocks, such as large withdrawals and heavy loan demands. Liquidity is monitored by the Bank on a daily basis and under stressed situations.

A contingency plan is formulated to set out the amount and the sources of funds that are available to the Bank and the circumstances under which the Bank may use such funds. It is the Bank's policy that total liquid assets as against total deposit liabilities should not fall below 40% level. The determined level may vary as the need arises and is subject to revision and approval by the BOD.

Under a crisis situation, the Bank's funding preference follows:

(i) Cash and other cash items;
(ii) Due from other banks;
(iii) Due from BSP; and,
(iv) Available credit lines with financial institutions.

The table below and on the next page shows the maturity profile of the financial assets and financial liabilities based on contractual undiscounted cash flows.

	2016					
	Up to 1 month	Over 1 up to 3 months	Over 3 up to 6 months	Over 6 up to 1 year	Beyond 1 year	Total
Resources						
Cash and cash equivalents	P 452,420,574	P -	P -	P -	P -	P 452,420,574
Financial assets at FVTPL	6,593,023	-	-	-	-	6,593,023
HTM investments	70,444	40,193	41,597	116,674	51,798,925	52,067,833
AFS financial assets	176,015,935	-	-	-	-	176,015,935
Loans and other receivables-net	38,002,795	28,672,337	142,478,631	96,886,942	265,614,468	571,655,173

Total Resources	P 673,102,771	P 28,712,530	P 142,520,228	P 97,003,615	P 317,413,394	P 1,258,752,538
Liabilities						
Deposit liabilities	P636,628,250	P302,748,218	P 16,693,742	P21,170,024	P 93,898,422	P 1,071,138,656
Other liabilities	5,671,895	-	-	-	-	5,671,895
Total liabilities	P 642,300,145	P 302,748,218	P 16,693,742	P 21,170,024	P 93,898,422	P 1,076,810,551
Positive (negative) on-book gap	P 30,802,626	(P 274,035,688)	P 125,826,486	P 75,833,591	P 223,514,972	P 181,941,987

	2015					
	Up to 1 month	Over 1 up to 3 months	Over 3 up to 6 months	Over 6 up to 1 year	Beyond 1 year	Total
Resources						
Cash and cash equivalents	P429,420,277	P -	P -	P -	P -	P 429,420,277
Financial assets at FVTPL	6,498,317	-	-	-	-	6,498,317
HTM investments	371,339	5,001,655	478,883	1,945,373	44,743,014	52,540,264
AFS financial assets	204,440,023	-	-	-	-	204,440,023
Loans and other receivables-net	40,505,784	42,998,900	155,010,237	109,342,005	161,643,087	509,500,013
Total Resources	P681,235,740	P48,000,555	P155,489,120	P111,287,378	P206,386,101	P1,202,398,894
Liabilities						
Deposit liabilities	P640,258,299	P203,093,309	P60,665,959	P42,972,000	P82,068,493	P1,029,058,060
Other liabilities	6,227,704	-	-	-	-	6,227,704
Total liabilities	P646,486,003	P203,093,309	P60,665,959	P42,972,000	P82,068,493	P1,035,285,764
Positive (negative) on-book gap	P34,749,737	(P155,092,754)	P94,823,161	P68,315,378	P124,317,608	P 167,113,130

As of December 31, 2016 and 2015, the Bank has no contingent assets and liabilities, hence, no off-book gaps.

4.4 Interest Rate Risk

The Bank's policy is to minimize interest rate cash flow risk exposures on long-term financing. As at December 31, 2016and 2015, the Bank has no significant exposure to interest rate sensitivity risk as most of its financial instruments have fixed rates.

4.5 Foreign Currency Risk

Most of the Bank's transactions are carried out in Philippine pesos, its functional currency. The Bank's exposures to currency exchange rates may arise from deposits with other banks denominated in currencies other than the Philippine peso. As at December 31, 2016and 2015, the Bank has no significant foreign currency risk exposure as it has no significant foreign-currency denominated deposits with other banks.

4.6 Other Price Risk

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

For investment in bonds, an average volatility of 3.10% and 4.72% has been observed during 2016and 2015, respectively. If quoted price for these securities increased or decreased by that percentage, other comprehensive loss would have changed by P1.99 million and P9.65 million in 2016and 2015, respectively.

In accordance with the Bank's policies, no specific hedging activities are undertaken in relation to these investments.

5. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.1 Carrying Amounts and Fair Values by Category

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

	Notes	**2016**		2015	
		Carrying Values	**Fair Values**	Carrying Values	Fair Values
Financial Assets					
Loans and receivables:					
Cash and other cash items	8	**P 17,741,171**	**P 17,741,171**	P 13,424,168	P 13,424,168
Due from BSP	9	**103,348,339**	**103,348,339**	110,116,421	110,116,421
Due from other banks	10	**331,331,064**	**331,331,064**	305,879,688	305,879,688
Loans and other receivables- net	14	**571,655,173**	**571,655,173**	509,500,013	509,500,013
		1,024,075,747	**1,024,075,747**	938,920,290	938,920,290
Financial assets at FVTPL	11	**6,593,023**	**6,593,023**	6,498,317	6,498,317
HTM investments	12	**52,067,833**	**52,359,923**	52,540,264	53,489,152
AFS financial assets	13	**176,015,935**	**176,015,935**	204,440,023	204,440,023
		234,676,791	**234,968,881**	263,478,604	264,427,492
		P 1,258,752,538	**P 1,259,044,628**	P 1,202,398,894	P 1,203,347,782
Financial Liabilities					
Financial liabilities at amortized cost					
Deposit liabilities	21	**P 1,071,138,656**	**P 1,071,138,656**	P 1,029,058,060	P 1,029,058,060
Other liabilities	22	**5,671,895**	**5,671,895**	6,227,704	6,227,704
		P 1,076,810,551	**P 1,076,810,551**	P 1,035,285,764	P 1,035,285,764

Other liabilities do not include GRT payable, DST payable, FBT payable, contributions payable, due to PDIC, withholding taxes payable and due to the Treasurer of the Philippines.

See Notes 2.4 and 2.10 for the description of the accounting policies for each category of financial instruments including the determination of fair values. A description of the

Bank's risk management objectives and policies for financial instruments is provided in Note 4.

5.2 Offsetting of Financial Assets and Liabilities

The following financial assets with net amounts presented in the statements of financial position are subject to offsetting, enforceable master netting arrangements and similar agreements:

	Gross amounts recognized in the statement of financial position		Net amount presented in the statement of financial position	Related amounts not set off in the statement of financial position		
	Financial Assets	Financial liabilities set off		Financial instruments	Deposits hold out	Net amount
December 31, 2016						
Loans and other receivables-net	**P 571,655,173**	**P -**	**P 571,655,173**	**P -**	**(P 57,903,313)**	**P 513,751,860**
December 31, 2015						
Loans and other receivables-net	P 509,500,013	P -	P 509,500,013	P -	(P 48,672,702)	P 460,827,311

The following financial liabilities with net amounts presented in the statements of financial position are subject to offsetting, enforceable master netting arrangements and similar agreements:

	Gross amounts recognized in the statement of financial position		Net amount presented in the statement of financial position	Related amounts not set off in the statement of financial position		
	Financial Assets	Financial liabilities set off		Financial instruments	Deposits hold out	Net amount
December 31, 2016						
Deposit liabilities	**P 1,071,138,656**	**P -**	**P 1,071,138,656**	**P -**	**(P 57,903,313)**	**P 1,013,235,343**
December 31, 2015						
Deposit liabilities	P 1,029,058,060	P -	P 1,029,058,060	P -	(P 48,672,702)	P 980,385,358

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

6. FAIR VALUE MEASUREMENT AND DISCLOSURES

6.1 Fair Value Hierarchy

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

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

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

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

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

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

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Bank uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

6.2 Financial Instruments Measurement at Fair Value

The breakdown of the Bank's financial assets that are all debt securities measured at fair value in the statements of financial position as of December 31, 2016and 2015follows:

	2016			
	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	P -	P 6,593,023	P -	P 6,593,023
AFS financial assets	-	176,015,935	-	176,015,935
	P -	**P 182,608,958**	**P -**	**P 182,608,958**
	2015			
Financial assets at FVTPL	P -	P 6,498,317	P -	P 6,498,317
AFS financial assets	-	204,440,023	-	204,440,023
	P -	P 210,938,340	P -	P 210,938,340

The Bank has no financial liabilities measured at fair value as of December 31, 2016 and 2015.

The fair value of the Bank's debt securities which consist of corporate and government bonds is estimated by reference to quoted bid price in active market at the end of the reporting period and is categorized within Level 2. The fair value determined using average or weighted bid or done prices of securities with the same remaining tenors is categorized within Level 2.

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

The table on the next page summarizes the fair value hierarchy of the Bank's financial assets and financial liabilities which are not measured at fair value in the 2016 and 2015 statements of financial position but for which fair value is disclosed.

	2016			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and other cash items	P 17,741,171	P -	P -	P 17,741,171
Due from BSP	103,348,339	-	-	103,348,339
Due from other banks	331,331,064	-	-	331,331,064
Loans and other receivables	-	-	571,655,173	571,655,173
Debt securities -				
HTM investments	-	52,359,923	-	52,359,923
	P 452,420,574	**P 52,359,923**	**P571,655,173**	**P 1,076,435,670**
Financial liabilities:				
Deposit liabilities	P -	P -	P1,071,138,656	P 1,071,138,656
Other liabilities	-	-	5,671,895	5,671,895
	P -	**P -**	**P1,076,810,551**	**P 1,076,810,551**

	2015			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and other cash items	P 13,424,168	P -	P -	P 13,424,168
Due from BSP	110,116,421	-	-	110,116,421
Due from other banks	305,879,688	-	-	305,879,688
Loans and other receivables	-	-	509,500,013	509,500,013
Debt securities -				
HTM investments	-	53,489,152	-	53,489,152
	P 429,420,277	P 53,489,152	P 509,500,013	P 992,409,442
Financial liabilities:				
Deposit liabilities	P -	P -	P1,029,058,060	P 1,029,058,060
Other liabilities	-	-	6,227,704	6,227,704
	P -	P -	P1,035,285,764	P 1,035,285,764

For financial assets and financial liabilities, other than HTM investments, with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values. HTM investments consist of government securities issued by the Philippine government with fair value determined based on prices quoted in PDEX representing the bid prices at the end of the reporting period.

6.4 Fair Value Measurement for Non-financial Assets

a) Determining Fair Value of Investment Properties

The table below shows the Levels within the hierarchy of investment properties for which fair value is disclosed on a recurring basis as of December 31, 2016 and 2015.

		2016			
	Note	**Level 1**	**Level 2**	**Level 3**	**Total**
Land		P -	P 60,627,175	P -	P 60,627,175
Building and improvements		-	-	15,752,480	15,752,480
	17	**P -**	**P 60,627,175**	**P 15,752,480**	**P 76,379,655**

		2015			
		Level 1	Level 2	Level 3	Total
Land		P -	P 75,668,046	P -	P 75,668,046
Building and improvements		-	-	4,085,920	4,085,920
	17	P -	P 75,668,046	P 4,085,920	P 79,753,966

In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in

their highest and best use. Based on management assessment, the best use of the Bank's non-financial assets indicated above is their current use.

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

(i) Fair Value Measurement for Land

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

(ii) Fair Value Measurement for Building and Improvements

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

b) Other Fair Value Information

There has been no change in the valuation techniques used by the Bank during the year for its non-financial assets. Also, there were no transfers into or out of Levels 2 and 3 fair value hierarchy in 2016and 2015.

7. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Bank's lead regulator, the BSP, sets and monitors capital requirements of the Bank.

Under BSP Circular No. 854, Series of 2014, thrift banks are required to comply with the minimum capital requirement of P300,000,000.

Pursuant to the said circular, the Bank shall be allowed five years from effectivity of the circular within which to meet the above minimum capital requirements and must submit to the BSP an acceptable capital build-up program within one year from date of effectivity of the circular. As at December 31, 2016, the Bank has not complied with the above capitalization requirement and is in the process of submitting to the BSP an acceptable capital build-up program within the prescribed period.

In implementing current capital requirements, the BSP requires the Bank a prescribed ratio of qualifying capital to risk-weighted assets or the capital adequacy ratio (CAR). Risk-weighted assets is the sum of credit risk, market risks, and operational risks, computed based on BSP-prescribed formula provided under its circulars.

On January 1, 2012, BSP Circular No. 688, dated May 26, 2010, took effect containing the revised risk-based adequacy framework for stand-alone thrift banks, rural banks and cooperative banks which is based on Basel 1.5 wherein CAR shall not be less than 10% of the qualifying capital to risk-weighted assets.

In computing the CAR, the regulatory qualifying capital is analyzed into two tiers which are: (i) Tier 1 Capital, and (ii) Tier 2 Capital; less deductions from the Total Tier 1 and Tier 2 as provided in BSP Circular No. 688.

The Bank's regulatory capital position as at December 31, 2016and 2015 is as follows (in thousands):

	2016	2015
Tier 1 capital	**P 281,464**	P 242,488
Tier 2 capital	**4,920**	3,665
Total regulatory capital	**P 286,384**	P 246,153
Total qualifying capital	**P 286,384**	P 246,153
Risk-weighted assets	**P 1,313,164**	P 874,174

The Bank's capital ratios are as follows:

Total regulatory capital expressed as a percentage of total risk-weighted assets	**21.81%**	28.16%

Total tier 1 capital expressed as a percentage of total risk-weighted assets	**21.43%**	27.74%

As shown in the above information, the Bank has complied with the 10% minimum CAR, as required for stand-alone thrift banks per BSP Circular No. 688, as at December 31, 2016 and 2015.

8. CASH AND CASH EQUIVALENTS

For purposes of presenting cash flows, cash and cash equivalents consist of the following:

	Notes	**2016**	2015
Cash and other cash items		**P 17,741,171**	P 13,424,168
Due from BSP	9	**103,348,339**	110,116,421
Due from other banks	10	**331,331,064**	305,879,688
		P 452,420,574	P 429,420,277

Cash consists primarily of funds in the form of Philippine currency notes and coins in the Bank's vault and those in the possession of tellers, including automated teller machines. Other cash items include cash items (other than currency and coins on hand) such as checks drawn on other banks or other branches after the Bank's clearing cut-off time until the close of the regular banking hours.

9. DUE FROM BANGKO SENTRAL NG PILIPINAS

This account is composed of mandatory reserves amounting to P103,348,339 and P110,116,421asat December 31, 2016 and 2015, respectively (see Notes 8 and 21).

Mandatory reserves represent the balance of the deposit account maintained with the BSP to meet reserve requirements and to serve as clearing account for interbank claims.

Under Section 254 of the Manual of Regulations for Banks (MORB), a bank is required to maintain at least 25% of its reserve requirement in the form of deposits with the BSP as among the allowable instruments for reserve cover. Section 254.1 of the MORB further provides that such deposit account with the BSP is not considered as a regular current account as drawings against such deposits shall be limited to: (a) settlement of obligation with the BSP, and (b) withdrawals to meet cash requirements.

Under existing BSP regulations, thrift banks are subject to statutory and liquidity reserves against deposit liabilities equivalent to 8% (BSP Circular No.832, Series of 2014). As at December 31, 2016and 2015, the Bank is in compliance with the said regulations (see Note21).

10. DUE FROM OTHER BANKS

This account (see Notes 8 and 21) includes the following as at December 31:

	2016	2015
Savings deposits	**P 19,308,215**	P 22,474,916
Demand deposits	**178,296,926**	218,401,772
Time deposits	**133,725,923**	65,003,000
	P 331,331,064	P 305,879,688

Savings and demand deposits earn interest based on daily bank deposit rates.

All of the Bank's time deposits with other banks have maturities of up to three months and bear interest rates ranging from 1.63% to 2.00% in 2016 and 2.00% to 2.13% in 2015. Interest income on deposits with other banks amounted to
P5.49 million and P3.58 million in 2016and 2015, respectively.

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account is composed of investments in Banco De Oro Government Securities Fund designated by the Bank at FVTPL with an initial cost of P4.0 million at date of purchase. The carrying amounts of the financial asset as of December 31, 2016 and 2015 are P6.59million and P6.50 million, respectively, based on the fair values determined in reference to the unit price offered by the issuers as at respective dates.

The Bank recognized the increase in value of financial assets at FVTPL amounting to P0.09million and P0.07million in 2016and 2015, respectively, as fair value gains on financial assets at FVTPL under Other Income in the statements of profit or loss.

The movement in net unrealized gain on FVTPL as at December 31, 2016 and 2015 is presented below.

	2016	2015
Balance at beginning of year	**P 6,498,317**	P 6,428,126
Unrealized fair value gain during the year - net	**94,706**	70,191
Balance at end of year	**P 6,593,023**	P 6,498,317

12. HELD-TO-MATURITY INVESTMENTS

The composition of this account as of December 31 follows:

	2016	2015
Government bonds	P 5,867,833	P 11,340,264
Other debt securities		
Corporate bonds	31,200,000	31,200,000
Corporate notes	15,000,000	10,000,000
	P 52,067,833	P 52,540,264

The reconciliation of the carrying amounts of HTM investments are as follows:

	2016	2015
Balance at the beginning of year	P 52,540,264	P 44,740,912
Additions	10,000,000	16,200,000
Redemptions	(10,472,431)	(8,400,648)
Balance at end of year	P 52,067,833	P 52,540,264

The maturity profile of the investment is presented below.

	2016	2015
Less than one year	P 268,908	P 7,797,250
One to five years	41,798,925	34,276,092
More than five years	10,000,000	10,466,922
	P 52,067,833	P 52,540,264

Government bonds are redeemable in 19 annual installments from the date these investments were purchased and bear interest rates based on average 91-day treasury bill rates.

Corporate bonds bear interest rates of 4.99% to 6.20% in 2016 and 2015. Certain investments will mature in 2016 and the remaining investments will mature in 2019 to 2021.

Corporate notes bear interest rates ranging from 3.25% to 3.50% in 2016 and 3.25% to 6.25% in 2015 and will mature in 5 to 10 years from date the investments were purchased.

Interest income on these investments amounted to P2.44million and P2.85 million in 2016and 2015, respectively, and presented as part of Interest Income on Investment Securities in the statements of profit or loss.

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

The reconciliation of the carrying amounts of AFS financial assets are as follows:

	2016	2015
Balance at the beginning of year	**P 204,440,023**	P 213,312,897
Additions	**70,236,758**	-
Disposals	**(92,102,214)**	-
Fair value losses – net	**(5,247,252)**	(8,872,874)
Reversal of premium	**(1,311,380)**	-
Balance at end of year	**P 176,015,935**	P 204,440,023

AFS financial assets include investments in quoted debt securities with fixed interest rates, carried at its fair market value as at December 31, 2016and 2015.

The significant portion of the fair values of AFS financial assets have been derived from observable market data.

The fair value losses in 2016and 2015are recognized as other comprehensive loss of the statements of comprehensive income (see Note 23.3).

Interest income earned on AFS financial assets amounted to P6.57 million and P9.48 million in 2016 and 2015, respectively, and are presented as part of Interest Income on Investment Securities in the statements of profit or loss. In 2016, the recognized gain on sale of AFS financial assets amounted to P4.71 million, which includes P2.04 million fair value gains reclassified to profit or loss from other comprehensive income. None were sold in 2015.

14. LOANS AND OTHER RECEIVABLES

This account consists of the following as of December 31:

	Notes	**2016**	2015
Loans and receivables	28.1	**P 570,238,099**	P 509,005,215
Allowance for impairment	20	**(18,933,844)**	(19,017,133)
		551,304,255	489,988,082

Other receivables			
Accrued interest receivables		**14,786,728**	14,046,684
Sales contract receivables		**4,793,238**	4,871,585
Others		**1,543,353**	1,366,063
		21,123,319	20,284,332
Allowance for impairment	20	**(772,401)**	(772,401)
		20,350,918	19,511,931
		P 571,655,173	P 509,500,013

All of the Bank's loans and other receivables have been reviewed for indicators of impairment.

The breakdown of total loans and receivables as to secured, loans with corresponding collateral types, and unsecured loans follows:

	2016	2015
Secured		
Real estate	**P 379,647,943**	P 364,505,391
Hold-out deposit	**57,903,313**	48,672,702
Chattel	**36,623,516**	30,544,910
Others	**8,071,500**	5,666,242
	482,246,272	449,389,245
Unsecured	**87,991,827**	59,615,970
	P 570,238,099	P 509,005,215

The maturity profile of loans and receivables follows:

	2016	2015
Callable upon demand	**P 9,986,706**	P 27,984,490
Less than one year	**61,690,324**	56,286,052
One year to five years	**364,178,041**	330,478,082
Beyond five years	**134,383,028**	94,256,591
	P 570,238,099	P 509,005,215

The breakdown of loans and receivables as to interest rate follows:

	2016	2015
Over 25% - 30%	**P 335,150**	P 394,016
Over 20% - 25%	**5,022,286**	4,491,068
Over 15% - 20%	**3,065,339**	3,609,900
15% and below	**561,815,324**	500,510,231
	P 570,238,099	P 509,005,215

The breakdown of loans and receivables as to status follows:

	2016	2015
Performing loans		
Current	**P 547,633,504**	P 469,278,455
Past-due	**1,754,225**	8,695
	549,387,729	469,287,150
Non-performing loans (NPLs)		
Past-due	**17,559,723**	38,511,466
Items in litigation	**3,290,647**	1,206,599
	20,850,370	39,718,065
	P 570,238,099	P 509,005,215

Current banking regulations allow banks that have no unbooked valuation reserves and capital adjustments required by BSP to exclude from nonperforming classification those loans classified as loss in the latest examination of the BSP that are fully covered by allowance for credit losses, provided that interest on said receivables shall not be accrued. As of December 31, 2016 and 2015, the Bank has no unbooked valuation reserves.

As of December 31, 2016 and 2015, NPLs of the Bank, net of accounts classified as "Loss" that are 100% covered by loan loss reserves follow:

	2016	2015
Gross NPLs	**P 20,850,370**	P 39,718,065
Less loans classified as "loss" with 100% reserves	**(3,461,657)**	(2,668,621)
Net NPLs	**P 17,388,713**	P 37,049,444

NPLs represent approximately 3.66% and 7.80% of the Bank's loan portfolio as at December 31, 2016and 2015, respectively. NPLs are those loans whose principal and/or interest is unpaid for 30 days or more after due date or after they have become past due in accordance with existing 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 non-performing.

Loans considered as past due as at December 31, 2016and 2015 amount to P19.3 million and P38.5 million, respectively. Portions of the past due loans and items in litigation are covered with collateral which can be foreclosed to reduce possible losses from non-collection.

An analysis of concentration by industry or economic sector of loans and receivables (grossed up for any allowance for impairment losses) of the Bank, as of December 31, 2016 and 2015 are shown below.

	2016		2015	
	Amount	**Percentage**	Amount	Percentage
Agriculture and forestry	**P189,766,811**	**33%**	P168,232,670	33%
Construction	**151,319,825**	**27%**	154,244,853	30%
Wholesale and retail trade	**94,423,356**	**17%**	80,959,663	16%
Electricity, gas and water and supply	**29,033,254**	**5%**	7,650,875	2%
Transport, storage and communications	**28,307,349**	**5%**	19,363,113	4%
Community, social and personal service activities	**23,823,518**	**4%**	23,439,183	5%
Household and consumption	**8,905,284**	**2%**	10,808,344	2%
Manufacturing	**8,210,969**	**1%**	4,635,555	1%
Real estate, renting and other related activities	**5,703,223**	**1%**	7,227,243	1%
Hotel and restaurant	**1,301,606**	**0%**	337,320	0%
Others	**29,442,904**	**5%**	32,106,396	6%
	P570,238,099	**100%**	P509,005,215	100%

The BSP considers that concentration of credit exists when total loan exposure to a particular industry or a particular economic sector exceeds 30% of total loan portfolio. Management believes that the Bank's credit concentration in agriculture and forestry as of December 31, 2016 and 2015 is justifiable considering that it is consistent with the nature of its operation as a thrift bank, whose main clientele are individual entrepreneurs whose businesses mostly reside in the agriculture industry.

The amounts of interest income on loans and other receivables for each reporting period are as follows:

	2016	2015
Loans and receivables	**P 55,902,327**	P 53,401,362
Sales contract receivables	**148,059**	304,158
	P 56,050,386	P 53,705,520

None of the Bank's loans and receivables is held as collateral for any borrowings as at December 31, 2016and 2015.

15. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment at the beginning and end of 2016 and 2015are shown below.

	Land	Buildings and Improvements	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
December 31, 2016					
Cost	P 16,584,665	P 27,944,733	P 27,911,817	P 3,159,917	P 75,601,132
Accumulated depreciation and amortization	-	(13,217,170)	(24,997,912)	(3,031,707)	(41,246,789)
Net carrying amount	**P 16,584,665**	**P 14,727,563**	**P 2,913,905**	**P 128,210**	**P 34,354,343**
December 31, 2015					
Cost	P 16,584,665	P 27,944,733	P 26,823,071	P 3,149,917	P 74,502,386
Accumulated depreciation and amortization	-	(12,484,492)	(22,659,635)	(3,032,383)	(38,176,510)
Net carrying amount	P 16,584,665	P 15,460,241	P 4,163,436	P 117,534	P 36,325,876
January 1, 2015					
Cost	P 16,584,665	P 27,845,062	P 30,615,693	P 3,086,397	P 78,131,817
Accumulated depreciation and amortization	-	(11,734,777)	(24,577,920)	(2,994,535)	(39,307,232)
Net carrying amount	P 16,584,665	P 16,110,285	P 6,037,773	P 91,862	P 38,824,585

A reconciliation of the carrying amounts at the beginning and end of 2016 and 2015 of bank premises, furniture, fixtures and equipment is shown below.

	Land	Buildings and Improvements	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Balance at January 1, 2016, net of accumulated depreciation and amortization	P 16,584,665	P 15,460,241	P 4,163,436	P 117,534	P 36,325,876
Additions	-	-	1,463,843	45,000	1,508,843
Write-offs	-	-	(404,971)	-	(404,971)
Depreciation and amortization charges for the year	-	(732,678)	(2,308,403)	(34,324)	(3,075,405)
Balance at December 31, 2016 net of accumulated depreciation and amortization	**P 16,584,665**	**P 14,727,563**	**P 2,913,905**	**P 128,210**	**P 34,354,343**
Balance at January 1, 2015, net of accumulated depreciation and amortization	P 16,584,665	P 16,110,285	P 6,037,773	P 91,862	P 38,824,585
Additions	-	99,670	652,203	63,520	815,393
Write-offs	-	-	(166)	-	(166)
Depreciation and amortization charges for the year	-	(749,714)	(2,526,374)	(37,848)	(3,313,936)
Balance at December 31, 2015 net of accumulated depreciation and amortization	P 16,584,665	P 15,460,241	P 4,163,436	P 117,534	P 36,325,876

Under BSP rules, investments in bank premises, furniture, fixtures and equipment should not exceed 50% of the Bank's unimpaired capital. As of December 31, 2016 and 2015, the Bank has satisfactorily complied with this requirement.

The cost of fully depreciated bank premises, furniture, fixtures and equipment as of December 31, 2016 and 2015 are still being used in operations amounted to P20.78 million and P20.82 million, respectively.

16. NON-CURRENT ASSETS-HELD-FOR-SALE

The balance of this account as at December 31, 2016and 2015pertains mainly to investment properties that are expected to be sold within one year from the end of the reporting period. The Bank recognizes investment properties as non-current assets held-for-sale if there is an interested buyer and the sales has been initiated.

Gross carrying amounts and accumulated impairment of non-current assets held-for-sale at the beginning and end the year are presented below.

	Note	**2016**	2015
Cost		**P 413,947**	P 625,297
Accumulated impairment	20	**(381,352)**	(381,352)
Net carrying amount		**P 32,595**	P 243,945

A reconciliation of the carrying amounts at the beginning and end of 2016 and 2015is shown below.

	2016	2015
Balance at beginning of year	**P 243,945**	P 381,352
Additions	**-**	1,418,850
Disposals	**(211,350)**	(1,556,257)
Net carrying amount	**P 32,595**	P 243,945

In 2016 and 2015, certain non-current assets-held-for-sale with a carrying amount of P0.21million and P1.56million were sold for P1.18 million and P4.25 million, respectively. The gain on disposal is presented under Other Income in the statements of profit or loss.

17. INVESTMENT PROPERTIES

The Bank's investment properties include several parcels of land and buildings acquired by the Bank in settlement of loans from defaulting borrowers through foreclosure or dacion in payment and properties which are held for capital appreciation and for rental. Investment properties are carried at cost less accumulated depreciation and impairment. Investment properties with carrying value of P5.0 million and above are revalued every two years, as determined by independent appraisal companies

accredited by the BSP. All other investment properties are revalued by the Bank's in-house appraisers.

The gross carrying amounts and accumulated depreciation and impairment of investment properties at the beginning and end of 2016 and 2015 are shown below.

	Land	Building and Improvements	Total
December 31, 2016			
Cost	P 42,659,976	P 8,808,935	P 51,468,911
Accumulated impairment	(20,088,792)	-	(20,088,792)
Accumulated depreciation	-	(2,020,621)	(2,020,621)
Net carrying amount	**P 22,571,184**	**P 6,788,314**	**P 29,359,498**
December 31, 2015			
Cost	P 49,433,200	P 5,647,341	P 55,080,541
Accumulated impairment	(23,436,759)	-	(23,436,759)
Accumulated depreciation	-	(1,472,668)	(1,472,668)
Net carrying amount	P 25,996,441	P 4,174,673	P 30,171,114
January 1, 2015			
Cost	P 50,184,738	P 3,909,472	P 54,094,210
Accumulated impairment	(25,920,739)	-	(25,920,739)
Accumulated depreciation	-	(1,330,943)	(1,330,943)
Net carrying amount	P 24,263,999	P 2,578,529	P 26,842,528

A reconciliation of the carrying amounts at the beginning and end of 2016and 2015of investment properties is shown below.

	Land	Building Improvements	Total
Balance at January 1, 2016 net of accumulated depreciation	P 25,996,441	P 4,174,673	P 30,171,114
Additions	4,993,626	3,407,501	8,401,127
Disposals	(8,418,883)	(150,916)	(8,569,799)
Depreciation charges for the year	-	(642,944)	(642,944)
Balance at December 31, 2016 net of accumulated depreciation	**P 22,571,184**	**P 6,788,314**	**P 29,359,498**
Balance at January 1, 2015 net of accumulated depreciation	P 24,263,999	P 2,578,529	P 26,842,528
Additions	3,610,289	3,494,558	7,104,847
Disposals	(1,877,847)	(1,413,524)	(3,291,371)
Depreciation charges for the year	-	(484,890)	(484,890)
Balance at December 31, 2015 net of accumulated depreciation	P 25,996,441	P 4,174,673	P 30,171,114

Gain on disposal of certain investment properties amounted to P2.68 million and P1.76 million in 2016and 2015, respectively. Proceeds from the said disposal amounted to P11.25 million and P5.05 million, in 2016and 2015, respectively.

Direct costs incurred in relation to these properties are depreciation expense, real property taxes and repairs and maintenance. Total direct costs amounted to P1.23 million and P0.84 million in 2016and 2015, respectively.

Rental income from investment properties amounted to P2.29million and P2.32 million in 2016and 2015, respectively (see Note 31.2).

Investment properties of the Bank has a fair value ofP76.38 million and P79.75 million as of December 31, 2016and 2015, respectively, based on the appraisal report (see Note 6.4).

18. EQUITY INVESTMENT IN AN ASSOCIATE

This pertains to the 30% equity interest in RBS (see Note 1.1).

A reconciliation of the carrying amounts at the beginning and end of 2016 and 2015 of investment in an associate is shown below.

	2016	2015
Acquisition cost	**P 2,301,400**	P 2,301,400
Accumulated equity in net earnings		
Balance at beginning of year	**534,532**	449,784
Equity in net earnings during the year	**31,728**	84,748
	566,260	534,532
Balance at end of year	**P 2,867,660**	P 2,835,932

Significant information on the financial position and financial performance of RBS is as follows:

	2016	2015
Current assets	**P 15,142,138**	P 11,579,662
Non-current assets	**15,206,080**	18,612,692
Total assets	**P 30,348,218**	P 30,192,354
Current liabilities	**P 12,589,077**	P 12,538,974
Revenues	**P 3,390,212**	P 3,565,495

Profit for the year	**105,761**	282,494
Other comprehensive income for the year	**-**	-
Total comprehensive income for the year	**P 105,761**	P 282,494

19. OTHER RESOURCES

The composition of the Other Resources account as of December 31, 2016 and 2015 follows:

	Note	2016	2015
Prepayments		**P 3,945,648**	P 3,142,927
Computer software - net		**748,269**	337,636
Documentary stamps		**358,876**	461,862
Supplies on hand		**343,414**	295,624
Post-employment defined benefit asset	26.2	**-**	579,915
Miscellaneous		**192,998**	193,000
		P 5,589,205	P 5,010,964

In 2016, the Bank acquired computer software amounting to P0.63 million. Amortization expense recognized on computer software account amounted to P0.23 million and P0.99million for the year ended December 31, 2016and 2015, respectively. This is presented as part of Depreciation and Amortization in the statements of profit and loss.

20. ALLOWANCE FOR IMPAIRMENT

Movements in the allowance for impairment are shown below and in the succeeding page.

	Notes	2016	2015
Balance at beginning of year			
Loans and receivables	14	**P 19,017,133**	P 16,533,857
Investment properties	17	**23,436,759**	25,920,739
Non-current assets held-for-sale	16	**381,352**	381,352
Other receivables	14	**772,401**	772,593
		43,607,645	43,608,541

Movements during the year:		
Disposal of investment properties	**(3,347,967)**	-
Write-off of loans and receivables	**(83,289)**	(704)
Write-off of other receivables	**-**	(192)
Reclassification of allowance for impairment to loans and receivables	-	2,483,980
Reclassification of allowance for impairment from investment properties	-	(2,483,980)
	(3,431,256)	(896)

	Notes	2016	2015
Balance at end of year			
Loans and receivables	14	**P 18,933,844**	P 19,017,133
Investment properties	17	**20,088,792**	23,436,759
Non-current assets held-for-sale	16	**381,352**	381,352
Other receivables	14	**772,401**	772,401
		P 40,176,389	P 43,607,645

With the foregoing level of allowance for impairment and credit losses, management believes that the Bank has sufficient allowance for any losses that it may incur from the non-collection or non-realization of its receivables and other risk assets.

21. DEPOSIT LIABILITIES

The breakdown of deposit liabilities account as to type follows:

	2016	2015
Savings	**P 655,745,584**	P 635,669,811
Demand	**286,576,650**	243,292,756
Time	**128,816,422**	150,095,493
	P 1,071,138,656	P 1,029,058,060

The maturity profile of this account is presented below.

	2016	2015
Less than one year	**P 977,250,234**	P 946,989,567
One to five years	**93,888,422**	82,068,493
	P 1,071,138,656	P 1,029,058,060

Demand and savings deposits usually have either fixed or variable interest rates while time deposit has fixed interest rates. The table below shows the range of interest rates per type of deposit in 2016 and 2015.

	2016	2015
Savings	**0.30% - 1.50%**	0.00% - 0.50%
Demand	**0.00% - 0.25%**	0.00%-0.30%
Time	**0.75% - 6.00%**	1.25% - 6.00%

Interest expense on deposit liabilities recognized in 2016and 2015amounted to P14.93 million and P16.79 million, respectively.

The 6.00% interest on time deposits pertain to a five-year time deposit opened in May 2012 and shall mature in May 2017.

Under existing BSP regulations, thrift banks are subject to liquidity and statutory reserves against deposit liabilities equivalent to 8% (see Note 9). As of December 31, 2016and 2015, the Bank is in compliance with the said regulations.

Liquidity and statutory reserves as of December 31, 2016 and 2015 are as follows:

	Notes	2016	2015
Due from BSP	8, 9	**P 103,348,339**	P 110,116,421
Due from other banks	8, 10	**331,331,064**	305,879,688
HTM investments	12	**52,067,833**	52,540,264
		P 486,747,236	P 468,536,373

The carrying amount of these financial liabilities are reasonable approximation of their fair values (see Notes 5 and 6).

22. OTHER LIABILITIES

This account consists of the following as of December 31:

	Notes	2016	2015
Manager's check payable		**P 1,801,626**	P 2,301,008
Accounts payable		**1,374,019**	909,084
Accrued expenses		**1,217,345**	1,874,418
Due to PDIC		**1,039,375**	999,042
Accrued interest payable		**904,323**	849,728
Withholding tax payable		**420,604**	422,411
DST payable	32.1*(b)*	**414,462**	299,253
GRT payable	32.1*(a)*	**300,689**	561,532
Post-employment defined benefit obligation	26.2	**242,920**	-
Due to the Treasurer of the Philippines		**239,374**	239,374
Contributions payable		**223,141**	445,265
FBT payable		**1,143**	-
Miscellaneous liabilities		**131,662**	293,466
		P 8,310,683	P 9,194,581

Accrued expenses include security services, professional expenses and electricity charges.

23. CAPITAL FUNDS

23.1 Capital Stock

Capital stock as of December 31, 2016and 2015consists of:

	Shares		Amount	
	2016	2015	**2016**	2015
Common shares – P100 par value				
Authorized – 1,140,000 shares				
Issued and outstanding				
Balance at beginning and end of year	**1,049,940**	1,049,940	**P 104,994,000**	P104,994,000
Preferred shares – P100 par value				
Authorized - 60,000 shares				
Issued and outstanding	**-**	-	**P -**	P -

As of December 31 2016 and 2015, the Bank has 114 stockholders owning 100 or more shares each of the Bank's common stock.

In 2016 and 2015, the Bank did not declare dividends.

23.2 Retained Earnings

On July 21, 2012, the BOD of the Bank approved the appropriation of retained earnings amounting to P12.0 million, which is allocated for an investment in BancNet connection facilities which is expected to be consummated within July 2017.

The Bank's unappropriated retained earnings exceeded the Bank's paid-in capital as at December 31, 2016 and 2015. The management, subject to BOD approval, plans to earmark a portion of the unappropriated retained earnings for the capital build up program of the Bank.

23.3 Revaluation Reserves

The components and reconciliation of items of other comprehensive income presented in the statement of changes in capital funds at their aggregate amount under the Revaluation Reserves account follow.

	Notes	AFS Financial Assets	Post-Employment Defined Benefit Obligation	Total
Balance as of January 1, 2016		(P 3,460,257)	P 2,345,847	(P 1,114,410)
Fair value loss on AFS financial assets during the year - net	13	(3,207,043)	-	(3,207,043)
Fair value gains on disposed AFS financial assets reclassified to profit or loss	13	(2,040,209)	-	(2,040,209)
Remeasurements of post-employment defined benefit obligation	26.2	-	(776,397)	(776,397)
Other comprehensive loss before tax		(5,247,252)	(776,397)	(6,023,649)
Tax income	27	1,574,176	232,919	1,807,095
Other comprehensive loss after tax		(3,673,076)	(543,478)	(4,216,554)
Balance as of December 31, 2016		**(P 7,133,333)**	**P 1,802,369**	**(P 5,330,964)**
Balance as of January 1, 2015		P 2,750,755	P 2,992,060	P 5,742,815
Fair value loss on AFS financial assets during the year - net	13	(8,872,874)	-	(8,872,874)
Remeasurements of post-employment defined benefit asset	26.2	-	(923,162)	(923,162)
Other comprehensive loss before tax		(8,872,874)	(923,162)	(9,796,036)
Tax income	27	2,661,862	276,949	2,938,811
Other comprehensive loss after tax		(6,211,012)	(646,213)	(6,857,225)
Balance as of December 31, 2015		(P 3,460,257)	P 2,345,847	(P 1,114,410)

24. MISCELLANEOUS INCOME

Presented below are the details of miscellaneous income.

	2016	2015
Gain on redemption of government bonds	**P 854,693**	P -
Service charges for passbook or check booklet replacements	**156,417**	161,108
Appraisal fees	**110,610**	47,358
Bancnet transaction fees	**80,750**	616,790
Loan fees/account pre-termination	**21,940**	176,656
Other miscellaneous income	**200,590**	62,580
	P 1,425,000	P 1,064,492

Other miscellaneous income is composed of rental penalties from lessees, income from sale of old newspapers and scraps and service charges for stop order payments.

25. OTHER ADMINISTRATIVE EXPENSES

Presented below are the details of other administrative expenses.

	Note	2016	2015
Outside services		**P 4,429,079**	P 4,029,542
Insurance		**3,318,171**	3,224,739
Communication		**1,892,938**	1,690,072
Utilities		**1,686,998**	1,589,975
Information technology		**1,636,416**	604,345
Management and professional fees		**1,464,803**	1,030,699
Transportation and travel		**1,451,191**	1,365,911
Litigation		**1,136,785**	1,132,249
Repairs and maintenance		**842,233**	902,804
Stationery and supplies used		**524,153**	562,309
Fuel and lubricants		**285,486**	275,982
Supervision fees		**224,932**	226,888
Fees and commissions		**218,575**	169,670
Rent	31.1	**215,739**	169,900
Representation and entertainment		**196,380**	206,732
Miscellaneous		**1,985,463**	1,581,572
		P 21,509,342	P 18,763,389

26. COMPENSATION AND EMPLOYEE BENEFITS

26.1 Compensation and Employee Benefits

Details of compensation and employee benefits are presented below.

	Notes	2016	2015
Short-term employee benefits	28.2	**P 17,244,887**	P 17,161,943
Post-employment benefits	26.2	**1,145,960**	786,381
		P 18,390,847	P 17,948,324

26.2 Post-employment Defined Benefit

(a) Characteristics of the Defined Benefit Plan

The Bank maintains a funded, tax-qualified, noncontributory post-employment benefit plan that is being administered by a trustee bank that is legally separated from the Bank. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60 with a minimum of five years of credited service. Normal retirement benefit is equivalent to a percentage of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service based on the revised retirement vesting schedule:

Number of Years of Service	Percentage
5 to 20	100%
21	105%
22	110%
23	115%
24	120%
25 and over	125%

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the post-employment benefit costs and the amount of contributions. All amounts presented in the succeeding pages are based on the actuarial valuation report obtained from an independent actuary in 2016 and 2015.

The amounts of post-employment defined benefit asset (liability) recorded as part of Other Resources (see Note 19) and Other Liabilities (see Note 22) in the statements of financial position are determined as follows:

	2016	2015
Fair value of plan assets	**P 11,983,364**	P 12,338,296
Present value of the obligation	**(12,226,284)**	(11,728,631)
Surplus (deficiency)	**(242,290)**	609,665
Effect of the asset ceiling	**-**	(29,750)
	(P 242,920)	P 579,915

The movements in the present value of the post-employment defined benefit obligation (DBO) recognized in the books are as follows:

	2016	2015
Balance at beginning of year	**P 11,728,631**	P 10,257,126
Current service cost	**1,161,115**	856,285
Interest expense	**601,679**	481,059
Remeasurements:		
Actuarial gains (losses) arising from:		
Changes in financial assumptions	**(159,137)**	1,671,437
Experience adjustments	**562,497**	(1,462,334)
Benefits paid	**(1,668,501)**	(74,942)
Balance at end of year	**P 12,226,284**	P 11,728,631

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

	2016	2015
Balance at beginning of year	**P 12,338,296**	P 11,059,525
Contributions	**1,099,522**	1,523,007
Interest income	**618,360**	552,649
Return on plan assets (excluding amounts included in net interest)	**(404,313)**	(721,943)
Benefits paid	**(1,668,501)**	(74,942)
Balance at end of year	**P 11,983,364**	P 12,338,296

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

	2016	2015
Cash and cash equivalents	**P 7,723,278**	P 8,135,873
Debt securities:		
Philippine government bonds	**4,947,931**	4,947,656
Others (market gains/losses/ accrued receivables, etc.)	**(687,845)**	(745,233)
	P 11,983,364	P 12,338,296

The fair values of the above debt securities are determined based on quoted market prices in active markets. While no significant changes in asset allocation are expected in the next financial year, the Retirement Plan Trustee may make changes at any time.

Plan assets do not comprise any of the Bank's own financial instruments or any of its assets occupied and/or used in its operations.

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

	2016	2015
Reported in profit or loss:		
Current service cost	**P 1,161,115**	P 856,285
Interest expense on DBO	**601,679**	481,059
Interest income on plan assets	**(618,360)**	(552,649)
Interest on the effect of asset ceiling	**1,526**	1,686
Net interest income	**(15,155)**	(69,904)
	P 1,145,960	P 786,381

	2016	2015
Reported in other comprehensive income:		
Actuarial losses (gains) arising from changes in		
Experience adjustments	**P 562,497**	(P 1,462,335)
Financial assumptions	**(159,137)**	1,671,437
Remeasurement gain – change in the effect of the asset ceiling	**(31,276)**	(7,883)
Return on plan assets (excluding amounts included in net interest expense)	**404,313**	721,943
	P 776,397	P 923,162

Current service cost and net interest income is presented as part of Compensation and Employee Benefits in the statements of profit or loss.

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

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

	2016	2015
Discount rates	**5.38%**	5.13%
Expected rate of salary increases	**10.00%**	10.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 10for males and 12 for females.

These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon bond government bonds with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) *Risks Associated with the Retirement Plan*

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

(i) Investment and Interest Risks

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds.

Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has relatively balanced investment in cash and cash equivalents and government debt securities.

(ii) Longevity and Salary Risks

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

(d) Other Information

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

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit asset as of December 31, 2016 and 2015:

	Impact on Post-employment Defined Benefit Obligation		
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
December 31, 2016			
Discount rate	**+/- 1.00%**	**(P 578,364)**	**P 675,941**
Salary growth rate	**+/- 1.00%**	**569,095**	**(500,138)**

December 31, 2015

Discount rate	+/- 1.00%	(P	587,785)	P	682,383
Salary growth rate	+/- 1.00%		557,867	(	491,982)

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

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Bank through its trustee, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government or corporate bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency.

There has been no change in the Bank's strategies to manage its risks from previous periods.

(iii) Funding Arrangements and Expected Contributions

The plan is currently underfunded by P0.20 million based on the latest actuarial valuation.

The maturity profile of undiscounted expected benefit payments from the plan within 10 years are presented below.

	2016	2015
Within one year	**P 4,024,656**	P 3,296,800
More than one year to five years	**198,951**	1,329,661
More than five years to ten years	**5,084,268**	5,610,331
	P 9,307,875	P 10,236,792

The weighted average duration of the defined benefit obligation at the end of the reporting period is 5.1 years.

27. CURRENT AND DEFERRED TAXES

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

	2016	2015
Reported in statements of profit or loss		
Current tax expense:		
Regular corporate income tax (RCIT) at 30%	**P 2,982,218**	P 2,037,115
Final tax at 20%	**2,900,722**	3,181,112
	5,882,940	5,218,227
Deferred tax expense (income) relating to the origination and reversal of temporary differences	**1,074,479**	(1,489,250)
	P 6,957,419	P 3,728,977

	Note	2016	2015
Reported in statements of other comprehensive income			
Deferred tax income relating to the origination of temporary differences	23.3	**(P 1,807,095)**	(P 2,938,811)

A reconciliation of tax on pre-tax profit computed at the applicable statutory rates to tax expense reported in statements of profit or loss follows:

	2016	2015
Tax on pre-tax profit at 30%	**P 7,007,549**	P 5,395,993
Adjustment for income subject to lower tax rate	**(1,450,361)**	(1,590,555)
Tax effects of:		
Non-deductible interest expense	**1,435,857**	1,574,651
Other non-deductible expenses	**88,890**	72,227
Non-taxable income	**(124,516)**	(1,723,339)
	P 6,957,419	P 3,728,977

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

	Statements of Financial Position		Statements of Profit or Loss		Statements of Comprehensive Income	
	2016	2015	**2016**	2015	**2016**	2015
Deferred tax assets:						
Impairment losses on investment properties	**P 6,026,638**	P 7,031,027	**P 1,004,389**	P 106,974	**P -**	P -
Impairment losses on loans and receivables	**5,680,154**	5,705,139	**24,985**	(1,804,158)	**-**	-
Unrealized fair value gain AFS financial assets	**1,993,109**	418,933	**-**	-	**(1,574,176)**	(2,661,862)
Impairment losses on other receivables	**231,720**	231,720	**-**	58	**-**	-
Impairment losses on assets held-for-sale	**114,406**	114,406	**-**	-	**-**	-
Post-employment defined benefit obligation	**72,876**	-	**160,043**	-	**(232,919)**	-
Unearned rental income	**20,933**	15,833	**(5,100)**	(605)	**-**	-
Provision for PBSP	**-**	35,689	**35,689**	(35,689)	**-**	-
Unearned interest income	**-**	-	**-**	246	**-**	-
	14,139,836	13,552,747	**1,220,006**	(1,733,174)	**(1,807,095)**	(2,661,862)
Deferred tax liabilities:						
Unrealized gain on financial assets at FVTPL	**(794,586)**	(766,174)	**28,412**	21,057	**-**	-
Unrealized foreign currency gains	**(1,602)**	(1,566)	**36**	1,879	**-**	-
Post-employment defined benefit asset	**-**	(173,975)	**(173,975)**	220,988	**-**	(276,949)
	(796,188)	(941,715)	**(145,527)**	243,924	**-**	(276,949)
Net Deferred Tax Assets	**P13,343,648**	P12,611,032				
Deferred Tax Expense (Income)			**P 1,074,479**	(P 1,489,250)	**(P 1,807,095)**	(P 2,938,811)

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

In 2016and 2015, the Bank opted to claim itemized deductions in computing for its income tax due.

28. RELATED PARTY TRANSACTIONS

The Bank's related parties include its directors, officers, stockholders and related interests (DOSRI), its key management personnel, its retirement plan and others as defined in Note 2.19.

28.1 DOSRI

In the ordinary course of business, the Bank has loans, deposits and other transactions with certain DOSRI. Under the Bank's existing policies, these transactions are made substantially on the same terms and conditions as transactions with other individuals and businesses of comparable risks. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of the deposit and book value of their investment in the Bank. In the aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio of the Bank, whichever is lower. As of December 31, 2016 and 2015, the Bank is in compliance with these regulatory requirements.

The following additional information is presented relative to DOSRI loans:

	2016	2015
Total DOSRI loans	**P 55,397,115**	P 47,139,684
% of DOSRI loans to total loan portfolio	**9.71%**	9.26%

There are no past-due DOSRI loans as of December 31, 2016 and 2015.

These loans are recorded as part of loans and receivables under loans and receivables account in the statements of financial position (see Note 14). These loans have various maturities ranging from 6 months to 10 years. Interest rates from these loans range from 3.25% to 14.7% for those outstanding as at December 31, 2016 and 3.85% to 12.00% for those outstanding as at December 31, 2015. Interest income earned from these loans amounted to P1.81million and P1.53 million in 2016and 2015, respectively. Accrued interest receivable from these loans amounted to P0.11million and P0.08 million as at December 31, 2016and 2015, respectively.
There was no recorded impairment loss for these loans in 2016and 2015.

The loans are fully secured by deposits from DOSRI as at December 31, 2016 and 2015 amounting to P95.30 million and P99.62 million, respectively. Interest expense from these deposits amounted to P1.30 million and P1.42 million in 2016 and 2015, respectively.

28.2 Key Management Personnel Compensations

The compensations of key management personnel follow:

	2016	2015
Short-term and employee benefits	**P 2,575,299**	P 2,580,316
Post-employment benefit	**327,294**	314,721
	P 2,902,593	P 2,895,037

Director's fees incurred by the Bank amounted to P1.50 million and P1.42 million in 2016and 2015, respectively. The fees are recorded as part of short-term employee benefits under Compensation and Employee Benefits in the statements of profit and loss (see Note 26.1).

28.3 Retirement Plan

The Bank maintains a defined benefit plan that is being administered by a trustee bank that is legally separated from the Bank. The fair value and the composition of the plan assets as of December 31, 2016and 2015are presented in Note 26.2.

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

The details of the contributions of the Bank and benefits paid out by the plan are presented in Note 26.2.

29. EARNINGS PER SHARE

Basic EPS were computed as follows:

	Note	2016	2015
Net profit pertaining to common shares		**P 16,401,078**	P 14,257,665
Divided by the weighted average number of common shares outstanding	23.1	**1,049,940**	1,049,940
Earnings per share		**P 15.62**	P 13.58

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

30. SELECTED FINANCIAL PERFORMANCE INDICATORS

The following are the Bank's financial performance ratios:

	2016	2015
Return on average capital funds	**6.39%**	5.45%
Return on average assets	**1.25%**	1.13%
Net interest margin	**4.69%**	4.97%
Capital adequacy ratio	**20.45%**	25.73%

31. COMMITMENTS AND CONTINGENCIES

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

31.1 Operating Lease Commitments – Bank as Lessee

The Bank leased a portion of bank premises of RBS for a period of two years ending October 1, 2016 which was extended until December 31, 2016. Rent expense recognized amounted to P0.22 million and P0.17 million in 2016 and 2015, respectively (see Note 25). This is presented under Other Administrative Expenses in the statements of profit or loss.

31.2 Operating Lease Commitments – Bank as Lessor

The Bank entered into a contract with a third party to lease out a portion of its investment properties for a period of one year, renewable every year (see Note 17). Rental income recognized amounted to P2.29million and P2.32 million in 2016and 2015, respectively (see Note 17). This is presented under Other Income in the statements of profit or loss.

31.3 Legal Claims

As of December 31, 2016and 2015, the Bank has certain suits and claims that remain unsettled. Management believes, based on the opinion of its legal counsels, that the ultimate outcome of such cases and claims will not have a material effect on the Bank's financial position and results of operations.

31.4 Others

In the normal course of the Bank's operations, there are various outstanding commitments and contingent liabilities such as commitments to extend credit, etc., which are not reflected in the financial statements. The Bank recognizes in its books any

losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable.

Management believes that, as of December 31, 2016and 2015, no additional material losses or liabilities are required to be recognized in the financial statements as a result of the above commitments and contingencies.

32. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE (BIR)

Presented below and in the succeeding pages is the supplementary information which is required by the BIR under its existing revenue regulations to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

32.1 Requirements under Revenue Regulation (RR) 15-2010

(a) Gross Receipts Tax (GRT)

In lieu of the value-added tax (VAT), the Bank is subject to the GRT imposed on all banks and non-bank financial intermediaries pursuant to Section 121 of the Tax Code.

In 2016, the Bank reported total gross receipts tax amounting to P3,712,854, which is shown as part of Taxes and Licenses [see Note 32.1*(d)*]. Total gross receipts tax payable as of December 31, 2016 amounted to P300,689, and is recorded as part of Other Liabilities account in the 2016statement of financial position (see Note 22).

(b) DST

In general, the Bank's DST transactions arise from the execution of debt instruments.

For the year ended December 31, 2016, documentary stamp tax affixed amounting to P2,166,182, net of P53,659 documentary stamp tax charged to depositors on pre-terminated Preferred Savings Deposits, is accordingly charged to profit or loss, as part of Taxes and licenses [see Note 32.1*(d)*].Total DST payable as of December 31, 2016 amounted to P414,462, and is recorded as part of Other Liabilities account in the 2016 statement of financial position (see Note 22).

(c) Withholding Taxes

The details of total withholding taxes for the year ended December 31, 2016are shown below.

Final	P	1,550,908
Compensation and benefits		1,288,602
Expanded		508,459
	P	**3,347,969**

(d) Taxes and Licenses

The details of taxes and licenses of the Bank in 2016are as follows:

	Note		
GRT	32.1*(a)*	P	3,712,854
DST	32.1*(b)*		2,166,182
Local taxes and business permits			454,659
Real property taxes			289,210
Annual registration fee			3,000
FBT			1,143
Miscellaneous			196,793
		P	**6,823,841**

(e) Excise Taxes

The Bank does not have any transactions subject to excise tax.

(f) Deficiency Tax Assessments and Tax Cases

As of December 31, 2016, the Bank does not have any final deficiency tax assessments from the BIR nor does it have tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open years.

***32.2* Requirements under RR 19-2011**

RR 19-2011 requires schedules of taxable revenues and other non-operating income, costs of sales and services, itemized deductions and other significant tax information, to be disclosed in the notes to financial statements.

The amounts of taxable revenues and income, and deductible costs and expenses presented below and on the next page are based on relevant tax regulations issued by

the BIR, hence, may not be the same as the amounts of revenues reflected in the 2016statement of profit or loss.

(a) Taxable Revenues

The Bank's taxable revenues for the year ended December 31, 2016from rendering of services subject to regular tax rate amounted to P56,050,386.

(b) Deductible Costs and Expenses

The Bank's deductible costs and expenses for the year ended December 31, 2016from rendering of services subject to regular tax rate are as follows:

Salaries and allowances	P 11,930,142
Interest expense	10,140,589
PDIC insurance	2,340,019
Supervision fees	224,932
	P 24,635,682

(c) Taxable Non-operating and Other Income

The details of taxable non-operating and other income in 2016,which are subject to regular tax rate are shown below.

Service charges, fees and commission	P 5,718,200
Gain on sale of investment properties	3,660,101
Rent	2,309,339
Recovery from loans written-off	479,999
Miscellaneous	1,418,883
	P 13,586,522

(d) Itemized Deductions

The amounts of itemized deductions subject to regular tax rates for the year ended December 31, 2016 are as follows:

Taxes and licenses	P	6,823,841
Other services		6,388,344
Depreciation		3,718,349
Communication, light and water		3,579,935
Professional fees		2,601,587
Salaries and allowances		2,346,988
Director's fee		1,513,967
Transportation and travel		1,451,191
Insurance		978,152
Repairs and maintenance		842,233
SSS, PhilHealth, HDMF and other contributions		817,471
Fringe benefits		635,547
Office supplies		524,153
Fuel and oil		285,486
Amortization		233,393
Commissions		218,575
Rental		215,739
Representation and entertainment		196,380
Advertising and promotions		55,821
Charitable contributions		25,932
Bad Debts		2,413
Miscellaneous		1,605,001
	P	**35,060,498**

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SUBSEQUENT EVENT

The Articles and Plan of Merger executed by and between Dumaguete City Development Bank, Inc. and Rural Bank of Sibulan (Negros Oriental) Inc. was approved by the Securities and Exchange Commission on April 4, 2017. As at April 21, 2017, the merger was fully consummated and Rural Bank of Sibulan (Negros Oriental) Inc. is now a branch of Dumaguete City Development Bank, Inc.